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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

*Jefferson City, Missouri
September 2016*

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1
2
3
4
5
6
7
8
9
10

RATE CASE EXPENSE 1

RATE CASE EXPENSE NORMALIZATION PERIOD 8

DEPRECIATION STUDY 10

PAYROLL 12

SHORT TERM INCENTIVE COMPENSATION 14

1 A. GMO is requesting the so-called “traditional” treatment of rate case costs,
2 which is full rate recovery of all costs it incurred to process this rate case filing. GMO’s
3 recommended rate case expense recovery is in contrast to Staff’s and The Office of the Public
4 Counsel’s (“Public Counsel” or “OPC”) recommendations to share rate case expense between
5 ratepayers and shareholders, as was ordered in the Kansas City Power & Light Company
6 (“KCPL”) rate case filed in 2014 and designated as Case No. ER-2014-0370 (the “2014
7 KCPL Case”), and approved in other recent rate cases.

8 Q. Was the 2014 KCPL Case the first time the Commission has considered a
9 departure from the traditional rate treatment of rate case expense?

10 A. No. While the treatment given to rate case expense in the 2014 KCPL Case
11 may have been a departure from how KCPL’s rate case expenses have been treated in the
12 past, the Commission has considered alternative rate case expense treatment in cases with
13 other utilities prior to the 2014 KCPL Case due to concern with increasing rate case costs.
14 Evidence of the Commission’s past concern is found in the Report and Order cited on page 9¹
15 of Mr. Ives’ rebuttal testimony. While Mr. Ives quotes the first two sentences of a paragraph
16 in the Order from that case, I will quote the paragraph in its entirety:

17 The Commission is hesitant to disallow expenses incurred by
18 MGE in prosecuting its rate case. The company is entitled to
19 present its case as it sees fit and the Commission will not lightly
20 intrude into the company’s decisions about how best to present
21 its case. However, the Commission has a responsibility to
22 ensure that the expenses that the company submits to its
23 ratepayers are reasonably and prudently incurred. Otherwise,
24 the company could take a cost-is-no-object approach to its rate
25 case presentation, secure in the knowledge that the ratepayers
26 would be required to pay for any cost that the company might
27 incur.

¹ Report and Order, Re *Missouri Gas Energy*, Case No. GR-2004-0209, page 75.

1 Clearly, the Commission was concerned about cost control in Missouri Gas Energy (MGE's)
2 2004 case and the Order goes on to order prudence disallowances of \$489,509 from MGE's
3 \$1,383,333 claimed rate case expense.

4 Despite the Commission's finding of imprudence and the Order's language
5 discouraging "cost-is-no-object" approach to rate case expense, the Commission found
6 themselves deciding another rate case expense issue in MGE's Rate Case No. GR-2009-0355.
7 From pages 78 and 79 of the Commission's Report and Order in that case:

8 OPC's assertion that both the company and the ratepayers
9 benefit from rate case expense has merit in that shareholders do
10 receive a portion of the benefits and should be willing to pay for
11 a portion of the company's rate case expense...

12 Unfortunately, in this case, the parties have not fully developed
13 the record on this point. More detailed cost study, comparisons
14 to other jurisdictions, and other testimony on the nature and
15 propriety of certain rate case expenses may be helpful in
16 determining how to apportion rate case expense...

17 In conclusion, this Commission wants to make clear to MGE
18 and other utilities that rate case expense is not simply a blank
19 check and if certain rate case duties can be performed "in-
20 house" by existing personnel more cheaply, we expect the
21 utility to do so. **On the issue of rate case expense, we urge**
22 **MGE and other utilities to recognize that rate case expense**
23 **may not be reflexively and automatically passed on to the**
24 **ratepayers in the future...**

25 [emphasis added]

26 Q. Did the Commission take steps to comprehensively explore the issue of rate
27 case expense?

28 A. Yes. The Commission created an investigative working docket on April 27,
29 2011, to consider possible alternatives to the traditional approach for rate case expenses.
30 In its *Order Directing Staff to Investigate and Opening a Repository File* in Case No.

1 AW-2011-0330, one of the areas the Commission directed Staff to examine was how
2 appropriate it was for utilities to recover 100% of rate case expenses. The following is the
3 opening paragraph from the Order in Case No. AW-2011-0330:

4 Testimony presented in recent rate cases and escalating rate
5 case expense requests have led the Commission to consider
6 whether changes should be made to its current rules and
7 practices whereby regulated utilities generally recover all costs
8 they incur in presenting a rate case before the Commission. The
9 Commission wants to consider whether it is appropriate for
10 shareholders to bear responsibility for a portion of rate case
11 expense . . .

12 On September 4, 2013, Staff submitted a report that recommended consideration of several
13 alternatives to the traditional approach of rate case expense treatment. It is noteworthy that
14 KCPL's and GMO's 2010 rate proceedings are mentioned in Staff's report as among the
15 "recent rate cases" that led to the Commission's request for an investigation of this topic. The
16 2014 KCPL case was the Commission's first opportunity to consider an alternative solution
17 for the rate case expense issue in a litigated case following issuance of the Staff's report in
18 Case No. AW-2011-0330.

19 Q. How did the Commission treat rate case costs in the 2014 KCPL Case?

20 A. The Commission decided the rate case expense issue by using a proportional
21 assignment of cost based on the recognized benefit of customers and shareholders of KCPL.
22 The Commission stated at page 72 of its 2014 KCPL Order:

23 The Commission finds that in order to set just and reasonable
24 rates under the facts in this case, the Commission will require
25 KCPL shareholders to cover a portion of KCPL's rate case
26 expense. One method to encourage KCPL to limit its rate case
27 expenditures would be to link KCPL's percentage recovery of
28 rate case expense to the percentage of its rate increase request
29 the Commission finds just and reasonable. The Commission
30 determines that this approach would directly link KCPL's
31 recovery of rate case expense to both the reasonableness of its

1 issue positions and the dollar value sought from customers in
2 the rate case.

3 The Commission concludes that KCPL should receive rate
4 recovery of its rate case expenses in proportion to the amount of
5 revenue requirement it is granted as a result of the Report and
6 Order, compared to the amount of its revenue requirement rate
7 increase originally requested. This amount should be
8 normalized over three years.

9 Q. Is it fair to customers to have to pay all costs associated with a rate case filing
10 made by a utility?

11 A. No. Under the traditional rate case expense normalization, in most situations,
12 all costs had to be absorbed by customers, and under GMO's proposal this would continue.
13 Assigning all of the utility's rate case expense to ratepayers makes the utility the only party
14 involved in the rate case process that is not constrained to some extent by budgetary and
15 other financial restrictions, and for which the rate case costs are potentially fully fundable by
16 a third party. The costs of Staff and Public Counsel are funded through the Commission's
17 assessment to regulated utilities, and in turn charged to ratepayers through the rate case
18 process. Other parties that wish to intervene must pay for all of its costs for legal
19 representation and consultants that have expertise with complex ratemaking principles and
20 rate design concepts. It is fair to charge some rate case costs to ratepayers because of the
21 benefit received by ratepayers in the form of safe and reliable service and to support the
22 financial condition of the utility. However, the shareholder's also enjoy benefits from rate
23 increases in potential increases in profits, dividends, and stock price. The recognition of the
24 opposing benefits was one reason, among many, the Commission's opinion in the 2014 KCPL
25 Case, that assigning some rate case expense to the shareholders was just and reasonable.

Surrebuttal Testimony of
Matthew R. Young

1 Q. How does Mr. Ives characterize the departure from the traditional approach to
2 rate case expense treatment?

3 A. In his rebuttal testimony, Mr. Ives frequently refers the Commission's ordered
4 apportionment of rate case expense between utility owners and customers as an "arbitrary
5 disallowance of prudently incurred rate case costs" and states that rate case expense sharing is
6 a substitute for prudency reviews.

7 Q. Do you agree that assigning some rate case costs to shareholders is a substitute
8 for prudency reviews?

9 A. No. Even with the utilization of a sharing mechanism, it is certainly possible a
10 utility may still incur imprudent rate case expense. If Staff found certain rate case costs
11 imprudent, it would recommend that the Commission not include those costs while setting
12 just and reasonable rates. Staff's position is that ratepayers should not bear the burden of
13 imprudent costs, even if the total amount is reduced by rate case expense sharing.

14 Although GMO is attempting to tie how KCPL's rate case expenses were allocated in
15 the 2014 rate case with the issue of prudency of rate case expenses, the Commission's
16 proportional approach is not intended or designed to focus on prudency or lack thereof.
17 Rather than focusing on prudency, the focus of the Commission's methodology in the 2014
18 KCPL Case was to assign rate case expense to the beneficiaries of a rate increase. When the
19 Commission linked rate case costs to shareholder's benefits, the desired outcome in the 2014
20 KCPL Case was to set rates that were just and reasonable for recovery from ratepayers

21 Q. On pages 6 and 7 of Mr. Ives' rebuttal testimony, he discusses the consumption
22 of human resources caused by rate cases. Does this have any relevance to overall rate
23 case expense?

1 A. No. While GMO uses human resources to answer data requests, conduct
2 meetings, and otherwise process the rate case, the use of in-house personnel is largely
3 irrelevant to rate case expense. All payroll and payroll-related costs associated with in-house
4 personnel are accounted for and included in the revenue requirement through Staff's payroll
5 adjustment. As such, GMO's revenue requirement includes cost recovery for each
6 employee's time, even while they are performing rate case duties. Other incremental costs
7 such as travel, hotel and meals relating to the rate case proceedings, to the extent known, are
8 included in rate case expense.

9 Q. In Mr. Ives' rebuttal testimony, page 5, he compares rate case expense sharing
10 to the cost of constructing a new power plant as both involving benefits to both ratepayers and
11 shareholders. Do you agree with this argument?

12 A. No. Mr. Ives attempts to use the theory behind the assignment of a cost
13 between ratepayers and shareholders to insinuate that a large investment would be similarly
14 shared between ratepayers and shareholders. The argument is flawed because rate case
15 expense is different in a crucial respect than almost all other costs incurred by utilities. If a
16 utility needs generating capacity to provide safe and adequate service to customers, then
17 ratepayers will obviously benefit from expenditures to add generating capacity. However,
18 shareholders will also benefit from the new power plant in a different manner – by being able
19 to earn a return on the funds they have provided for investment in the new asset. In regard to
20 a new power plant, the benefits to customers and investors are not in conflict. In contrast,
21 rate case increase applications create an inherent conflict between ratepayers and shareholders
22 because of the adversarial nature of the rate case process. In general, the utility's
23 recommendations in a rate case are designed to capture and pass on costs to ratepayers in an

1 amount that in almost all cases the Commission finds to be significantly overstated. Hence,
2 the rate case expenditures of a utility seeking to change its rates are not necessarily incurred
3 for the ratepayers benefit.

4 **RATE CASE EXPENSE NORMALIZATION PERIOD**

5 Q. In criticizing Staff's position regarding the recovery period of rate case
6 expense in this proceeding, Mr. Ives cites an example of the three-year normalization of rate
7 case expense calculated in the 2014 KCPL Case. Can you discuss why the three-year
8 normalization period was recommended in the prior KCPL case?

9 A. Yes. During a rate case, the parties typically set the normalization period
10 based upon the factors known at that time that can cause the need for another rate increase
11 request. During the 2014 KCPL Case, both Staff and KCPL recommended a three-year
12 normalization period because the information available at the time indicated that was the most
13 likely time period between changes in rates. It is noteworthy that during the 2014 case, KCPL
14 did not argue for a shorter time period, presumably because the KCPL 2016 rate increase
15 request (Case No. ER-2016-0285) was unforeseen at the time. In his rebuttal testimony,
16 Mr. Ives is arguing that since KCPL's rates were based on rate case expense that was
17 normalized and spread over three years, and KCPL rates will be changed before three years
18 has elapsed, KCPL will not collect three years of normalized rate case expense.

19 Mr. Ives also states that on average, GMO has filed a rate case every 21 months.
20 GMO uses the KCPL's under-recovered rate case expense and GMO's historical filings to
21 advocate for a three-year normalization of rate case expense in this case. However, Mr. Ives
22 does not discuss the possibility that it may not have a change in rates for greater than three
23 years. For example, the time period between the effective date of rate from GMO's last rate

1 case and the anticipated date of rates in this case is approximately 47 months. So while the
2 timing of KCPL's rate case filings may not always allow for the passage of the entire
3 normalization period, GMO collect rates for 11 months in excess of the 36 month
4 normalization period set in GMO's prior rate case, as determined in Case No. ER-2012-0175.
5 The only reasonable method to assign a normalization period for rate case expense is for the
6 parties to examine prior rate case history as well as all known factors that might cause the
7 next rate case and design the normalization period accordingly. The basis for Staff's
8 recommendation regarding the normalization period for rate case expense in this case is based
9 upon all these factors.

10 Q. Do you agree with Mr. Ives' underlying premise that rates should be set to
11 allow a utility to recover in full its past incurred level of rate case expenses?

12 A. No. By recommending that a normalized level of rate case expense be allowed
13 in a utility's rates, Staff's position is that a utility's rates should be set to allow it to recover a
14 reasonable level of ongoing rate case expense, not a specific amount incurred in a prior rate
15 proceeding.

16 Q. Do you know when GMO will file for its next rate increase?

17 A. No. On page 12, lines 3-5 of Mr. Ives rebuttal testimony, he indicates that
18 GMO will likely file a rate case that would not allow GMO to collect a full three years of
19 normalized rate case expense. Assuming an 11 month rate case schedule, that would become
20 a fact if the next case was filed on or before January 2020. However, Mr. Ives also states on
21 page 13, line 24, "I expect GMO will file its next general rate case no later than three years
22 and one month after new rates from this case take effect". The three years and one month
23 timeframe is linked to the GMO's requirement for its fuel clause. As part of the FAC, GMO

1 must have its base rates changed every four years. Since it typically takes 11 months to
2 process a rate case, the utility must file a case no longer than three years and one month to
3 meet the four year requirement.

4 Mr. Ives also states that GMO's next rate case will be driven by planned capital
5 expenditures but at this time Staff is unaware of what those expenditures are. Staff is
6 cognizant that GMO is constantly investing in rate base but Staff also realizes that the existing
7 rate base depreciates over time. So in order for future capital investments to drive the next
8 rate case, GMO will need to increase rate base more rapidly than total rate base depreciates.
9 My understanding is that both KCPL and GMO have largely completed its recent construction
10 cycle with the environmental upgrades at Iatan and LaCygne generating stations.

11 Without persuasive evidence to the contrary, I find GMO's most recent period
12 between general rate filings to represent a reasonable assumption as to the likely timing for
13 the next rate case. The most recent interim period between rate case filings was three years
14 and one month, as required by the Commission FAC rules.

15 **DEPRECIATION STUDY**

16 Q. What is Staff's recommended treatment of GMO's current depreciation
17 study cost?

18 A. Staff recommends including a normalized amount of this cost in rates. The
19 normalized amount is calculated by adding the total costs of obtaining and defending GMO's
20 most recent depreciation study, and including one-fifth of the total cost in the revenue
21 requirement. Staff did not apply any sharing mechanism to the cost for a depreciation study.
22 Including a normalized amount in rates ensures that a company receives funds for a new
23 depreciation study after five years of the collection of base rates. A five-year normalization

1 period is appropriate because pursuant to Commission rule 4 CSR 240-3.160(1)(A), public
2 utilities must submit a depreciation study every five years. In the recent KCPL rate case,
3 Case No. ER-2014-0370, the Commission found a five-year period appropriate for rate
4 recovery of this item. The following is from page 72 of the Commission's Report and Order
5 in Case No. ER-2014-0370:

6 The Commission also finds that it is appropriate to require a
7 full allocation to ratepayers of the expenses for KCPL's
8 depreciation study, recovered over five years, because this
9 study is required under Commission rules to be conducted every
10 five years.

11 Q. Has anything changed since the Report and Order in Case No. ER-2014-0370?

12 A. No. In fact, the debate in the 2014 KCPL Case and the debate in the current
13 case are centered on the exact same depreciation study. The Statement of Work between
14 Gannett Fleming Valuation and Rate Consultants ("Gannett") and GMO for the most recent
15 depreciation study is dated June 20, 2014. Gannett was hired to perform simultaneous
16 depreciation studies on KCPL – Missouri's assets and GMO's assets, but charged its fees to
17 KCPL - Missouri and GMO separately. It is Staff's understanding that Gannett was not hired
18 for a depreciation study on KCPL – Kansas assets as KCPL obtains a separate consultant for
19 Kansas rate cases. Since the cost of a depreciation study in the 2014 KCPL Case and the
20 current GMO case are based on the same study, and the Commission ordered a five-year
21 normalization period in KCPL's rates, it makes sense for GMO to collect the cost of a
22 depreciation study over the same period of five years.

23 Q. In Mr. Ives' rebuttal testimony, he states that due to the timing of the
24 Commission's FAC rule 4 CSR 240-20.090(6)(A), it will be necessary for GMO file a

1 depreciation study at least every four years. Do you believe that leads to the logical
2 conclusion that a five-year normalization is unreasonable?

3 A. No. I believe GMO is attempting to tie the purchase of a new depreciation
4 study to each and every rate case filing. However, as evidenced by the depreciation study
5 submitted in this case, a depreciation study does not need to be purchased for every rate
6 increase request to stay in compliance with the Commission's rules. In this rate case, GMO
7 maintained compliance with both of the Commission's rules for the FAC and the Depreciation
8 study even though the depreciation study was purchased approximately 20 months prior to the
9 filing of this rate case.

10 **PAYROLL**

11 Q. On page 9, lines 4-9 of Mr. Klote's rebuttal testimony, he explains a change to
12 Staff's payroll annualization regarding overtime. Do you agree with his testimony on this
13 change?

14 A. Yes. As I discussed in my rebuttal testimony, Staff has altered the calculation
15 for overtime expense since its direct testimony. To my knowledge, there is no longer a
16 disagreement on overtime expense between Staff and GMO in this case.

17 Q. Mr. Klote goes on to discuss Staff's treatment of the Missouri Energy
18 Efficiency Act ("MEEIA") employees. What are "MEEIA employees?"

19 A. MEEIA employees are KCPL employees that are tasked with administering
20 GMO's various energy efficiency programs.

21 Q. Why is it necessary to remove the MEEIA employee's payroll costs from the
22 payroll annualization?

Surrebuttal Testimony of
Matthew R. Young

1 A. Costs related to the energy efficiency programs, including payroll, payroll
2 taxes, and payroll benefits, are recovered by GMO through a separate rate mechanism, the
3 MEEIA rider. Since a certain level of payroll costs are charged to the MEEIA rider and,
4 therefore, collected outside of base rates, expenses included in base rates must be reduced by
5 some amount to avoid double recovery of payroll expense.

6 Q. How did GMO quantify the payroll cost of MEEIA employees?

7 A. GMO has identified 12 employees that are dedicated to the MEEIA programs
8 and one employee that spends half of his/her time on MEEIA programs. GMO then removed
9 the current salaries of these employees from the payroll annualization.

10 Q. Why did Staff not adopt GMO's method to remove MEEIA employees from
11 payroll?

12 A. In response to Staff Data Request No. 36.3, GMO indicated that between
13 July 1, 2014 and March 31, 2016, 21 employees have charged time to the MEEIA surcharge.
14 Clearly, 21 employees is much higher than the 12.5 employees that were being recognized by
15 GMO. To address the concern that GMO is recovering larger, or smaller, amounts of payroll
16 in the MEEIA surcharge than it is recognizing in its payroll annualization, Staff submitted
17 Data Request No. 36.5 to determine the level of costs that have been charged to MEEIA.
18 Staff found that over any 12-month period since KCPL's and GMO's MEEIA riders went into
19 effect, the historical payroll costs assigned to MEEIA have never risen to the level identified
20 in GMO's payroll adjustment.

21 Q. What does Staff recommend regarding recognizing a correct level of MEEIA
22 employee payroll?

1 A. Through the information in the data requests described above, Staff found that
2 using GMO's method to calculate payroll costs did not produce the same level of costs that
3 has actually been charged to MEEIA. Therefore, GMO's method of computing payroll costs
4 for MEEIA employees based on headcount is unreliable. Staff recommends that the
5 Commission accept Staff's method which is based on the actual historical payroll and payroll
6 benefits assigned to the MEEIA recovery mechanism.

7 Q. On page 14, lines 1-4 of Mr. Klote's rebuttal testimony, he states that any
8 changes to Staff's payroll annualization should be reflected in Staff's adjustments for payroll
9 tax and 401k expenses. Do you agree?

10 A. Yes. Staff will reflect the changes to its payroll annualization, as described in
11 my rebuttal testimony, to its payroll tax and 401k expense adjustments in Staff's true-up
12 revenue requirement.

13 **SHORT TERM INCENTIVE COMPENSATION**

14 Q. Can you summarize GMO's recommendation for incentive compensation
15 presented by Mr. Klote on page 16 in his rebuttal testimony?

16 A. Yes. GMO is recommending for rate recovery the amount of incentive
17 compensation based on the 2016 Annual Incentive (Executive) and ValueLink
18 (non-executive, non-union) plans components with the assumption that all employees will
19 achieve a 100% achievement of the metrics embedded in the 2016 plans. GMO believes it is
20 appropriate to apply the plans in effect to its employees as of the true-up date, July 31, 2016
21 and project the expense GMO will incur in 2017.

Surrebuttal Testimony of
Matthew R. Young

1 Q. Do you agree with GMO's position?

2 A. No. Projecting the expense based on the current incentive compensation plan
3 violates the known and measurable standard used by this Commission. With very rare
4 exceptions, ratemaking in Missouri is based, as a starting point, upon actual recorded levels of
5 revenue, expense and rate base, with all significant cost of service items adjusted to the most
6 current incurred level at the time rates are set through annualization and normalization
7 adjustments. The long-standing ratemaking policy of this Commission is to rely only on
8 "known" and "measurable" data to set customer rates. In the proceeding, GMO is proposing
9 to use values for incentive compensation that are not "known" or "measurable". Projected
10 costs relating to incentive compensation may or may not actually occur and as such, the
11 projected incentive compensation costs should not be included in rates in this case. Staff
12 computed incentive compensation expense by normalizing the non-EPS incentive
13 compensation payouts made in the prior four years.

14 Q. Why is use of known and measurable data to set rates the standard practice
15 in Missouri?

16 A. Use of actual, recorded data as the starting point of the ratemaking process
17 avoids the inherent uncertainty and speculation associated with the use of forecast or budgeted
18 data to set rates.

19 Q. How would projecting the current plan's payout violate the known and
20 measurable standard?

21 A. As defined in the 2016 ValueLink incentive plan, employees eligible to receive
22 incentive compensation must:

Surrebuttal Testimony of
Matthew R. Young

- 1 • Be a regular employee of Kansas City Power & Light who is neither
2 temporary nor an intern;
- 3 • Be regularly scheduled to work a minimum of 24 hours per week;
- 4 • Commence employment before November 1, 2016;
- 5 • Be actively employed on the payout date;
- 6 • Have an Overall Review Rating of “Partially Meets Expectations” or
7 better on the Annual Performance Review for the 2016 Plan Year; and
- 8 • Be a non-union employee who is not considered an officer of the
9 company.

10 GMO’s projection assumes that the July 31, 2016 employee information will remain static
11 through; (1) November 1, 2016, the cut-off date for incentive compensation eligibility and
12 (2) March 31, 2017, the approximate payout date. Furthermore, GMO’s projection disregards
13 various circumstances that could affect the level of payout at the projected 100% level of
14 achievement. Examples of such circumstances are promotions, demotions, transfers between
15 union and non-union positions, retirements, terminations before the payout date, or new hires
16 before November 31, 2016.

17 Q. Beginning on page 17 of Mr. Klote’s rebuttal testimony, he discusses why
18 “Staff’s averaging technique” is not needed. Do agree with Mr. Klote’s assertion?

19 A. No. Mr. Klote indicates that in some years, incentive compensation payouts
20 represent less than 100% achievement of all objectives and that other years will represent
21 more than 100% achievement; therefore, an assumption of 100% achievement of the 2016
22 plan is a valid middle ground to include in rates going forward. However, the assumption that
23 100% achievement will be met, for the 2016 plan year or any other future year, is another
24 unknown factor that may, or may not occur. This would also not meet the “known and
25 measurable” standard.

1 Q. On page 17, lines 19-22 of Mr. Klote's rebuttal testimony, he states that Staff's
2 incentive compensation calculation is not an accurate depiction of how costs are structured in
3 the 2016 ValueLink incentive plan because the current plan does not include the earnings per
4 share (EPS) metric. Do you agree?

5 A. No. Of the four year's included in Staff's average, GMO did not achieve the
6 EPS metric in three of those years. So while it is true that Staff's calculation includes the
7 removal of EPS payouts in historical ValueLink plan payouts and it is true that the 2016
8 ValueLink incentive plan does not have an EPS component, the relevance of the cost
9 structures of ValueLink plans in prior years is limited. The relevance is limited because
10 Staff's removal of payouts related to EPS affected the total payout in only one year. In other
11 words, Staff's average included the *total* ValueLink incentive compensation payout in three of
12 the four years in Staff's normalization. This method accomplishes Staff's intent of
13 calculating a normalized amount of allowable incentive compensation using known and
14 measurable data.

15 Also, GMO has frequently included EPS in the ValueLink incentive plan metrics.
16 Reviewing incentive plan documents, it is Staff's understanding that the ValueLink plan
17 considered EPS performance including but not limited to the 2005, 2006, 2007, 2008, 2013,
18 2014, and 2015 plan years. Given that the Commission has found EPS metric to be
19 inappropriate in ratemaking at least as far back as in Case No. ER-2006-0314,² it seems GMO
20 has included EPS in the ValueLink plan regularly and recently with the knowledge that any
21 EPS incentive compensation would likely be disallowed. Therefore, it is unreasonable to

² See *Report and Order* Case No. ER-2006-0314, page 58.

1 ignore the historical EPS component in the ValueLink plan merely because GMO removed it
2 from the 2016 plan.

3 Q. Is there any other portion of GMO's 2016 ValueLink recommendation that you
4 find questionable?

5 A. Yes. GMO is recommending that the Commission should include GMO's
6 target incentive payout for the 2016 ValueLink plan as the level of ongoing incentive expense
7 to charge to the ratepayers. GMO is opposed to using EPS metrics in any calculation for the
8 ValueLink plan because GMO has removed the EPS metric from the 2016 plan. According to
9 GMO, it removed the 2016 EPS metric from the 2016 plan because Staff has historically been
10 opposed to the EPS metric. To acknowledge this point, GMO changed its incentive
11 compensation program to ". . . include metrics in which customers will benefit from solid
12 employee performance in achieving the objectives."³ GMO illustrates the alteration to the
13 2016 ValueLink plan by attaching the 2016 plan document to the rebuttal testimony of
14 Mr.Klote as Schedule RAK-22. However, a review of page 3 of Schedule RAK-22 shows
15 that one of the 2016 metrics, which "replaced" the 2015 EPS component, is an award for the
16 level of "Non-utility investment across the Energy Value Chain". Page 6 of Schedule
17 RAK-22 also shows that for 100% achievement of this metric, GMO would need to invest
18 \$20 million in KLT and \$88 million in Transource.⁴ Staff is unsure of how incentive

³ Ronald A. Klote Rebuttal Testimony page 17, lines 14-16 Case No. ER-2016-0156.

⁴ Schedule RAK-22, page 6 of 7. Great Plains Energy Incorporated and American Electric Power Company, Inc. formed Transource Energy, LLC as a joint venture to build regional transmission projects. Transource Missouri is a wholly-owned subsidiary of Transource Energy, LLC. Transource has two members: (a) AEP Transmission Holding Company, LLC, which owns 86.5% of Transource and is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"), and (b) GPE Transmission Holding Company, LLC, which owns 13.5% of Transource and is a wholly-owned subsidiary of Great Plains Energy Incorporated ("GPE"), the parent corporation of Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations Company ("GMO").

1 compensation payouts related to GMO's non-utility, non-regulated investments is a "metric in
2 which customers will benefit".

3 GMO's achievement of the 2016 ValueLink plan will not be known until
4 December 31, 2016, and the payout will not be made until the first quarter of 2017 so the
5 2016 ValueLink plan is not known and measurable and is beyond the scope of this case.
6 If Staff had considered GMO's 2016 ValueLink plan, Staff would make similar arguments
7 against charging ratepayers for "non-utility investment" incentive compensation metrics as it
8 has for EPS metrics.

9 Q. What should the Commission find to be the more appropriate incentive
10 compensation calculation?

11 A. The Commission should accept Staff's calculation, which is an average of
12 known and measurable payouts that are computed from known and measurable achievements
13 of metrics and include only metrics that show a reasonable benefit to ratepayers.

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes, it does.

