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MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2018-0145 and ER-2018-0146

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY and
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
September 2018**

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SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case Nos. ER-2018-0145 and ER-2018-0146

1 **Q: Please state your name and business address.**

2 A: My name is Ronald A. Klote. My business address is 1200 Main, Kansas City, Missouri

3 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as

6 Director – Regulatory Affairs.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company

9 ("GMO") (collectively, the "Company").

10 **Q: Are you the same Ronald A. Klote who filed Direct and Rebuttal Testimony in both**

11 **ER-2018-0145 and ER-2018-0146?**

12 A: Yes, I am.

13 **Q: What is the purpose of your testimony?**

14 A: The purpose of my testimony is to respond to the Rebuttal Testimony of OPC witness

15 Amanda Conner regarding management expense reports and OPC witness Robert

16 Schallenberg regarding affiliate transactions and cost allocations.

1 **MANAGEMENT EXPENSE REPORTS**

2 **Q: What is your understanding of the position of OPC witness Amanda Conner**
3 **regarding management expense report charges?**

4 A: On pages 3-4 of her rebuttal testimony, OPC witness Conner asserts that KCP&L
5 employees are not in compliance with the Company policy regarding employee-incurred
6 business expenses. As a result, OPC proposes to disallow employee expense report
7 charges of $5.8 million total company KCP&L and $2.5 million for GMO.

8 **Q: How did OPC calculate the amount of these proposed disallowances?**

9 A: Based on OPC witness Conner's workpapers, it can be seen that OPC derived this
10 amount by reviewing the expense reports of KCP&L's officers over a 19-month period
11 (June 2016 – December 2017). Out of that universe of expense reports, she identified
12 what she alleges to be excessive or improper expenses. She totaled the allegedly
13 excessive or improper expenses and divided that sum by the number of officers (13
14 officers submitting expense reports) and then further divided that quotient by 12.
15 Through this process OPC witness Conner estimates that, on average, each member of
16 the officer team was reimbursed for improper or excessive expenses of $741 per month.
17 She then takes this $741 per month amount and multiplied it by the total number of
18 management (i.e., non-union) employees at KCP&L and then multiplied that amount by
19 18 to produce an estimated total of allegedly excessive or improper reimbursement of
20 management expenses of $13.9M. She allocated this total among KCP&L, GMO and the
21 holding company using an average of the General Allocator and the Utility Mass.
22 Allocator during the test year. Finally, she applied a factor of 60% to those amounts to

1 calculate the disallowance recommendations of $5.8 million for KCP&L and $2.5 million
2 for GMO.

3 **Q: Are there any errors in OPC witness Conner's calculation of the $741 per month**
4 **average excess per officer amount, found in Schedule ACC-R-1 to her rebuttal**
5 **testimony?**

6 A: Yes.

7 **Q: Please describe these errors.**

8 A: As calculated in ACC-R-1, and mentioned below, OPC identified an amount of officer
9 expense report charges totaling approximately $115,578 that are allegedly excessive. The
10 source of this amount is a resulting sum of all of OPC witness Conner's list of allegedly
11 excessive items from what is actually a 19 month list. The list includes June 2016
12 transactions and therefore 7 months of 2016 are included. A significant error occurs when
13 OPC witness Conner mistakenly divides the 19 month total by 12 to arrive at her monthly
14 average of $741. Taking the $115,578 divided by 19 gives you a monthly average of
15 approximately $468. Although the Company does not agree with any of the fundamentals
16 of OPC witness Conners adjustment, her adjustment has obvious and significant
17 fundamental flaws.

18 **Q: How would you characterize these OPC disallowance proposals?**

19 A: These disallowance proposals are clearly unreasonable for a number of reasons.

20 First, the total amount of actual management expense reports submitted during the
21 test year for both KCP&L and GMO combined is $5.4 million, yet OPC proposes to
22 disallow $8.3 million ($5.8 million for total KCP&L and $2.5 million for GMO). This is
23 completely unreasonable because disallowing $8.3 million in management expense report

1 costs would completely disallow all management expenses and leave the Company with
2 negative management expense report reimbursements for the test year. I will address this
3 in more detail below.

4 Second, many of the expenses OPC identifies as allegedly improper or excessive
5 were either: (1) not charged to and reimbursed by the Company at all because they were
6 personal costs paid by the individual employees, or (2) not charged to KCP&L or GMO
7 regulated business units but to the holding company and, therefore, are not included in
8 revenue requirement in these cases. I will address these problems with OPC's
9 disallowance recommendations below.

10 Third, another obvious flaw in OPC witness Conner's calculation is her
11 multiplication of allegedly excessive monthly charges by 18 months in order to determine
12 an annual amount. An annual amount should obviously only include 12 months.

13 **Q: Does the Company agree with these OPC disallowances?**

14 A: No. The Company completely disagrees with these disallowance recommendations by
15 OPC. They are completely out of the range of reasonableness to be considered in this
16 rate case proceeding.

17 **Q: Please explain.**

18 A: In addition to the fact that OPC proposes to disallow more management expense report
19 costs than were incurred by KCP&L and GMO regulated business units during the test
20 year, the inputs into her calculation, if accurate, would mean that every single one of the
21 Company's 1,045 management employees turned in an expense report during the test
22 year that is contrary to the Company's expense reimbursement policy reflecting excessive
23 charges of $741 every single month. This obviously has no basis in reality or fact and

1 should not be given any weight by this Commission. As might reasonably be expected,
2 many management (i.e., non-union) employees do not submit a single expense report
3 requesting reimbursement for expenses in a given year. During the test year for these
4 cases, more than 150 KCP&L employees did not submit a single expense report. For the
5 test year, the Company's management (i.e., non-union) employees submitted an average
6 of seven expense reports per employee. Also, of the 7,845 actual management employee
7 expense reports submitted during the test year only 2,068 of those reports had a total
8 greater than $700 which is close to the amount that OPC asserts is charged excessively on
9 each report every single month. These simple checks demonstrate that OPC's
10 disallowance recommendation has no basis in fact, is clearly unreasonable and must be
11 rejected.

12 OPC's disallowance calculation, if accurate, would also mean that every
13 management employee supervisor has approved, for every management employee for
14 every month of the test year, an excessive expense reimbursement that is contrary to
15 KCP&L's corporate expense reimbursement policy. This too is clearly unreasonable.
16 Supervisory employees who approve and/or validate credit card transactions or
17 reimbursement requests, accept responsibility for the propriety of all costs and for
18 adherence to KCP&L's expense reimbursement policy. As discussed by Company
19 witness Steve Busser in his surrebuttal testimony, this policy provides that employees
20 will be reimbursed for all reasonable, legitimate and properly documented business
21 expenses made in accordance with KCPL-E201 and any other applicable policy.
22 Adoption of the disallowance proposed by OPC would require the assumption that all

1 supervisors are ignoring corporate expense reimbursement policies which OPC has not
2 shown and is simply not the case.

3 **Q: What are two common statistical measurements to validate an audit sample?**

4 A: The margin of error and the confidence level.

5 **Q: Does OPC witness Connor provide any analysis concerning the margin of error or**
6 **the confidence level in her sampling method?**

7 A: No she does not.

8 **Q: Please elaborate on your earlier comment regarding OPC's erroneous allegations**
9 **that certain expenses are excessive or improper.**

10 A: OPC identified an amount of officer expense report charges over 19 months totaling
11 $115,578.33 that are allegedly excessive, however a substantial portion (approximately
12 25%) of these charges were charged to the holding company's books (HLDCO) and thus
13 are not included in the revenue requirement in this case. In addition, all items with an
14 expense date after June 30, 2017 occurred outside the test year and should not be
15 included as part of any disallowance calculation. And, one specific item on schedule
16 ACC-R-1 on September 30, 2016 for a bottle of wine with dinner for $17.00 was
17 removed from the revenue requirement in this case in adjustment CS-11. Finally, there
18 are several items on witness Conner's workpaper that are marked as personal charges that
19 were reimbursed to the Company by the employees and thus are not in the revenue
20 requirement for these cases.

1 **Q: Please describe the process for entering personal charges into the expense reporting**
2 **system.**
3 A: When an employee uses their corporate credit card for personal charges the policy states
4 that the employee must reimburse the Company. The majority of the time this
5 reimbursement is done through a payroll deduction. The employee simply splits out the
6 personal charges separately and clicks the 'Personal' box upon entering their expenses for
7 the month. The expense system then only creates the transactions that are not marked as
8 personal, makes the payment for these transactions, and creates the journal entries in the
9 general ledger. Thus, the personal charges are not recorded on the books since they are
10 reimbursed separately by the employee. These type of charges are typically incidental or
11 inadvertent when an employee mistakenly uses their company credit card for personal
12 use. We have this process in place to handle such instances.
13 **Q: Please discuss the issue OPC raised regarding charges made for the Westar merger?**
14 A: OPC claims that KCP&L and GMO failed to remove transition costs related to the
15 Westar merger and is in violation of the Stipulation and Agreement in that case.
16 **Q: Does the Company agree?**
17 A: No. The Company set up specific general ledger coding for all merger transition costs
18 that consisted of a set of projects that defaulted to the holding company business unit
19 (HLDCO). Therefore, these charges were not charged to the regulated books of KCP&L
20 or GMO. There are several instances of these HLDCO transactions on schedule ACC-R-
21 1 that are not part of revenue requirement and are clearly identified on that schedule as
22 HLDCO expenses and included in witness Conner's totals.

1 **Q: Did Ms. Conner seek to meet with you or Company representatives to understand**
2 **such nuances of the Company's accounting system before proposing her**
3 **adjustment?**
4 A: No. Not that I am aware of.
5 **Q: Did Staff calculate an adjustment associated with expense reporting?**
6 A: Yes. It appears Staff calculated a test year adjustment of employee expense reports.
7 Their adjustment in this case totaled approximately $55,000 for total KCP&L and
8 approximately $9,000 for GMO which is similar to the Company's expense report review
9 adjustment which was included as part of the direct filing in this case.
10 **Q: Should the Commission be concerned that even the Company has made test year**
11 **adjustments for expense reporting of this magnitude?**
12 A: No, not at all. While the Company made these adjustments, I consider the significant
13 majority of these expenses to be legitimate business expenses incurred consistently with
14 our policies. That said, as we have seen positions taken by Staff and certain parties in
15 previous cases and chose proactively to remove certain of these incurred expenses from
16 our request in an effort to minimize issues. I believe our adjustment is appropriate to
17 establish rates in this case and am pleased that we are substantially aligned with Staff on
18 this issue.
19 **Q: What should the Commission do concerning the review of employee expense**
20 **reports?**
21 A: The Commission should reject OPC's adjustment because the fundamental components
22 of the calculation are utilizing an unrealistic approach and the OPC adjustment is far
23 outside the range of reasonableness. In addition, there are numerous errors in which the

1 amounts included are not even in the cost of service in this rate case filing. In addition,
2 Company witness Steve Busser provides the reasons why such a disallowance should not
3 be included in this case. The Commission should accept the expense reimbursement
4 adjustment performed and included in the Company and Staff's case.

5 **CORPORATE COST ALLOCATIONS - AFFILIATE TRANSACTIONS**

6 **Q: Did OPC address corporate cost allocations - affiliate transactions in its rebuttal**
7 **testimony?**

8 A: Yes, in his rebuttal testimony on pages 9-17, OPC witness Robert Schallenberg briefly
9 addresses a number of items regarding the Company's corporate cost allocations -
10 affiliate transaction process. Items he addresses are as follows:

11 a. He alleges that the Company failed to record certain affiliate transactions;
12 b. He raises a concern regarding indirect cost assignment to affiliates of
13 KCP&L and GMO;
14 c. He alleges that the Company failed to report or identify affiliate
15 transactions between the Company and certain affiliates;
16 d. He alleges that certain costs on the books of KCP&L and GMO associated
17 with providing information to stockholders should instead be charged to
18 the holding company;
19 e. He raises a concern regarding "unallocated" corporate charges on the
20 holding company's books;
21 f. He alleges that transactions between KCP&L and KCP&L Receivables
22 Company, and between GMO and GMO Receivables Company fail to
23 comply with the Commission's affiliate transactions rule; and

1 g. He alleges that the Company is seeking to recover merger transition costs
2 in excess of those permitted by the conditions approved by the
3 Commission in Case No. EM-2018-0012.

4 **Q: How does the Company respond to these items addressed by OPC witness**
5 **Schallenberg?**

6 A: I disagree with the items as addressed by OPC witness Schallenberg and will discuss each
7 item in turn below.

8 **a. <u>OPC's unrecorded transaction concern</u>**

9 **Q: What is your understanding of this OPC concern?**

10 A: Based on page 10, lines 17-22 of his rebuttal testimony, it appears that OPC witness
11 Schallenberg is alleging that Great Plains Energy Services ("GPES") provided services to
12 KCP&L and GMO during 2017, but that no costs associated with these services were
13 recorded on the books of KCP&L or GMO.

14 **Q: Did GPES provide service to KCP&L, GMO or any other of their affiliates in 2017,**
15 **or during the test year in this case?**

16 A: No, and consequently the concern raised by OPC witness Schallenberg regarding this
17 item should be dismissed by the Commission.

18 **Q: What is GPES?**

19 A: As stated in GPES FERC Form 60, GPES was a wholly-owned subsidiary of Great Plains
20 Energy Incorporated (prior to the creation of Evergy, Inc. as a result of the merger of
21 Great Plains Energy Incorporated and Westar). GPES is now a wholly-owned subsidiary
22 of Evergy, Inc.

1 After Great Plains Energy Incorporated was established as the holding company
2 for KCP&L, GPES was established as a services company where corporate support
3 service personnel would be placed in the overall corporate structure. Thereafter,
4 approximately 400 employees were transferred to GPES from KCP&L for that purpose
5 but in 2005, after Commission Staff expressed significant concern with this, the majority
6 of these employees were transferred back to KCP&L. These transfers occurred when
7 KCP&L was involved in establishing the Experimental Regulatory Plan (Comprehensive
8 Energy Plan or "CEP"). As a result, when Great Plains Energy Incorporated purchased
9 Aquila, Inc., there was no fully staffed services organization outside of KCP&L, and the
10 decision was made to place all employees coming from the acquisition of Aquila into the
11 KCP&L organization as KCP&L employees and bill out the services back to the former
12 Aquila operations (now known as GMO). As such, following the acquisition of Aquila,
13 Inc. by Great Plains Energy Incorporated, GPES no longer maintained any employees to
14 provide services. GPES continues to have no employees to this day.
15 **Q: Does GPES provide services today?**
16 A: No. In fact, this was disclosed in GPES FERC Form 60 that GPES does not provide
17 services to GPE or its subsidiaries. GPES is a contracting vehicle and is employed to
18 eliminate redundant administrative expense that would be incurred in connection with
19 negotiating duplicate contracts which would need to be in place for both KCP&L and
20 GMO absent using a consolidated contracting vehicle such as GPES. The use of GPES
21 as a contracting vehicle began after the acquisition of Aquila's Missouri electric
22 properties by Great Plains Energy Incorporated in 2008. GPES executes the master
23 agreement for essentially all KCP&L and GMO transactions involving goods or services

1 except fuel and purchased power, real estate and large construction projects (although it
2 should be noted that a number of legacy master contracts with evergreen provisions
3 continue to be utilized which were executed by KCP&L prior to the acquisition of GMO
4 and the use of GPES as a contracting vehicle). The GPES master agreements typically
5 contain the legal terms and conditions. KCP&L and GMO then enter into separate
6 purchase orders as necessary which specify what is being ordered by each respective
7 business unit and any discrete terms and conditions applicable to KCP&L or GMO.

8 **Q: Does the use of GPES as a contracting vehicle for KCP&L and GMO mean that**
9 **contracts executed by GPES on behalf of KCP&L and GMO should be considered**
10 **affiliate transactions as that phrase is defined in Commission Rule 4 CSR 240-**
11 **20.015?**

12 A: No. Although GPES is an affiliate of KCP&L and GMO as defined in the Commission's
13 affiliate transactions rule, when GPES executes contracts related to goods and services
14 used by KCP&L and GMO, those contracts are executed by GPES on behalf of itself and
15 KCP&L and GMO. The specific provisions of the contract prescribe which obligations
16 run to which parties, and as I mentioned, KCP&L and GMO then enter into separate
17 purchase orders as necessary which specify what is being ordered by each respective
18 business unit and any discrete terms and conditions applicable to KCP&L or GMO.

19 **Q: Are OPC's concerns in this area justified?**

20 A: No. The Commission should disregard OPC's concerns here.

1 **b. OPC's concern regarding indirect cost assignment**

2 **Q: What is your understanding of OPC witness Schallenberg's concern regarding**
3 **indirect cost assignment?**

4 A: Based on page 11 of his rebuttal testimony, I understand that OPC witness Schallenberg
5 alleges that the assignment of KCP&L costs to affiliates other than GMO through the use
6 of a general allocator is inappropriate.

7 **Q: How do you respond to this OPC concern?**

8 A: I disagree with OPC witness Schallenberg. First, the Company is following the
9 procedures that are outlined in its Cost Allocation Manual ("CAM") that was developed
10 by the Company, OPC and Commission Staff in docket number EO-2014-0189 and
11 which was ultimately approved by the Commission in Case No. ER-2016-0285. The
12 CAM provides for the cost allocation principles of direct assignment, indirect assignment
13 and general allocation and the Company is following those procedures.

14 Second, the concern OPC witness Schallenberg raises here is too vague to
15 understand and respond to in a meaningful way.

16 Third, in approving the merger of Great Plains Energy Incorporated and Westar
17 Energy, Inc. in Case No. EM-2018-0012, the Commission approved two Stipulations and
18 Agreements, one dated January 12, 2018 and one dated March 8, 2018 which contain a
19 number of commitments and conditions. Condition 31 of Exhibit B of the Stipulation
20 and Agreement dated January 12, 2018 approved by the Commission in Case No. EM-
21 2018-0012 provides the following:

> 22 Holdco, KCP&L and GMO shall agree to an independent third
> 23 party management audit report of new holding company, KCP&L
> 24 and GMO corporate cost allocations and affiliate transaction
> 25 protocols. A committee, which shall be comprised of an equal

1 number of Staff, OPC and Applicant representatives, shall develop
2 a Request for Proposal ("RFP") with input from all committee
3 members on the scope of work, and this RFP shall be submitted to
4 the Commission for approval within six months after the closing of
5 the Merger. The selection of a successful bidder shall be conducted
6 by the same committee and shall be made by unanimous vote. If
7 the vote is not unanimous, the Commission will determine the
8 successful bidder and scope of work. The independent third party
9 management auditor's contract shall preserve the auditor's
10 independence by precluding Staff, OPC, Holdco, KCP&L, and
11 GMO representatives from directing or influencing the report's
12 conclusions. Upon completion, the report of the audit shall be filed
13 with the Commission.

14 Because an independent third party audit of the Company's corporate cost allocations and
15 affiliate transactions protocols will be undertaken in compliance with this condition, the
16 concern OPC witness Schallenberg raises regarding indirect cost assignment need not be
17 addressed in this case. If that audit reveals issues associated with the cost allocation
18 principles and procedures that are documented in the Company's Commission-approved
19 CAM or with the Company's execution of those principles and procedures, then
20 appropriate action can be taken at that time.

21 **c. OPC's concerns regarding Wolf Creek Nuclear Operating Company ("WCNOC"),**
22 **GPES and Grid Assurance**
23
24 **Q: What is your understanding of the third item raised by OPC witness Schallenberg,**
25 **regarding WCNOC, GPES and Grid Assurance?**

26 A: Based on page 11 of his rebuttal testimony, I understand that OPC witness Schallenberg
27 believes that transactions between KCP&L and WCNOC should have been included in
28 the 2017 affiliate transactions report that was submitted to the Commission along with
29 the CAM by KCP&L. In addition, OPC witness Schallenberg expresses concern that no
30 services were listed as being provided to GPES or Grid Assurance by KCP&L in the
31 2017 affiliate transactions report.

1 **Q: What is your response to these OPC concerns?**

2 A: These OPC concerns are unfounded and I will address each individually.

3 **Q: What is the Company's response to OPC witness Schallenberg's assertion that**
4 **transactions between KCP&L and WCNOC should be listed in the affiliate**
5 **transactions report?**

6 A: WCNOC has operated the Wolf Creek nuclear generation station on behalf of its owners
7 (KCP&L, Kansas Gas and Electric Company and Kansas Electric Power Cooperative,
8 Inc.) since the mid-1980s. The cost of Wolf Creek has been included in each rate case
9 filed by KCP&L since then and has been reviewed and included in KCP&L's cost of
10 service and rates each rate proceeding since then. In addition, KCP&L did not provide
11 any services to WCNOC in 2017. KCP&L has never listed transactions with WCNOC in
12 the yearly affiliate transaction report as it has always treated WCNOC as part and parcel
13 of KCP&L's regulated operations. Therefore, since the cost of WCNOC has always been
14 included in KCP&L's cost of service and rates, WCNOC has not been treated as an
15 affiliated entity under 4 CSR 240-20.015(1)(A).

16 **Q: What is your response to OPC witness Schallenberg's concern regarding GPES?**

17 A: I believe the concern raised by OPC witness Schallenberg on page 11 of his rebuttal
18 testimony is essentially the same one I address on pages 10-12 earlier in this testimony.
19 As such, I would simply refer the reader to those pages and will not repeat that discussion
20 here.

1 **Q: What is your response to OPC witness Schallenberg's concern regarding Grid**
2 **Assurance?**

3 A: OPC witness Schallenberg's statement on page 11 of his rebuttal testimony that services
4 provided by KCP&L to Grid Assurance were not listed in the 2017 Affiliate Transaction
5 Report is incorrect. In fact, KCP&L has listed services provided in the 2016 and 2017
6 Affiliate Transaction Report in Appendix 2A. Affiliate transactions were reported in the
7 amounts of $406,948 and $1,348,613 in the 2016 and 2017 affiliate transaction report,
8 respectively.

9 **d. OPC's concern regarding board of director costs, credit rating agency costs and**
10 **equity compensation paid to employees**
11
12 **Q: What is your understanding of OPC's position regarding costs recorded to FERC**
13 **Account 930.2?**

14 A: Based on pages 11-12 of his rebuttal testimony, I understand that OPC witness
15 Schallenberg asserts that all costs recorded to FERC account 930.2 for KCP&L and
16 GMO should have been charged to the holding company (formerly Great Plains Energy
17 Incorporated, now Evergy, Inc.), should not be included in cost of service in these rate
18 cases and should be removed from cost of service in these rate cases.

19 **Q: What types of costs were recorded to FERC Account 930.2 for KCP&L and GMO?**

20 A: Board of director costs, credit rating agency costs and equity compensation paid to
21 employees.

22 **Q: What is your response to this OPC position?**

23 A: OPC witness Schallenburg is wrong. The charges to which OPC witness Schallenberg is
24 referring are included in FERC Account 930.2 on page 335 of the FERC Form 1 for both

1 KCP&L and GMO. The majority of these charges can be broken into the following 3

2 categories:

Type of Expense	KCP&L	GMO	GPE/NON_REG
Equity Compensation	$502,094	$229,279	$11,293
Board of Director (retainer & other)	$649,807	$301,904	$100,266
SEC/Credit Rating Agency	$512,137	$437,928	$331,460
	$1,664,038	$969,111	$443,019

KCP&L and GMO tie to 2017 FERC Form 1 page 335, line 4

3 The first line item in the table above represents equity compensation. These

4 amounts have already been removed from the Company's cost of service and thus are not

5 included in the revenue requirement for either KCP&L or GMO in these cases.

6 The second line item represents board of director quarterly retainer fees and

7 miscellaneous other board expenses. The third significant expense item are charges

8 associated with the Securities Exchange Commission, Moody's investor credit

9 monitoring expense, other rating agency fees such as analytical services, bond and senior

10 note administrative fees.

11 Q: **Since the Company has already removed equity compensation from cost of service,**

12 **let's focus on board of director costs and credit rating agency costs. Are these costs**

13 **appropriately charged to KCP&L and GMO?**

14 A: Yes they are. OPC witness Schallenberg provides no analysis in his testimony to support

15 his claims except for stating that the holding company is the sole shareholder of KCP&L

16 and GMO. There was no analysis of the types of costs and how they were coded in

17 KCP&L's, GMO's and the holding company's books and records.

1 First, the board of directors fees and expenses are either directly assigned or
2 allocated across all entities using the general allocator. This is an appropriate allocation
3 method because the board of directors exists to serve all of the business units within the
4 holding company, not just the holding company. Board of director costs are a normal
5 cost of service and absent the holding company structure, there would be a board of
6 directors, and associated costs, for KCP&L and GMO. The Board of Directors provide
7 oversight and guidance over all facets of the regulated side of the business traditionally
8 addressed by a utility Board of Directors, such as for budgets and long term capital
9 planning to name a couple. OPC has provided no reasonable basis for the exclusion of
10 such costs from KCP&L and GMO's revenue requirement in these rate cases.

11 Finally, the third broad category of cost recorded to FERC Account 930.2
12 includes fees associated with credit rating agencies and analytical services. Of the total
13 costs of $1,281,525 for this category, they are allocated and assigned to the following
14 entities.

15	KCP&L	$512,137
16	GMO	$437,928
17	GPE	$331,460

18 KCP&L and GMO incur debt separate from one another and separate from the holding
19 company. As such, it is important for KCP&L and GMO to maintain credit ratings so
20 that they can access debt markets on reasonable terms. Given this, including the cost
21 associated with credit rating agencies in the revenue requirement of KCP&L and GMO is
22 reasonable which is why the Commission has done so for as long as rating agency costs
23 have been incurred for each company.

1 OPC witness Schallenberg failed to provide the total cost assignment and
2 allocation results of transactions that fall in this area. He simply jumped to the erroneous
3 conclusion that these costs are recorded on the books of KCP&L and GMO and must
4 only be assigned to the holding company's books. These costs were appropriately
5 assigned and allocated based on the cost causative nature of the costs.

6 **e. OPC's concern regarding unallocated corporate charges**

7 **Q: What is your understanding of OPC witness Schallenberg's concern regarding**
8 **unallocated corporate charges?**

9 A: Based on page 12 of his rebuttal testimony, I think OPC witness Schallenberg may
10 believe that certain costs directly charged to the holding company are being re-allocated
11 to KCP&L and GMO through a general allocation.

12 **Q: What is your response to this concern of OPC witness Schallenberg?**

13 A: This concern by OPC witness Schallenberg is based on unfounded speculation that has no
14 basis in the allocation principles and procedures employed by the Company in
15 compliance with its Commission-approved CAM. The unallocated corporate charges
16 referred to by OPC witness Schallenberg are costs that have been directly assigned to or
17 retained by the holding company and are not part of the regulated companies' books and
18 records. These unallocated corporate charges reported on page 42 of the 10Q are
19 amounts that reside on the holding company's books and do not impact the regulated
20 utilities. The Commission should dismiss OPC witness Schallenberg's concern regarding
21 unallocated costs as pure speculation lacking any basis in the books and records of the
22 Company or the allocation principles and procedures in the Company's CAM.

1 **f. KCP&L Receivables Company and GMO Receivables Company**

2 **Q: What is your understanding of OPC's position regarding the KCP&L Receivables**
3 **Company and the GMO Receivables Company (collectively, the "receivables**
4 **companies")?**

5 A: Based on pages 13-15 of his rebuttal testimony, I understand that OPC witness
6 Schallenberg recommends that costs of the receivables companies should be excluded
7 from the Company's cost of service in these rate cases based on his belief that
8 transactions between the utility and its respective receivables company do not comply
9 with the requirements of the Commission's affiliate transactions rule.

10 **Q: What is your response to OPC's position that costs of the receivables companies**
11 **should be excluded from cost of service in these rate cases?**

12 A: I disagree. The Company has handled revenue requirement impacts of the receivables
13 companies in the current cases the same way they have been handled for the last several
14 KCP&L and GMO rate cases. The receivables companies were created solely to serve
15 the interests of the utilities as well as the utilities' customers and would not otherwise
16 exist. They provide benefits to customers by lowering overall cost of service that
17 KCP&L and GMO could not obtain in the absence of the receivables companies.
18 Company witness Mr. James Gilligan explains how the receivables companies provide a
19 beneficial impact to cost of service. Excluding the cost of the receivables companies
20 from revenue requirement would require a corresponding adjustment to remove the
21 benefits the receivables companies provide.

1 **g. Merger transition costs**

2 **Q: What is your understanding of OPC's concern regarding merger transition costs?**

3 A: Based on pages 16-17 of his rebuttal testimony, I understand that OPC witness
4 Schallenberg believes that some internal labor costs of the Company should be
5 considered merger transition costs. Although OPC witness Schallenberg has not
6 proposed an adjustment to revenue requirement based on this concern, it appears that he
7 intends to do so in true-up testimony.

8 **Q: What is your response to this OPC concern?**

9 A: I disagree with this interpretation presented by OPC witness Schallenberg. Internal
10 employee labor was never contemplated as being included in the total transition costs that
11 were to be included in transition cost amortization recovery. There has been a very
12 significant amount of time of internal employee labor resources that have been used to
13 plan and prepare for the merger with Westar. Employees have worked tirelessly with
14 substantial amount of overtime hours to not only plan and prepare for the merger with
15 Westar but to continue to operate and run the regulated utility business. This continues to
16 be the case post day one of the merger. Yet, internal employee labor was not included in
17 the total amount of merger transition costs included in the calculation of the amortization
18 of merger transition costs to be included in rates in these cases because internal employee
19 labor is a component of the Company's cost of service.

20 **Q: What was intended to be included as part of merger transition cost recovery?**

21 A: The Company proposed in merger docket number EM-2018-0012 to include the
22 following costs in transition costs to be considered for recovery through a cost of service
23 amortization which was included in Company witness Steve Busser's testimony.

	Transition Costs ($M)						
	2016/2017	2018	2019	2020	2021	2022	Total
Transition Costs							
Severance	$ 6.1	$ 14.5	$ -	$ -	$ -	$ -	$ 20.6
Supply Chain	7.1	6.8	5.4	2.0	1.6	1.2	24.2
Information Technology	11.8	0.3	0.3	0.3	0.3	0.3	13.4
Integration Planning & Integration Support	7.5	-	-	-	-	-	7.5
Other integration teams	3.1	0.3	0.9	0.6	0.6	0.6	6.1
Total	$ 35.6	$ 21.9	$ 6.6	$ 3.0	$ 2.5	$ 2.2	$ 71.8

1

2 The costs included in the table do not include internal labor costs and include only non-

3 labor costs for the functions mentioned in the table above. The table below provides the

4 exact same transition costs by the type of costs that were proposed to be included as part

5 of transition costs.

	Transition Costs ($M)						
	2016/2017	2018	2019	2020	2021	2022	Total
Transition Costs							
Severance	$ 6.1	14.5	-	-	-	-	$ 20.6
Consulting Fees	7.9	4.0	2.0	0.8	0.8	0.5	16.0
Contractor Costs	1.5	0.8	0.7	0.0	0.0	0.0	3.0
Other Outside Services	19.2	0.1	0.3	0.3	0.3	0.3	20.5
IT Software	0.4	0.1	0.3	0.3	0.3	0.3	1.7
Other costs	0.5	2.4	3.3	1.6	1.1	1.1	10.0
Total	$ 35.6	$ 21.9	$ 6.6	$ 3.0	$ 2.5	$ 2.2	$ 71.8

6

7 **Q: What did the Company agree to regarding transition costs to be included in cost of**

8 **service?**

9 A: The Company agreed to the following regarding transition cost recovery to be included in

10 this rate case in the Stipulation and Agreement in the merger docket number EM-2018-

11 0012

12 9. Transition Costs: Signatories shall support in KCP&L and
13 GMO's 2018 rate cases filed on January 30, 2018, deferral of
14 Merger transition costs of $7,209,208 for GMO and $9,725,592 for
15 KCP&L's Missouri operations. Signatories will recommend
16 recovery in the respective 2018 rate cases through amortization of
17 such Merger transition costs for approval by the Commission over
18 a 10-year period beginning when such costs have been included in

1 Missouri base rates, with no carrying costs or rate base inclusion
2 allowed for the unamortized portion of such costs at any time.
3 Signatories agree that no other Merger transition costs shall be
4 requested for recovery from Missouri customers in the 2018 rate
5 cases or thereafter. This agreement regarding transition cost
6 recovery is an additional limitation to Condition 19 in Exhibit A to
7 the Stipulation and Agreement filed on January 12, 2018.
8
9 **Q: Has the Company included the amortization of transition costs over a 10-year**
10 **period associated with the agreed to amounts above?**

11 A: Yes. In my Direct True-up Testimony filed at the same time as this Surrebuttal
12 Testimony, I have included the annual amount of amortization associated with amortizing
13 the above $7.2 million and $9.7 million amounts for GMO and KCP&L, respectively.

14 **Q: Are these the only amounts of transition costs that will be proposed to be included in**
15 **this rate case filing?**

16 A: Yes. The true-up in the case will only include the annual amount of transition costs
17 agreed to above.

18 **Q: Are internal employee labor costs included in these totals?**

19 A: No they are not.

20 **Q: Should any portion of internal employee labor included in the payroll adjustment in**
21 **this rate case be considered transition costs?**

22 A: No it should not for multiple reasons.

23 First, as discussed above, internal labor costs were never considered in the total to
24 be considered for merger transition cost recovery. Severance costs and merger-related
25 expenses through expense reports were the only employee-related transition costs to be
26 considered for recovery through an amortization.

1 Second and most important, the remaining employees of the combined
2 organization are employed to run the combined organization's regulated utilities and
3 affiliates. The labor costs associated with running the combined organization, including
4 the identification and implementation of the combined company's efficiencies, should be
5 included in the cost of service in this rate case proceeding. Finally, the combined
6 company put a significant amount of effort in not filling open positions as employees left
7 the Company during the merger approval process. The anticipated headcount at Day 1 is
8 below the budgeted level that was expected to be achieved. As such, additional merger-
9 related labor savings are included in this rate case that were not anticipated.

10 **Q: Should the Commission adopt OPC witness Schallenberg's position on merger**
11 **transition costs in this case?**

12 A: No. Internal labor costs were not a part of the contemplated merger transition costs and
13 thus there is no reason to attempt to analyze prospective labor resource usage on
14 transition or integration activities. The resulting employees of the organization are tasked
15 with running the combined companies regulated utilities and affiliates.

16 **Q: Does this conclude your testimony?**

17 A: Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2018-0145
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2018-0146

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of twenty-five (25) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ronald A. Klote

Subscribed and sworn before me this 4th day of September 2018.

Notary Public

My commission expires: 4/26/2021

ANTHONY R WESTENKIRCHNER
Notary Public, Notary Seal
State of Missouri
Platte County
Commission # 17279952
My Commission Expires April 26, 2021