

Exhibit No.:	_____
Issue(s):	Cost of Service Studies
Witness/Type of Exhibit:	Pavlovic/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2018-0145 ER-2018-0146

**SURREBUTTAL TESTIMONY
OF
KARL RICHARD PAVLOVIC
ON BEHALF OF**

**MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.: ER-2018-0145
CASE NO.: ER-2018-0146**

**Office of the Public Counsel
Jefferson City, Missouri
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SURREBUTTAL TESTIMONY

OF

KARL R. PAVLOVIC

KANSAS CITY POWER AND LIGHT COMPANY

KCP&L GREATER MISSOURI OPERATIONS COMPANY

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

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

2 A. My name is Karl Richard Pavlovic. My business address is 22 Brookes Avenue,
3 Gaithersburg, MD 20877.

4 **Q. Are you the same Karl Richard Pavlovic who submitted direct and rebuttal**
5 **testimony in these proceedings on July 6, 2018 and August 7, 2018, respectively?**

6 A. Yes. Schedule KRP-1 to my direct testimony summarizes my qualifications and
7 experience.

8
9 **I. PURPOSE OF TESTIMONY**

10 **Q. What is the purpose of your surrebuttal testimony in these proceedings?**

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Darrin
12 R. Ives and Marisol E. Miller that responds to my direct testimony regarding consolidated
13 operation, cost studies, and rates for KCPL and GMO. Witness Ives responds to all three
14 issues,¹ while Witness Miller responds only to the issue of a consolidated cost study.² In
15 my testimony below, I first address Witness Ives on consolidated operation of KCPL and
16 GMO and then address Witnesses Ives and Miller regarding consolidated cost study and
17 consolidated rates.

¹ ER-2018-145/ER-2018-146 August 7, 2018 Rebuttal Testimony of Darrin R. Ives, page 2, line 1 to page 6, line 5.

² ER-2018-145/ER-2018-146 August 7, 2018 Rebuttal Testimony of Marisol E. Miller, page 5, line 18 to page 6, line 12.

1 **Q. Have you prepared any exhibits in support of your surrebuttal testimony?**

2 A. No.

3

4 **II. SUMMARY OF TESTIMONY AND CONCLUSIONS**

5 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

6 A. I explain that:

- 7 • The rebuttal testimony of Witness Ives does not rebut my finding that KCPL
- 8 and GMO are operated on a consolidated basis;
- 9 • The rebuttal testimonies of Witnesses Ives and Miller do not demonstrate that
- 10 rates must be reconciled before a consolidated cost study can be performed; and
- 11 • The performance of a consolidated cost study and consolidated rate design
- 12 would be no more difficult and complex than the performance of separate
- 13 individual cost studies and rate designs in these proceedings.

14 I have not revised or modified my recommendations that the Commission direct KCPL
15 and GMO to:

- 16 • reflect the fact of consolidated operation in a single cost study to be conducted
- 17 before the next rate case; and
- 18 • file a consolidated rate design in the next rate proceedings.

19

20 **III. DISCUSSION**

21 **A. Consolidated Operation of KCPL and GMO**

22 **Q. What was your direct testimony regarding consolidated operation of KCPL and**
23 **GMO?**

1 A. In my direct testimony, I demonstrated that KCPL and GMO are indistinguishable in terms
2 of corporate structure, organization structure, personnel, and operation and concluded that
3 KCPL and GMO in fact represent a single functionally consolidated operating subsidiary
4 of GPE.³

5 **Q. What is Witness Ives' Response to your testimony?**

6 A. Witness Ives concedes in his rebuttal testimony that KCPL and GMO do in fact “operate
7 on a consolidated basis in many respects.”⁴ He then goes on to state that “there are
8 numerous instances where KCPL and GMO are operated and administered separately from
9 one another” (emphasis added).⁵

10 **Q. Did Witness Ives provide examples of KCPL and GMO separate operation?**

11 A. No. Witness Ives' cites as examples KCPL's and GMO's Fuel Adjustment Clauses
12 (“FAC”) and Missouri Energy Efficiency Investment Act (“MEEIA”) programs and
13 GMO's Renewable Energy Standard Rate Adjustment Mechanism (“RESRAM”).⁶ These
14 are examples of “cost recovery mechanisms and programs,”⁷ not examples of separate
15 KCPL and GMO operation.

16 **Q. Did you request of KCPL and GMO a list of instances of separate operation?**

17 A. Yes. KCPL and GMO responded that such a list had not been prepared, but that operation
18 of generation facilities is a significant instance of separate operation.⁸

19 **Q. Do KCPL and GMO operate their generation facilities separately?**

³ ER-2018-1454/ER-2018-146: Direct Testimony of Karl Richard Pavlovic, pages 5-7.

⁴ ER-2018-1454/ER-2018-146: Rebuttal Testimony of Darrin R. Ives, page 2, lines 3-5.

⁵ Ives Rebuttal, page 2, lines 3-5.

⁶ Ives Rebuttal, page 2, lines 5-8.

⁷ Ives Rebuttal, page 2, lines 8-9.

⁸ Responses to OPC Questions KCPL 5027 and GMO 5027.

1 A. No. As I pointed out in my direct testimony, KCPL and GMO acknowledge that they own
2 and/or contract for generation resources on a combined basis and that those resources are
3 centrally operated and dispatched from a single control center.⁹

4 **Q. Have you revised your direct testimony conclusion that KCPL and GMO represent**
5 **a single functionally consolidated operating subsidiary of GPE in light of Witness**
6 **Ives' rebuttal testimony?**

7 A. No.

8
9 **B. KCPL and GMO Consolidated Cost Study and Rates**

10 **Q. What was your direct testimony regarding a consolidated cost study and rate design**
11 **for KCPL and GMO?**

12 A. Based on the fact that KCPL and GMO represent a single functionally consolidated utility
13 operation, I concluded that KCPL's and GMO's current separate cost studies and rate
14 designs result in arbitrary cost of service and rate distinctions among similarly situated
15 customers¹⁰ and recommended that the Commission direct KCPL and GMO to conduct a
16 consolidated cost study and file a consolidated rate design in the next rate proceeding.¹¹

17 **Q. What is Witness Ives' and Witness Miller's Response to your testimony?**

18 A. In summary, Witnesses Ives and Miller argue that a consolidation of KCPL and GMO's
19 rates must precede a consolidated cost study and there are many impediments to
20 consolidating rates.¹² Witness Ives then catalogues in some detail the purported

⁹ Pavlovic Direct, page 7, lines 1-3.

¹⁰ Pavlovic Direct, page 7, line 17 to page 8, line 2.

¹¹ Pavlovic Direct, page 8, line 20 to page 9, line 3.

¹² Ives Rebuttal, page 5, lines 12-23; Miller Rebuttal, page 5, line 23 to page 6, line 9.

1 impediments to and difficulties of conducting a consolidated cost study and consolidating
2 rates .¹³

3 **Q. What are the impediments and difficulties that Witness Ives catalogues?**

4 A. According to Witness Ives' testimony the impediments and difficulties are as follows:

5 (1) The consolidation of KCPL's and GMO's cost recovery mechanisms and programs
6 needs to be done carefully to preserve equity between KCPL and GMO customer
7 groups and is unlikely to occur "in one fell swoop," which I take to mean by
8 KCPL's and GMO's next rate case(s).¹⁴

9 (2) A substantial portion of KCPL's customer serving facilities are subject to
10 ratemaking allocation between Missouri and Kansas, while that is not the case for
11 GMO.¹⁵

12 (3) KCPL and GMO are separate legal entities the merger of which would require
13 proceedings before this Commission, the Kansas Corporation Commission, and the
14 Federal Energy Regulatory Commission.¹⁶

15 (4) As separate legal entities KCPL and GMO are not required to file their next rate
16 cases simultaneously.¹⁷

17 (5) The consolidation of KCPL's and GMO's rates would be a complicated
18 undertaking and doing so by their next rate cases would likely have significant
19 negative consequences for many customers.¹⁸

¹³ Ives Rebuttal, page 2, Line 8 to page 5, line 11.

¹⁴ Ives Rebuttal, page 2, lines 3-11.

¹⁵ Ives Rebuttal, page 2, lines 11-19.

¹⁶ Ives Rebuttal, page 2, line 19 to page 3, line 4.

¹⁷ Ives Rebuttal, page 3, lines 5-9.

¹⁸ Ives Rebuttal, page 3, line 10 to page 4, line 1.

1 **Q. What is your response to these purported impediments and difficulties?**

2 A. Regarding Item 3, KCPL and GMO state that they do not know that a merger of KCPL and
3 GMO would be required to conduct a consolidated cost study and consolidate rates.¹⁹

4 Regarding Item 4, it is my understanding that the Commission has the authority to direct
5 KCPL and GMO to file simultaneous rate cases.

6 Regarding Item 2, this is simply a statement of fact and Witness Ives does not explain how
7 this fact is an impediment to or makes more difficult a consolidated cost study and
8 consolidation of rates.

9 Items 1 and 5 are relevant issues regarding the consolidation of rates, but not a consolidated
10 cost study. I asked KCPL and GMO to list (1) the steps in the complicated undertaking to
11 preserve equity and avoid negative consequences and (2) the customer impacts that need
12 to be considered. KCPL's and GMO's responses stated that the process had not been
13 analyzed and such lists had not been prepared.²⁰ Only on the assumption that rate
14 consolidation must precede a consolidated cost study, are Items 1 and 5 impediments and
15 difficulties for a consolidated cost study.

16 **Q. Does the consolidated cost study you propose require that rates first be consolidated?**

17 A. No. There are no theoretical or practical obstacles to first performing a consolidated cost
18 study to provide cost-based guidance to the process of consolidating rates. In fact, in a
19 ratemaking proceeding, cost analysis always precedes rate design precisely because a cost
20 analysis represents the basis upon which the principle of value of service and non-cost
21 policy goals come together to determine just and reasonable rates.

¹⁹ Responses to OPC Questions KCPL 5031 and GMO 5031.

²⁰ Responses to OPC Questions KCPL 5028, GMO 5028, KCPL 5032, and GMO 5032.

1 **Q. How difficult would it be for KCPL and GMO to perform a consolidated cost study?**

2 A. It would not be difficult at all. As I noted in my rebuttal testimony, KCPL and GMO follow
3 the same procedures for functionalization, classification and allocation of costs.²¹ For
4 regulatory purposes, they both also follow the FERC Uniform System of Accounts as I
5 noted in my direct testimony.²² Thus, there is no need to reconcile distinct and different
6 accounting, functionalization, classification, and allocation procedures as a preparatory
7 step to performing a consolidated cost study. In addition, while KCPL and GMO have,
8 respectively, 56 and 27 distinct tariff rates, they each have, respectively, only 5 and 4
9 similar classes of service.²³ Thus, there is also no need to undertake a consolidating
10 reconciliation of KCPL's and GMO's classes of service as a preparatory step to performing
11 a consolidated cost study.

12 **Q. With a consolidated cost study in hand, how difficult would it be for KCPL and GMO**
13 **to consolidate their tariff rates?**

14 A. Only as difficult as KCPL and GMO choose to make it. The analytical steps required are
15 no different or more complex than the steps required in the current proceedings to develop
16 and support the rate designs for, respectively, 56 and 27 tariffed rates on the basis of
17 KCPL's and GMO's separate cost studies.

18 **Q. In light of Witness Ives' and Witness Miller's rebuttal testimonies, have you revised**
19 **your direct testimony conclusion and recommendation that the Commission direct**

²¹ ER-2018-1454/ER-2018-146: Rebuttal Testimony of Karl Richard Pavlovic, page 3, lines 4-12.

²² Pavlovic Direct, page 5, lines 8-11; see also ER-2018-1454/ER-2018-146: Direct Testimony of Marisol E. Miller, page 14, lines 3-4.

²³ Miller Direct, page 13, lines 18-20.

1 **KCPL and GMO to perform a single consolidated cost study and file a consolidated**
2 **rate design in the next rate proceedings?**

3 A. No.

4

5 **Q. Does this conclude your surrebuttal testimony?**

6 A. Yes.