

Exhibit No.:  
Issue: Bad Debt Expense; Injuries  
And Damages (including Outside  
Services)  
Witness: Linda J. Nunn  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Kansas City Power & Light Company  
and KCP&L Greater Missouri  
Operations Company  
Case Nos.: ER-2018-0145 and ER-2018-0146  
Date Testimony Prepared: September 4, 2018

**MISSOURI PUBLIC SERVICE COMMISSION**

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

**SURREBUTTAL TESTIMONY**

**OF**

**LINDA J. NUNN**

**ON BEHALF OF**

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

Kansas City, Missouri  
September 2018

KCP&L Exhibit No. 159  
Date 9-25-18 Reporter TV  
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**SURREBUTTAL TESTIMONY**

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**LINDA J. NUNN**

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

**INTRODUCTION**

1

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

3 A: My name is Linda J. Nunn. My business address is 1200 Main, Kansas City,  
4 Missouri 64105.

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

6 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Manager  
7 - Regulatory Affairs.

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

9 A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations  
10 Company (“GMO”) (collectively, the “Company”).

11 **Q: Are you the same Linda J. Nunn who filed Direct and Rebuttal Testimony in**  
12 **both ER-2018-0145 and ER-2018-0146?**

13 A: Yes, I am.

14 **Q: What is the purpose of your surrebuttal testimony?**

15 A: I will address Staff witness Antonija Nieto’s Rebuttal Testimony on the  
16 appropriate level of bad debt expense to include in cost of service. I will also  
17 address OPC witness Robert Shallenberg’s Rebuttal Testimony on the general  
18 justification of bad debt expense. Finally, I will respond to Staff witness Karen  
19 Lyons’ rebuttal testimony on the appropriate level of Injuries and Damages

1 (“I&D”) expenses to include in cost of service as well as her recommendation to  
2 exclude certain litigation defense costs from cost of service.

3 **BAD DEBT EXPENSE**

4 **Q: What is the position of Staff witness Antonija Nieto in Rebuttal Testimony**  
5 **regarding bad debt expense for both KCP&L and GMO?**

6 A: Staff witness Nieto disagrees with the Company adjusting bad debt expense that  
7 will be associated with the ultimate revenues that will result from these rate cases.

8 **Q: Does the Company agree with this Staff position?**

9 A: No. The Company, as in previous cases, disagrees with this Staff position. In  
10 fact, as I stated on page 7 of my Rebuttal Testimony, this position by Staff is  
11 contrary to the Commission decision in Case No. ER-2006-0314.

12 **Q: Why does the Company disagree with this Staff position?**

13 A: As discussed in my Rebuttal Testimony, the Company and Staff appear to be  
14 aligned regarding the calculation of the bad debt write-off factor, which is  
15 computed using historical revenue and historical bad debt write-off amounts. But  
16 the Company and Staff disagree as to what level of revenues this write-off factor  
17 should be applied.

18 **Q: What is the goal of the bad debt expense adjustment in these rate case**  
19 **proceedings?**

20 A: The ultimate goal of the bad debt expense adjustment in these rate cases is to  
21 develop an ongoing level of bad debt cost. By analyzing a 12-month period of  
22 revenues and analyzing the bad debt write-offs associated with those revenues,  
23 Staff and Company have developed a relationship between revenues and bad

1 debts that should be applied to the total revenues determined from these cases. If  
2 the bad debt ratio is only applied to estimated annualized revenues, and not total  
3 revenues resulting from this case, then the resulting bad debt expense ignores the  
4 relationship between bad debt expense and overall revenue levels underlying the  
5 analysis conducted by both Staff and the Company on this item.

6 **Q: Does Staff show that the bad debt expense ratio fluctuates?**

7 A: Yes.

8 **Q: What is the one constant factor in Staff's calculation of the bad debt expense  
9 ratio?**

10 A: Staff always uses total existing revenues in the calculation.

11 **Q: What revenues will be part of a future rate case calculation of the bad debt  
12 expense ratio?**

13 A: The revenue level established in this proceeding including rider revenues.

14 **Q: What level of bad debt expense should be established in these rate case  
15 proceedings?**

16 A: A level that correlates to the revenue level established in these proceedings.

17 **Q: Do you agree with Staff witness Nieto's statements on page 3 of her rebuttal  
18 testimony that applying the bad debt ratio to revenues resulting from these  
19 cases is "speculative and is not based on known and measurable changes"?**

20 A: No. Although the revenues resulting from these cases are not known and  
21 measurable at this point in time, they will be fully known (and obviously  
22 measurable), based on data through the end of the June 30, 2018 true-up date,  
23 when the Commission issues a final determination in these cases.

1 **Q: Do you agree with Staff witness Nieto’s explanation on page 10 of her**  
2 **rebuttal testimony that applying the bad debt ratio to revenues resulting**  
3 **from these cases “is not known and measurable and is an out-of-period**  
4 **adjustment that goes beyond the true-up period in this case”?**

5 A: No. As I’ve indicated previously, the revenues resulting from these cases are  
6 based upon data through the true-up date of June 30, 2018. The dollar amount of  
7 many issues is determined during the rate case hearings or through negotiation  
8 and the final dollar amount is not set until determinations are made in those  
9 hearings or negotiations. Just like those other issues, this issue can be determined  
10 based upon the final revenues as established in these cases.

11 **Q: How should the Commission rule on this issue?**

12 A: The Commission should rule the exact same way as it did in Case No. ER-2006-  
13 0314, where on page 63 of its Order it stated:

14 The Commission finds that the competent and substantial evidence  
15 supports KCPL’s position, and finds this issue in favor of KCPL.  
16 The Commission understands Staff’s argument that there is not a  
17 perfect positive correlation between retail sales and the percentage  
18 of bad debts. While it’s possible that KCPL’s bad debt expense  
19 could decrease, the Commission finds it more probable, and  
20 therefore, just and reasonable, that an increase in the amount of  
21 revenue that KCPL is allowed to collect from its Missouri retail  
22 ratepayers will result in a corresponding increase in bad debt  
23 expense.

24 The Commission must link the bad debt write-off factor to the ultimate revenues  
25 determined in this case as those are the revenues that will be billed and collected  
26 and subsequently written off if not paid.

1   **Q:**   **Does the Company agree with Staff that bad debts and forfeited discounts**  
2           **should be handled in the same manner depending on the outcome of this**  
3           **issue?**

4   **A:**    Yes.

5   **Q:**   **Does the Company agree with OPC witness Robert Schallenberg on page 14**  
6           **of his rebuttal testimony where he says, “the Company’s direct testimony**  
7           **lacked any explanation or justification for the transfer of a non-regulated**  
8           **affiliate’s expenses to the books of regulated utility for inclusion in its**  
9           **customer rates”?**

10   **A:**    No such in-depth explanation was unnecessary as this adjustment has been made  
11           and accepted in rates since the establishment of the receivables companies. Staff  
12           witness Nieto did not make a statement that this type of explanation was  
13           necessary. KCP&L and GMO sell all of their receivables to their wholly owned  
14           subsidiaries, KCREC and GREC. This means that KCP&L and GMO do not  
15           have receivables and therefore do not have bad debt expense on their own books.  
16           KCREC and GREC have receivables and so they have the bad debt expense on  
17           their books. However, bad debt expense is a normal part of providing regulated  
18           electric service and should be included as a cost to provide service. In addition,  
19           the Company includes the activity associated with the receivables companies,  
20           including an adjustment to working capital that benefits customers in the rate  
21           cases, so to remove just one piece (i.e., bad debt expense) would be  
22           inappropriate. Please see the surrebuttal testimony of Company witness Mr.  
23           James Gilligan for further explanation of the receivables companies.

**INJURIES AND DAMAGES (KCP&L ONLY)**

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**Q: What is your understanding of Staff’s proposal regarding injuries and damages (“I&D”) expense?**

A: Based on page 2 of the rebuttal testimony of Ms. Karen Lyons, I understand Staff proposes to normalize I&D costs in their True-Up adjustment using a two-year average of such costs incurred over the period 2016-2017 excluding costs incurred in settlement of one claim. The Company had two large claims in 2017, one of which Staff has chosen to exclude from revenue requirement.

**Q: Do you agree with Staff excluding this claim?**

A: No. I do not. The very nature of injuries and damages is that the Company pays for injuries and damages which happen while providing electric service. The Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts (“USoA”) provides a specific FERC account, account 925, to be used for these types of costs, thus showing that, although unfortunate, settlement costs are an expected part of doing business as an electric company. The very nature of making these payments would indicate that the Company has accepted, or has been ordered to bear, the responsibility of the injury or damage. It appears as though Ms. Lyons’ proposal to remove this claim from the calculation of a normalized level of I&D expense is based primarily upon the size of the settlement. Staff does not review each settlement in each case to specifically decide the validity of each settlement. Staff has singled this claim out due to its size. However, just because the settlement is large, does not mean it is unrecoverable in nature.

1 **Q: Do you agree with Staff witness Lyons' recommended level of I&D expense?**

2 A: No, Staff's recommendation results in an unreasonably low level of I&D expense  
3 that fails to reflect normal and recurring costs incurred by KCP&L to provide  
4 electric service.

5 I&D expense, like other cost of service items for the Company, can vary  
6 substantially from year-to-year due to a variety of factors such that historical  
7 experience from any given year may not be representative of the costs likely to be  
8 incurred for that item when rates will be in effect. This is the reason certain cost  
9 of service items, including I&D expense, are "normalized" using a variety of  
10 methods, including averaging of multiple years of actual experience, to establish  
11 the rate allowance for such items. By averaging multiple years of experience,  
12 years with higher I&D expense are partially offset by years with lower I&D  
13 expense resulting in a level of expense for rate purposes that is more likely to be  
14 incurred in any given year.

15 By excluding costs incurred by KCP&L to settle one particular claim from  
16 the multi-year average Staff used to normalize I&D expense simply because Staff  
17 views the cost of that claim as too high is inconsistent with the purpose of  
18 normalizing costs for rate setting purposes.

19 Company witness Michael Higley explains in his surrebuttal testimony  
20 why the costs associated with the particular claim Staff has excluded are a  
21 recurring cost of doing business for KCP&L, why KCP&L's settlement of that  
22 claim is not unreasonable and puts that claim in context of historical experience of  
23 KCP&L.

1 **Q: What is the position of the Company concerning the true-up of I&D expense?**

2 A: The Company has calculated I&D expense using a three-year average of  
3 settlement payments excluding two large payments in 2017. The Company then  
4 adds to this amount a four-year average of just the two large claims by  
5 themselves. This amount calculates to a total normalized level of I&D expense of  
6 \$2,363,681.00.

7 **Q: Are settlement payments for I&D a normal cost of doing business for an  
8 electric utility?**

9 A: Yes

10 **Q: How should one look at the inclusion of injuries and damages expenses in  
11 revenue requirement?**

12 A: Please reference the chart below that is from staff witness Lyons' rebuttal  
13 testimony on page 4. This chart shows the Company's settlement payments from  
14 2005 to 2017.

<b>KCPL Historical Injuries and Damages Payments (2005 – 2017)</b>	
<i>YEAR</i>	<i>ACTUAL PAYMENTS</i>
2017	\$9,856,523
2016	\$188,945
2015	\$336,030
2014	\$1,878,228
2013	\$984,097
2012	\$2,912,085
2011	\$1,469,953
2010	\$2,960,147
2009	\$1,297,080
2008	\$3,711,095
2007	\$3,786,277
2006	\$2,356,084
2005	\$1,963,070

1  
2 As can be seen in this chart, the injuries and damages claims paid vary from year  
3 to year. This is the precise reason a multi-year average is used to establish a level  
4 of recovery in rates. Because the claims paid in 2017 were unusually high, the  
5 Company has increased the time period over which the two largest claims are  
6 averaged which is an appropriate normalization adjustment. Removing of a  
7 particular claim due to its size is unreasonable and inappropriate.

1 **Q: Did Staff make any other adjustments related to this claim?**

2 A: Yes. As indicated on page 8 of Ms. Lyons' rebuttal testimony, Staff removed all  
3 costs KCP&L incurred in the test year booked to FERC Account 923-Outside  
4 Services related to the eliminated claim.

5 **Q: Does the Company agree with this treatment?**

6 A: Absolutely not. Not only is the settlement amount a normal cost of doing  
7 business, outside services, including legal expenses, are a normal cost of doing  
8 business and should therefore be recoverable in the Company's cost of service.

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

10 A: Yes, it does.

