Exhibit No.: ______________
Issue(s): Rebuttal Testimony of Darren Ives
Witness/Type of Exhibit: Schallenberg/Surrebuttal True Up Direct
Sponsoring Party: Public Counsel
Case No.: ER-2018-0145 ER-2018-0146

SURREBUTTAL TESTIMONY
TRUE UP DIRECT

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY
Case No. ER-2018-0145

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Case No. ER-2018-0146

** **

Denotes Information that has been redacted

September 4, 2018

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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 Tracking Nos. YE-2018-0095 & YE-2018-0096
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 Tracking No. YE-2018-0097

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Robert E. Schallenberg, of lawful age and being first duly sworn, deposes and states:

1. My name is Robert E. Schallenberg. I am a Director of Policy for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal and true up direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Robert E. Schallenberg

Robert E. Schallenberg
Director of Policy

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037

Jerene A. Buckman

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

SURREBUTTAL TESTIMONY

TRUE UP DIRECT

OF

ROBERT E. SCHALLENBERG

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2018-0145

KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2018-0146

Q. What is your name?

A. Robert E. Schallenberg.

Q. Who is your employer, what is your business address, and what is your job title?

A. I am employed by the Office of the Public Counsel ("OPC"). My business address is P.O. Box 2230, Jefferson City, Missouri 65102. My title is Director of Policy for OPC.

Q. Are you the same Robert E. Schallenberg who testified in rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I respond to the rebuttal testimony of Darren Ives regarding consolidation of KCPL and GMO rate schedules. The portion of the Mr. Ives rate design rebuttal testimony that I will address begins on page 2, line 3 through page 6, line 5. There he raises as points

- "preserv[ing] equity between the KCP&L and GMO customer groups,"
- "KCP&L and GMO are separate legal entities subject to different regulatory authorities,"
- "that KCP&L is subject to state regulation in both Missouri and Kansas would also complicate the ability of KCP&L and GMO to merge and become one legal entity,"
- "KCP&L and GMO do not always file rate cases at the same time," and

- "the consolidation of the rates of GMO's MPS and SJLP divisions which was effectuated in GMO's most recently concluded rate case (Case No. ER-2016-0156) took place almost fifteen (15) years after MPS and SJLP became affiliated."
    - Although the consolidation of the rates of GMO's MPS and SJLP divisions had been contemplated for years and incremental steps had been taken in previous rate cases to facilitate that consolidation, the process undertaken in Case No. ER-2016-0156 was incredibly complicated and it was not at all clear whether full rate consolidation would be achieved until very late in the settlement negotiations of that case.

The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Darren Ives regarding consolidation of KCPL and GMO. The portion of the Mr. Ives rate design rebuttal testimony that I will address begins on page 2, line 3 through page 6, line 5.

Q. What is your response to Mr. Ives' rebuttal testimony regarding consolidation of KCPL and GMO's rate design?

A. First it is important to distinguish that consolidation of KCPL and GMO rates is separate and distinct from consolidation of KCPL and GMO. Entity consolidation interest increases as one learns of the affiliate entities of KCPL Kansas and KCPL Missouri. These entities were established as KCP&L subsidiaries in 2009. The stated purpose for the creation of these entities was to reserve the brand names. KCPL's indicates in its response to OPC Data Request 1037 that there has been activity since inception. See Schedule RES-S-1 page 1 for a copy of this Data Request. Mr. Ives notes a lack of clarity on page 2, lines 21 and 22. OPC is not proposing the KCPL and GMO merge into one entity. OPC's issue is the amount of effort being devoted to consideration of this potential beneficial opportunity for serving Missouri electric customers.

KCP&L operates GMO as well as all of the other Great Plains Energy entities. See Schedule JSR-S-1 contain in Mr. Riley of OPC surrebuttal testimony shows the salary, wages, and officer distribution costs reported on the 2016 consolidated tax return to the IRS. When I first started with Commission, Union Electric Company had four (4) separate electric utility subsidiaries with more autonomy than GMO has with KCPL. I am aware that OPC's rate consolidation proposal is not impossible, as Mr. Ives notes on page 2, line 8 and 9.

Q. What do you mean that OPC's issue is the lack of effort on KCPL's behalf to consider rate consolidation as opportunity to reduce costs and better serve its customers?

A Consolidation of the rates for Missouri customers has been an opportunity since July 14, 2008 when Great Plains Energy acquired Aquila, now called Kansas City Power & Light Company, Great Missouri Operations. KCPL responded in OPC Data Request 1040 that no formal study of rate consolidation has been performed. KCPL When asked in OPC Data Request 1041, for the reasons KCPL has not consolidated its rates

> "Consolidation of rate tariffs, representing KCPL and GMO rates under a consistent structure and consistent pricing, represents a significant step best taken when the underlying costs and rate differentials are relatively small. Further, consolidation is best achieved when there is close consistency between the companies. Significant effort has been made to achieve increased levels of consistency, but much of this has occurred recently and during periods of other Regulatory priorities. Beyond these considerations offered to respond to this question, no listing of reasons has been developed."

When asked in OPC Data Request 1042, if rate consolidation would be beneficial to both KCPL and GMO, the response notes that "Information does not exist to respond to this question with any level of confidence".

For over a decade, KCPL is not in position to offer its opinion that rate consolidation is not justified based on its analysis. OPC is of the opinion that this potential customer benefit will not be examined and continue to linger into the foreseeable future without OPC's intervention. Copies of the OPC Data Requests 1040, 1041, 1042 are contained on pages 2 through 4 of Schedule RES-S-1.

Q. Do this conclude your surrebuttal testimony?

A. Yes

Q. What is the purpose of your True-Up Direct testimony?

A. The purpose of this testimony is to true-up OPC's following issues: 1) short-term debt in the GMO capital structure at June 30, 2018; 2) Merger Transition costs including accounting changes; 3) Electric Vehicle charging stations; and 4) the Management Audit.

Q. What is the OPC's true-up position regarding the use of short-term debt in GMO's capital structure?

A. OPC has trued-up its position regarding short-term debt in GMO's capital structure. OPC used the information in the Evergy 2nd Quarter 2018 (10Q) filing with the Security and Exchange Commission (SEC) to determine that GMO is still maintaining a short-term debt balance approximately a $100 million in excess of its Construction Work In Progress (CWIP) balance. The data showed that at June 30, 2018, the true-up date for this case, GMO's short-term was at an interest rate of 2.38% and exceeded the CWIP at the same time by $113 million. OPC's position is that $113 million of short-term debt should be included in GMO's capital structure for June 30, 2018. Schedule RES-T-1 pages 1 thru 4 contains the source 10 Q pages used to determine this information.

Q. What is OPC's position concerning Merger Transition costs?

A. OPC signed an agreement in Case Number EM-2018-0012. This agreement contains a paragraph No. 9 that addresses Transition Costs. Paragraph No. 9 follows:

> "9. Transition Costs: Signatories shall support in KCP&L and GMO's 2018 rate cases filed on January 30, 2018, deferral of Merger transition costs of $7,209,208 for GMO and $9,725,592 for KCP&L's Missouri operations. Signatories will recommend recovery in the respective 2018 rate cases through amortization of such Merger transition costs for approval by the Commission over a 10-year period beginning when such costs have been included in Missouri base rates, with no carrying costs or rate base inclusion allowed for the unamortized portion of such costs at any time. Signatories agree that no other Merger transition costs shall be requested for recovery from Missouri customers in the 2018 rate cases or thereafter. This agreement regarding transition cost recovery is an additional limitation to Condition 19 in Exhibit A to the Stipulation and Agreement filed on January 12, 2018."

Transition costs is defined in Condition 19 in Exhibit A to the Stipulation and Agreement filed on January 12, 2018 as "Transition costs are those costs incurred to integrate Westar and GPE, and include integration planning, execution, and 'costs to achieve.'"

Q. Has KCPL adopted the agreed upon definition of transition costs into its post-merger accounting practices for itself and GMO?

A. No. KCPL has changed its labor-charging directive. In its response to OPC Data Request 1030, KCPL stated,

> 'This means that KCPL and GMO are no longer booking costs related to integration plans developed before June 4, 2018, as transition costs. Furthermore, costs related to post June 4, 2018 integration planning, execution, and costs to achieve are not being recorded as transition costs."

By failing to record these costs as transition costs KCPL and GMO are circumventing the Agreement requirement that KCPL and GMO not seek recovery of transition costs from their Missouri customers in these or any future rate cases.

Q. How has KCPL treated merger transaction and transition costs in these cases?

A. Both merger transition and merger transaction costs were initially charged as non-utility costs. In its payroll adjustments in these cases, KCP&L has reclassified labor dollars recorded as below-the-line merger costs as dollars charged to be treated as utility expenses. This is shown in KCP&L's response to OPC Data Request Number 1030. This reclassification of transition costs is contrary to Merger Agreement and make it extremely difficult for OPC and other signatories OPC to enforce the Stipulation provisions regarding ratemaking treatment for transition costs. Copy of the Company's Response to OPC Data Request 1030 is contained on Schedule RES-T-1, page 5.

Q. What is OPC's position regarding how KCP&L has treated these merger transition and transaction costs on its books?

A. OPC is of the opinion that KCPL's guideline directing its employees to charge transition costs below the line or outside the recognition of its electric utility expenses or investment is consistent with the Merger Agreement. OPC does dispute that KCPL is properly recognizing transition costs to be recorded to non-utility accounts.

OPC disputes that KCP&L is capturing all merger transition costs and appropriately charging them below-the-line, due to KCP&L's Day 1 directive to alter how it records its transition costs. As these costs are after Day 1 being charged to utility expense accounts. KCPL and GMO are seeking recovery of these costs from their Missouri customers which is counter to their commitments in the Merger Agreement.

Q. Is it reasonable to expect transition costs to be lower post-merger than pre-merger?

A. No. The pre-merger period primarily contends with matters regarding completion of the transaction. Costs related to this activity are referred to as transaction costs. Without completion of the merger transaction, there will be no transition. Post-merger should see a significant reduction, almost elimination, of transaction costs as only settlement of transaction obligations will generate cost activity. However, transition costs will ramp up as the detailed design, approval, and implementation work begins in earnest. Transition costs pre-merger are at a high-level of design but can be greatly impacted merger transaction conditions. Implementation of transition activities are limited by merger conditions regarding workforce and facility conditions placing upward pressure on transition costs. Schedule RES-T-2 is the CONFIDENTIAL material supporting this testimony. This schedule is a presentation regarding post-merger activity. The handwritten notes are mine to note items of further inquiry. Page 1 through 13 of this schedule shows the unique transition infrastructure added post-merger as well as additional reporting and tracking activities. These pages also show broad scope of transition activities while page 3 shows that these transition activities involve multiple levels of KCPL employees. This page also shows the inappropriateness of transfer of pre-merger transition costs to utility expense. If anything, the pre-merger level of transition costs should be increased, not eliminated, as transition activity increases post-merger. The transition will continue until the governance, reporting, and monitoring are absorbed into KCPL normal service company functions.

Q. Has OPC any concerns regarding the status of the post-merger transition activities?

A. The group deciding and employee approving transition activities concentrate on the potential cost savings but appear not to include the costs related to the implementing the individual transition activities expected to produce the expected savings. Costs are being tracked by department incurring costs in support of savings projects, but are not tracked specifically by savings project. See RES-T-1 page 6.

Q. Is this a true-up issue?

A. Yes. The merger was completed on June 4, 2018. KCPL has acknowledged that it is accepting Westar charges on behalf of itself and GMO. KCPL has represented that it has included no Westar charges in the cost of service supported by KCPL and GMO in these cases. See RES-T-1, pages 7 and 8 for the Company's Response to OPC Data Requests for the support of this testimony.

Q. Are there any other merger transition issues?

A. Yes. KCPL effectuated accounting changes as a result of the merger which raises an issue.

Q. What is the issue regarding the accounting changes?

A. First, condition # 39 of the Merger Agreement addresses Accounting Changes, and states that "Holdco, KCP&L and Westar commit that any material Merger-related financial and accounting changes must be reported to the Commission." OPC has issued a Data Request to KCP&L to determine whether KCP&L has satisfied this commitment in the Merger Agreement. The benefit of this condition was that KCPL and GMO would notify the Commission of accounting changes so parties would have notice that accounting changes were occurring and the ability to determine if the accounting impacted any Commission activity impacting their interests. For example, a notice of accounting changes would have alerted of the parties in these rate cases of revenue requirement impact on these as they were implemented.

Q. What is OPC"s understanding the issue at this time?

A. OPC does not possess the true-up case for KCPL or GMO. Our current understanding is that their final case support will not be available until September 4, 2018, the day this testimony must be filed. OPC understands the September 4, 2018 filing will be supporting a higher revenue requirement than the amount KCPL and GMO filed for but the causes for the change could not be provided at OPC's last inquiry. OPC is aware that KCPL and GMO are reflecting an accounting change because of the merger. The information OPC has to date 1) does not support that this accounting change is required, 2) was not reported to the Commission in compliance with the merger agreement, 3) was not identified in the Company's prior testimony, 4) is a merger transition cost not to be sought let alone recovered from Missouri ratepayers, and 5) is inconsistent with the Missouri electric ratemaking statute prohibiting any charge to customers "associated with owning, operating, maintaining, or financing any property before it is fully operational and used for service, is unjust and unreasonable, and is prohibited",

Q. What is OPC's understanding of the accounting change that you are referencing?

A. KCPL on its and GMO's behalf has changed its accounting treatment for environmental projects from initially charging the costs of the projects to a regulatory asset account and transferring the charges against the depreciation reserve when the project was completed to charging the cost directly against the depreciation reserve as incurred but before the project is completed. See RES-T-1 pages 9 thru 15.

Q. In light of the recent Court of Appeals decision, what is OPC's position regarding Electric Vehicle Charging Stations?

A. It is OPC's position that, if KCPL and GMO want to offer this service as a regulated activity, it should be a separate customer class like street lighting. A guiding principle in developing the tariff for these customers would be that no costs related to this service would be recovered from other customers. Thus, the resulting tariff rates will allow these customers to know and pay the actual costs to provide this service. KCPL and GMO can decide whether the risk is acceptable to their shareholder related to absorbing the unrecovered cost of this service before deciding whether to offer this service.

Q. What is needed to develop a tariff for this service?

A. A study of the full range of cost related to providing this services. While this cost is vital to the development of the tariff, it is equally important to conduct the market analysis needed to determine the economic viability of the service. Once the decision to offer the service is final, then procurement and accounting processes will need to be studied and modified to provide the ability the capture the actual cost of providing the service. Rate design, billing determinants, and service terms will be needed to decide on tariff needs. Tariffs as well as individuals working with these tariffs in other states supply valuable references for creating a new tariff.

Q. What is OPC's position regarding the Merger Agreement Management Audit?

A. The Merger Agreement contains the following requirement:

> Condition # 31 **Independent Third Party Management Audit of Affiliate Transactions and Cost Allocations Report**:
>
> Holdco, KCP&L and GMO shall agree to an independent third party management audit report of new holding company, KCP&L and GMO corporate cost allocations and affiliate transaction protocols. A committee, which shall be comprised of an equal number of Staff, OPC and Applicant representatives, shall develop a Request for Proposal ("RFP") with input from all committee members on the scope of work, and this RFP shall be submitted to the Commission for approval within six months after the closing of the Merger. The selection of a successful bidder shall be conducted by the same committee and shall me made by unanimous vote. If the vote is not unanimous, the Commission will determine the successful bidder and scope of work. The independent third party management auditor's contract shall preserve the auditor's independence by precluding Staff, OPC, Holdco, KCP&L,

> and GMO representatives from directing or influencing the report's conclusions. Upon completion, the report of the audit shall be filed with the Commission.
>
> a. The audit will examine Holdco, KCP&L, and GMO's corporate cost allocations, affiliate transaction protocols, and ensure that the existing CAM fully documents newly formed operations, or to make recommendations to revise the CAM to address newly formed operations. The audit shall be designed to assess compliance with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015) as well as the appropriateness of the allocation of corporate costs among Holdco, KCP&L, GMO, and all affiliates. Holdco, KCP&L, GMO, and all (regulated and non-regulated) affiliates shall cooperate fully with the auditor by timely providing all information requested to complete the audit including, but not limited to, informal and interactive interviews followed up with formal discovery.
>
> b. The audit report shall express an independent opinion on the degree and extent of KCP&L and GMO's compliance with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015) and shall provide recommendations, if appropriate, regarding procedures and methodologies used by Holdco, KCP&L and GMO in allocating corporate costs and complying with the Commission's Affiliate Transactions Rule (4 CSR 240-20.015).
>
> c. It is expressly acknowledged that Holdco, KCP&L and GMO shall collectively provide $500,000, funded below the line (and not recovered in rates), for purposes of funding the independent third party management audit. Any additional expense beyond $500,000, required by the Commission, will be split 50/50 between ratepayers and shareholders. d. Any cost in excess of $500,000 shall be deferred to account 182.3 (other regulatory assets) and recovered through amortization, subject to the 50/50 split provided immediately above, in retail rates and cost of service in the first KCP&L and GMO general rate cases subsequent to the completion of the audit.

OPC has participated in the initial step of forming a committee with KCP&L and the Commission's Staff. It is OPC's position this audit provides an opportunity to settle and reduce the number of issues in this case, particularly in the areas of affiliate transactions.

Q. Does this conclude your True-Up Direct Testimony?

A. Yes

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180815
Date of Response: 8/27/2018

Question:1037

What is/are the purpose(s) of the KCPL and GMO's subsidiaries, KCPL-Kansas and KCPL-Missouri shown in Appendix 1 of KCPL's 2017 Affiliate Transaction Report?

Response:

KCPL-Kansas and KCPL-Missouri were setup as subsidiaries of KCP&L in 2009 for the purpose of reserving the brand names and have had no activity since inception.

Information Provided By: Joyce Swope, Accounting

Attachment: Q1037_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180815
Date of Response: 8/24/2018

Question:1040

Has Great Plains ever studied the consolidation of KCPL and GMO's rates since 2008? If yes, please provide copies of the documentation related to each such study.

Response:

No formal study of rate consolidation has been performed.

Prepared by Brad Lutz

Attachment: Q1040_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180815
Date of Response: 8/24/2018

Question:1041

If not addressed in the documentation requested in the previous request, what are all the reasons that KCPL has not consolidated KCPL and GMO's rates?

Response:

Consolidation of rate tariffs, representing KCPL and GMO rates under a consistent structure and consistent pricing, represents a significant step best taken when the underlying costs and rate differentials are relatively small. Further, consolidation is best achieved when there is close consistency between the companies. Significant effort has been made to achieve increased levels of consistency, but much of this has occurred recently and during periods of other Regulatory priorities. Beyond these considerations offered to respond to this question, no listing of reasons has been developed.

Prepared by Brad Lutz

Attachment: Q1041_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180815
Date of Response: 8/24/2018

Question:1042

Will rate consolidation be beneficial overall to both KCPL and GMO? Explain your answer.

Response:

Information does not exist to respond to this question with any level of confidence.

However, one may speculate based on the recent consolidation of the GMO companies, that benefit could result, particularly for operational efforts and customer clarity.

Similarly, there is the potential for detriment, particularly if great care is not taken to analyze the impact of consolidated rates on customers.

Prepared by Brad Lutz

Attachment: Q1042_Verification.pdf

Fuel Inventory and Supplies

The Evergy Companies record fuel ... r fuel inventory and supplies are stated separately in the table below.

CWIP
$ 705.3
- 417.9 Westar
- 191.7 KCPL
95.7 GMO

	June 30 2018	December 31 2017
Evergy	(millions)	
Fuel inventory	$ 182.9	$ 94.1
Supplies	357.0	199.5
Fuel inventory and supplies	$ 539.9	$ 293.6
Westar Energy		
Fuel inventory	$ 82.5	$ 94.1
Supplies	184.5	199.5
Fuel inventory and supplies	$ 267.0	$ 293.6
KCP&L[a]		
Fuel inventory	$ 68.8	$ 71.0
Supplies	128.3	126.0
Fuel inventory and supplies	$ 197.1	$ 197.0

[a] KCP&L amounts are not included in consolidated Evergy as of December 31, 2017.

Property, Plant and Equipment

The following tables summarize the property, plant and equipment of Evergy, Westar Energy and KCP&L.

June 30, 2018	Evergy	Westar Energy	KCP&L[a]
		(millions)	
Electric plant in service	$ 27,158.2	$ 13,181.2	$ 10,541.0
Electric plant acquisition adjustment	740.6	740.6	—
Accumulated depreciation	(10,055.2)	(4,793.7)	(4,124.6)
Plant in service	17,843.6	9,128.1	6,416.4
Construction work in progress	705.3	417.9	191.7
Nuclear fuel, net	123.5	61.3	62.2
Plant to be retired, net[b]	147.5	6.8	—
Property, plant and equipment, net	$ 18,819.9	$ 9,614.1	$ 6,670.3

December 31, 2017	Evergy	Westar Energy	KCP&L[a]
		(millions)	
Electric plant in service	$ 12,954.3	$ 12,954.3	$ 10,213.2
Electric plant acquisition adjustment	739.0	739.0	—
Accumulated depreciation	(4,651.7)	(4,651.7)	(4,070.3)
Plant in service	9,041.6	9,041.6	6,142.9
Construction work in progress	434.9	434.9	350.3
Nuclear fuel, net	71.4	71.4	72.4
Plant to be retired, net[b]	5.9	5.9	—
Property, plant and equipment, net	$ 9,553.8	$ 9,553.8	$ 6,565.6

[a] KCP&L amounts are not included in consolidated Evergy as of December 31, 2017.

[b] As of June 30, 2018, represents the planned retirement of GMO's Sibley No. 3 Unit and Westar Energy analog meters prior to the end of their remaining useful lives. As of December 31, 2017, represents the planned retirement of Westar Energy analog meters prior to the end of their remaining useful lives.

Evergy's common stock, are paid on these RSUs during the vesting period. Nonforfeitable dividends equivalents are recorded directly to retained earnings.

RSU activity for awards with only s ummarized in the following table.

Short Term > CWIP

$ 208.7
− 95.7 GMO CWIP
$ 113.0

2.38%

	Nonvested Restricted Share Units	Grant Date Fair Value*
Beginning balance January 1, 2018	255,964	$ 46.09
Granted	222,465	52.16
Converted Great Plains Energy awards up	82,331	53.77
Vested	(342,599)	46.81
Forfeited	(704)	49.73
Ending balance June 30, 2018	217,457	54.07

* weighted-average

At June 30, 2018, the remaining wei with only service requirements was 1.9 years. The weighted-average grant- ements was $54.07 for the three months ended June 30, 2018. There were no 17. The weighted-average grant-date fair value of RSUs granted with only serv year to date June 30, 2018, and 2017, respectively. At June 30, 2018, there was $11.2 million of unrecognized compensation expense related to unvested RSUs. The total fair value of RSUs with only service requirements that vested for the three months ended and year to date June 30, 2018 was $12.3 million and $16.0 million, respectively. The total fair value of RSUs that vested for the three months ended and year to date June 30, 2017 was $0.1 million and $3.6 million, respectively.

9. SHORT-TERM BORROWINGS AND SHORT-TERM BANK LINES OF CREDIT

The following table summarizes the committed credit facilities available to the Evergy Companies as of June 30, 2018 and December 31, 2017.

	Credit Facility	Amounts Drawn: Commercial Paper	Amounts Drawn: Letters of Credit	Amounts Drawn: Cash Borrowings	Available Borrowings	Weighted Average Interest Rate on Short-Term Borrowings
June 30, 2018			(millions)			
Evergy, Inc.	$ 200.0	n/a	$ 1.0	$ 60.0	$ 139.0	3.60%
Westar Energy[b]	979.3	488.2	18.3	—	472.8	2.40%
KCP&L	600.0	322.4	2.7	—	274.9	2.49%
GMO	450.0	208.7	2.0	—	239.3	2.38%
Evergy	$ 2,229.3	$ 1,019.3	$ 24.0	$ 60.0	$ 1,126.0	
December 31, 2017						
Westar Energy[b]	$ 979.3	$ 275.7	$ 11.8	$ —	$ 691.8	1.83%
KCP&L[a]	600.0	167.5	2.7	—	429.8	1.95%
Evergy	979.3	275.7	11.8	—	691.8	1.83%

[a] KCP&L amounts are not included in consolidated Evergy as of December 31, 2017.
[b] $20.7 million of Westar Energy's $730.0 million and $270.0 million revolving credit facilities expired in September 2017.

Evergy has also guaranteed GMO's commercial paper program. At June 30, 2018, GMO had $208.7 million of commercial paper outstanding. None of the guaranteed obligations are subject to default or prepayment if GMO's credit ratings were downgraded.

The Evergy Companies also have off-balance sheet arrangements in the form of operating leases and letters of credit entered into in the ordinary course of business.

Cash Flows

The following table presents Evergy's cash flows from operating, investing and financing activities.

Year to Date June 30	2018	2017
	(in millions)	
Cash flows from operating activities	$ 397.2	$ 363.7
Cash flows from (used in) investing activities	846.9	(399.5)
Cash flows from financing activities	32.6	35.9

Cash Flows from Operating Activities

Evergy's cash flows from operating activities increased $33.5 million year to date June 30, 2018, compared to the same period in 2017, primarily driven by an $85.5 million increase due to the inclusion of KCP&L's and GMO's cash flows from operating activities beginning in June 2018; partially offset by $35.6 million of merger success fees paid by Evergy and Westar Energy upon the completion of the merger and an increase of $15.2 million in Wolf Creek refueling outage costs paid by Westar Energy related to the outage that concluded in May 2018.

Cash Flows from Investing Activities

Evergy's cash flows from investing activities increased $1,246.4 million year to date June 30, 2018, compared to the same period in 2017, primarily due to the inclusion of $1,154.2 million of cash acquired from Great Plains Energy as of the merger date.

Cash Flows from Financing Activities

Evergy's cash flows from financing activities decreased $3.3 million year to date June 30, 2018, compared to the same period in 2017.

The following table summarizes the short-term and long-term debt financing authorizations for Westar Energy, KGE, KCP&L and GMO and the remaining amount available under these authorizations as of June 30, 2018.

Type of Authorization	Commission	Expiration Date	Authorization Amount	Available Under Authorization
Westar Energy & KGE			(in millions)	
Short-Term Debt	FERC	February 2020	$1,000.0	$511.8
KCP&L				
Short-Term Debt	FERC	December 2018	$1,000.0	$677.6
Long-Term Debt	MPSC	September 2019	$750.0	$450.0
GMO				
Short-Term Debt	FERC	March 2020	$750.0	$541.3

In addition to the above regulatory authorizations for KCP&L and GMO, the Westar Energy and KGE mortgages each contain provisions restricting the amount of First Mortgage Bonds (FMBs) that can be issued by each entity. Westar Energy and KGE must comply with these restrictions prior to the issuance of additional FMBs or other secured indebtedness.

Under the Westar Energy mortgage, the issuance of bonds is subject to limitations based on the amount of bondable property additions. In addition, so long as any bonds issued prior to January 1, 1997, remain outstanding, the mortgage prohibits additional FMBs from being issued, except in connection with certain refundings, unless Westar Energy's unconsolidated net earnings available for interest, depreciation and property retirement (which as defined, does not include earnings or losses attributable to the ownership of securities of subsidiaries), for a period of 12 consecutive months within 15 months preceding the issuance, are not less than the greater of twice the annual interest charges on or 10% of the principal amount of all FMBs outstanding after giving effect to the proposed issuance. As of June 30, 2018, $382.8 million principal amount of additional FMBs could be issued under the most restrictive provisions in the mortgage, except in connection with certain refundings.

Under the KGE mortgage, the amount of FMBs authorized is limited to a maximum of $3.5 billion and the issuance of bonds is subject to limitations based on the amount of bondable property additions. In addition, the mortgage prohibits additional FMBs from being issued, except in connection with certain refundings, unless KGE's net earnings before income taxes and before provision for retirement and depreciation of property for a period of 12 consecutive months within 15 months preceding the issuance are not less than either two and one-half times the annual interest charges on or 10% of the principal amount of all KGE FMBs outstanding after giving effect to the proposed issuance. As of June 30, 2018, approximately $1.5 billion principal amount of additional KGE FMBs could be issued under the most restrictive provisions in the mortgage, except in connection with certain refundings.

Cash and Cash Equivalents

At June 30, 2018, Evergy had approximately $1.3 billion of cash and cash equivalents on hand. Under the Amended Merger Agreement, Great Plains Energy was required to have not less than $1.25 billion in cash and cash equivalents on its balance sheet at the closing of the merger with Westar Energy. Evergy anticipates that this excess cash will be returned to its shareholders through the repurchase of common stock.

Capital Requirements

Capital Expenditures

Evergy requires significant capital investments and expects to need cash primarily for utility construction programs designed to improve and expand facilities related to providing electric service, which include, but are not limited to, expenditures to develop new transmission lines and improvements to power plants, transmission and distribution lines and equipment.

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/23/2018

Question:1030

Separately for KCPL and GMO, ,has each reversed KCPL payroll charged to Westar merger transaction or transition accounts to regulated expense accounts in its true-up adjustments?

Response:

No. For the most part, employees that were charging time to the merger prior to Day 1 are no longer charging merger related projects. On a going forward basis, the employee's time is getting charged to the combined company's operations. Regardless of the time spent by employee's on the merger, their essential job functions are needed in order to provide services to the combined company. In addition, the Capitalization Rate was adjusted to remove merger labor dollars recorded below-the-line to reflect the fact that employee's are now charging time to the combined company.

Response by: Amy Murray, Regulatory Affairs

Attachment: Q1030_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/23/2018

Question:1032

Does KCPL Westar Merger Transition costs tracking identify the costs by related entity and savings project?

Response:

Transition costs are tracked either on Westar's or KCP&L's ledger using specified accounting guidance provided to employees. The costs are then allocated to all jurisdictions using the allocation factors underlying the transition cost deferral amounts specified in the merger stipulation and agreement approved by the Commission. Costs are tracked by department incurring the costs in support of savings projects, but are not tracked specifically by savings project.

Response By: Mark Foltz, Senior Project Director

Attachment: Q1032_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/23/2018

Question:1036

Is KCPL accepting Westar charges for activities on the behalf of KCPL and GMO? If yes, how is KCPL approving the Westar charges to KCPL and GMO?

Response:

Yes, KCPL is accepting Westar charges. Supervisors at KCPL and Westar received training on reviewing and approving time and expenses for sending amounts between KCPL and Westar. These supervisors review and approve time and expenses for appropriateness consistent with the training received.

Attachment: Q1036_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/23/2018

Question:1033

Is KCPL including any Westar charges in its or GMO's costs of service in these cases?

Response:
No.

Information provided by Linda Nunn, Regulatory Affairs

Attachment: Q1033_Verification.pdf

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/23/2018

Question:1026

Has KCPL compared Westar accounting policies and practices to the accounting policies and practices it uses for itself or GMO? If yes, please list the accounting policies and practices compared and provide all documentation of how and why the comparison was made, together with the findings, recommendations, and conclusions.

Response:
Please see attachment Q1026_Review of Accounting Policies for the requested information.

Response by: Leigh Anne Jones, Accounting

Attachment: Q1026_Verification.pdf

TO:	**File**	
FROM:	**Kevin Kongs, Executive Director Accounting Services and Assistant Controller**	evergy
DATE:	**June 2018**	
SUBJECT:	**Review of Westar Energy and KCP&L Accounting Policies**	**INTERNAL CORRESPONDENCE**

Background:
On June 4, 2018 Evergy, Inc. (Evergy) was formed when Westar Energy, Inc. (Westar) and Great Plains Energy (GPE) combined in a stock-for-stock merger of equals. In accordance with ASC 805-10-55-10 through ASC 805-10-55-15, Westar was designated as the acquirer in the transaction. As a result, the accounting policies of Westar and Kansas City Power and Light Company (KCP&L) and KCP&L Greater Missouri Operations (GMO) were analyzed to determine which accounting policies will be used for Evergy and its subsidiaries in future periods.

Issue:

Evergy and its subsidiaries will need to analyze its current accounting policies and determine the appropriate accounting policies to use in periods subsequent to the merger.

Accounting:

Public utility companies, such as Westar, KCP&L and GMO, are regulated by jurisdictional commissions set up by state governments. Westar, KCP&L and GMO are also regulated by the Federal Energy Regulatory Commission ("FERC") and are required to file annual FERC financial statements using FERC's other comprehensive basis of accounting. FERC reporting policies are generally aligned because there is a specific set of rules from one regulatory body governing the accounting. As such, no further consideration of FERC accounting policies is needed with respect to purchase accounting.

The first step to conform the accounting policies was to perform a detailed review of all accounting policies and accounting conventions of the three entities. Management identified a preliminary listing of relevant policies based on historical knowledge of the entities and this list was updated throughout the process. A detailed review of the balance sheet and relevant policies was performed to ensure completeness of the policy listing. After identifying the relevant accounting policies and conventions for assessment, the Company performed a detailed analysis to identify which policies contained differences.

While reviewing the accounting policies, other differences between certain methodologies, conventions and estimates were identified and required additional review to determine whether they would be aligned. Within this population of accounting policies identified, several differences were driven by previous conclusions by the Kansas Corporation Commission (KCC) and the Public Service Commission of Missouri (MPSC) related to the approved methodology while other differences were developed due to differences in historically applied accounting conventions of the companies.

Management's approach in conforming the accounting policies is to align all policies, conventions, and methodologies, absent other justification for the difference. Given the utility companies are regulated entities that fall within the scope of ASC 980, *Regulated Operations,* there is justification for certain items discussed above to remain non-conformed. After further analysis it was determined that the methodologies, conventions and estimates that exist due to KCC and MPSC determinations in regulatory proceedings or contained in final orders would not be aligned and any methodology, convention or estimation not driven by the regulator would be assessed further. Appendix A contains additional detail related to the assessment of the differences between methodology, conventions, and estimates.

Through the regulatory ratemaking process, certain accounting conventions and calculations are approved by the regulator and those conventions are utilized to determine the actual level of rates a utility may charge. For example, the largest component in the ratemaking process relates to property, plant and equipment (PP&E). Capitalized PP&E charges are tracked through accounting and requested for recovery when the company files a request to change its rates with the regulatory commissions. The regulator reviews this request and subsequent to this review will make a determination on the recoverability of these amounts through customer rates for electricity if it is determined that the PP&E construction / costs were prudently incurred for the benefit of the end user customers. As a result, several of the underlying policies and calculations are established over time based on decisions by the regulator regarding items that are included in the ratemaking process. These policies have been approved historically and are carried forward period over period by each respective entity. These historical conclusions by the regulator establish other justifications as to why each respective policy or calculation is not aligned as regulatory approval has already been established. The companies would not be able to re-establish new or change previously approved accounting conventions without prior approval of the regulator on each of the affected underlying policies.

Based on the Company's analysis, there was one minor accounting policy change for Westar related to Westar's threshold used to capitalize software and prepaid expenses. In the past, Westar used a $50,000 threshold but this amount was changed to $100,000 to reflect the new company is twice as large as it was in the past and to conform to KCP&L's existing threshold. The Company does not believe this change will be material to Westar's or Evergy's consolidated financial statements.

In addition to the accounting policy change noted above, Westar and KCP&L changed their estimate for recording ARO liabilities for Wolf Creek and La Cygne power plants in accordance with ASC 250-10-45-17. Westar's estimate was changed to inflate the current nominal dollars in the ARO study to remediate each plant site and compare it to the inflated nominal dollars from the previous ARO study and then discount the difference to present day dollars at its incremental borrowing rate. Previously, Westar only inflated the incremental nominal dollars from the new ARO study as compared to the nominal dollars of the previous ARO study and then discounted the inflated incremental layer using the incremental borrowing rate.

KCP&L changed its methodology for when it recognized ARO settlements in property, plant and equipment. In the past, KCP&L would leave settlement dollars in a regulatory asset and not move the dollars to accumulated depreciation until the entire site was remediated. KCP&L changed its methodology to record ARO settlements to accumulated depreciation as incurred consistent with the Westar methodology.

Preferability of Accounting Change

In accordance with ASC 805-10-55, Westar was considered the accounting acquirer upon the merger of Westar and Great Plains. As such, the accounting policies of Westar are to be used by consolidated Evergy under normal circumstances. Since pushdown accounting was not elected, KCP&L is not required to adopt Westar's policies. However, as noted above, there are a large number of accounting policy differences for KCP&L that are embedded in their rates as a result of the ratemaking process and may not be changed to Westar's accounting policies outside of a rate proceeding. In a small number of cases, Evergy adopted KCP&L's accounting policy where management believed KCP&L's policy resulted in better financial reporting. Management has determined that the KCP&L policies that were adopted were a change from one acceptable accounting method to another acceptable method and the change in accounting policies will not result in a material accounting policy change requiring a preferability letter from Evergy's external auditor.

Conclusion:

As part of the merger of Westar and Great Plains, Westar was determined to be the acquirer for accounting purposes. As such, Westar's accounting policies are normally used for consolidated Evergy subsequent to the merger. The accounting policies of Westar, KCP&L and GMO were analyzed to determine which policies should be changed pursuant to the merger. In the vast majority of cases, the accounting policies were based on different rate making treatment as a result of the ratemaking process that results in the rates charged to customers. In these cases, the accounting policies, conventions and methodologies will not be changed without going through a subsequent rate proceeding. There was one minor change in Westar's accounting policy on capitalization thresholds for software and prepaid expenses. This change is not material to Westar's or Evergy's consolidated financial statements and was not considered a material accounting policy change requiring a preferability letter from Evergy's external auditors. In addition, Westar and KCP&L each made a change in its ARO estimate in accordance with ASC 250-10-45-17. In accordance with the standard, the changes in estimate are made in the period of change only or in the period of change and future periods if the change affects both. The accounting policy differences are documented in Appendix A (see attached).

Policy Review
8.1.2018.xlsx

KCPL
Case Name: 2018 KCPL Rate Case
Case Number: ER-2018-0145

Response to Schallenberg Bob Interrogatories - OPC_20180814
Date of Response: 8/27/2018

Question:1027

Has KCPL adopted any Westar accounting policies or practices for itself or for GMO? If yes, please provide:

a. A list of all of Westar's accounting policies and practices;

b. A detailed description of each Westar accounting policy or practice adopted for KCPL and, separately, for GMO, unless it was adopted for both KCPL and GMO;

c. For each adopted policy or practice, the estimated annual impact by USOA account on KCPL, and GMO, of the new accounting policy or practice;

d. Copies of the journal entities made to KCPL's or GMO's books to reflect the change; and

e. The amount by USOA account included in KCPL's and GMO's true-up revenue requirements related to each adopted Westar accounting policy and practice.

Response:

a. See response to Question 1026.
b. The Westar accounting method of recording asset retirement obligation settlements to accumulated depreciation as incurred was adopted by KCP&L and GMO. This was a change in timing of when asset retirement obligation settlements would be recorded to accumulated depreciation. Under KCP&L's and GMO's historical method, all costs associated with KCP&L's and GMO's AROs would accumulate in a regulatory asset and would subsequently be closed into accumulated depreciation at the end of the life of the ARO. Under the Westar method that has been adopted by KCP&L and GMO, the regulatory asset related to the ARO is reduced and closed to accumulated depreciation as the settlement costs are incurred, rather than at the end of the life of the ARO.
c. See attached file that was also attached to Staff's Data Request 478.1.
d. See attached file that was also attached to Staff's Data Request 478.1.
e. See attached file that was also attached to Staff's Data Request 478.1 for a Schedule by Plant utility account by generating unit. The ARO Settlement that was incurred and paid was recorded to the Plant Reserve Account 108. The activity within the Reserve is included within the Reserve balances at June 30, 2018 that are input into the company's revenue requirements model on Sch 6.

Response provided by: Aron Branson, Matt Gummig and Leigh Anne Jones

Attachment:
Q1027_ARO Settlement KCPL and GMO
Q1027_GMO ARO Settlement Journal Entry June 2018
Q1027_GMO ARO Settlement Journal Entry May 2018
Q1027_KCPL ARO Settlement Journal Entry June 2018
Q1027_KCPL ARO Settlement Journal Entry May 2018
Q1027_Verification.pdf

ER-2018-0145
and
ER-2018-0146

KANSAS CITY POWER & LIGHT COMPANY
and
KANSAS CITY POWER LIGHT
GREATER OPERATIONSCOMPANY

SCHEDULE
RES-TU-2

HAS BEEN DEEMED

"CONFIDENTIAL"

IN ITS ENTIRETY