

Exhibit No.:  
Issue: Stub Period Policy  
Witness: Darrin R. Ives  
Type of Exhibit: True-Up Direct 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**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**DARRIN R. IVES**

**ON BEHALF OF**

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

Kansas City, Missouri  
September 2018

KCP&L Exhibit No. 139  
Date 9-25-18 Reporter TV  
File No. ER-2018-0145 + 0146

**TRUE-UP DIRECT TESTIMONY**

**OF**

**DARRIN R. IVES**

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

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

2 A: My name is Darrin R. Ives. 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”) as Vice President –  
6 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 Darrin R. Ives who filed Direct, Supplemental Direct, Rebuttal,**  
11 **and Surrebuttal Testimony in both 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 provide the Commission with the rationale behind  
15 KCP&L’s and GMO’s calculations to assess the impact of the federal Tax Cut and Jobs  
16 Act of 2017 (“TCJA”) during the stub period (January 1, 2018 through the effective date  
17 of rates in these rate cases) and why this approach is consistent with Missouri law and  
18 Commission precedent and should be adopted in this case.

1 **Q: Please summarize KCP&L's and GMO's stub period calculation.**

2 A: As described in more detail in the True-Up Direct Testimony of Company witness Mr.  
3 Ronald Klote, the Company has calculated stub period impacts of TCJA on the basis of  
4 an "all relevant factors" analysis that considers the earnings position of KCP&L and  
5 GMO during the stub period to determine whether TCJA caused over-earnings during  
6 that period. If so, the Company proposes that any such over-earnings should be refunded  
7 to customers through bill credits.

8 **Q: What is the Company asking for regarding the stub period and why?**

9 A: KCP&L and GMO have always maintained in these rate cases that customers would be  
10 credited with TCJA savings when considering all other cost of service elements. As I  
11 stated on p. 14 of my direct testimony, the Company will work with the parties "to  
12 determine the actual impact of the tax cuts beginning January 1, 2018 and reflect those  
13 changes in the final true-up of this case based on a review of all costs to serve  
14 customers."

15 The procedure in Company witness Klote's true-up direct testimony takes into  
16 account all relevant factors in determining whether the stub period savings create excess  
17 earnings that should be credited to customers. This process is consistent with Missouri  
18 ratemaking practice which I am advised by counsel requires specific statutory authority  
19 for anything other than the "all relevant factors" analysis for rate making, which will be  
20 further addressed in the Company's briefs in this proceeding.

1 **Q: Has the Commission used the “all relevant factors” analysis for past federal tax law**  
2 **changes?**

3 A: Yes, my understanding is that this is how tax rate reductions resulting from the 1986 tax  
4 reform act were handled by the Commission. This was explained by the Commission  
5 itself in its annual report for the year 1987, the relevant excerpt of which is attached to  
6 my testimony as Schedule DRI-4.

7 **Q: Is there statutory authority for the Commission to employ something other than an**  
8 **“all relevant factors” analysis in the Company’s rate cases?**

9 A: No. Although, section 393.137 RSMo. provides the Commission with one-time authority  
10 to adjust an electric utility’s rates prospectively due to the TCJA without considering any  
11 other factor, the statute indicates that this exception only applies to electrical corporations  
12 that do not have a general rate proceeding pending before the Commission as of the later  
13 of February 1, 2018 or June 1, 2018. Thus, KCP&L and GMO are excluded from the  
14 application of section 393.137 RSMo. because these general rate cases were pending as  
15 of both February 1 and June 1, 2018. Those electric utilities that did not have rate cases  
16 pending as of February 1 or June 1, 2018, were subject to the one-time exception  
17 contained in section 393.137 RSMo.

18 **Q: How does the Company propose to provide the TCJA stub period credit to**  
19 **customers?**

20 A: As explained in the Rebuttal Testimony of Company witness Brad Lutz, the Company  
21 proposes to utilize a method similar to that used to provide the merger credits to  
22 customers, identified in the Report and Order dated May 24, 2018 and the Stipulation and  
23 Agreement dated January 12, 2018, both in Case No. EM-2018-0012, the application for

1 approval for merger of Great Plains Energy Incorporated with Westar Energy, Inc. This  
2 method will provide customers with credits on a timely basis.

3 **Q: Does that conclude your testimony?**

4 **A:** Yes, it does.



## Regulatory Activities

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### Key Issues during the 1987 Fiscal Year

After years of consistent rate increases for utility services, the Missouri Public Service Commission was given the opportunity during 1987 fiscal year to reverse that trend and lower some utility rates or at least moderate scheduled "phase-in" rate increases involving nuclear power plants in Missouri. The federal Tax Reform Act of 1986, the first complete recodification of the Internal Revenue Code since 1954, was a major driving force behind the rate reductions. Declining cost of capital was another major factor which contributed to this phenomenon.

#### TAX REFORM ACT RELATED REDUCTIONS

On November 3, 1986, the Missouri Public Service Commission

became one of the first regulatory commissions in the country to establish a proceeding to receive data from utility companies on how the Tax Reform Act of 1986 would affect their revenue requirements. Included in the Tax Reform Act was a lowering of the corporate tax rate from 46 to 34 percent. As a result, most utility companies witnessed a lowering of their federal income tax liability as of July 3, 1987.

The Missouri Public Service Commission ordered the largest utility companies in Missouri to file information on the effect of the Tax Reform Act on their operations. Based upon the data received, the Commission ultimately determined that these utilities would save approximately \$176 million annually as a result of the federal Tax Reform Act. After receiving the data, the Commission, on January 30, 1987, directed its Staff to begin informal meetings with utility companies in

efforts to reach an agreement which would lower rates for Missouri customers.

In Missouri, the Commission does not have the authority to order a company to change its rates based upon a single issue such as tax expense. All relevant revenue, expense and investment issues must be considered by the Public Service Commission in deciding rates. Thus, if parties were not able to reach an agreement during informal meetings, the PSC Staff would have to file a complaint against the company in order to seek a rate reduction.

Through the diligent efforts of the Public Service Commission Staff, approximately \$135 million in either rate reductions or phase-in increase modifications were passed along to Missouri consumers by the end of the 1987 fiscal year. Tax Reform Act efforts were responsible for a \$91 million modification to Union Electric's scheduled phase-in rate increases relating to the Callaway nuclear power plant. Original phase-in increases of 7.3 percent for years 1987 through 1990 were reduced to 4.6 percent. Kansas City Power and Light modified its phase-in schedule to reflect the Wolf

## Regulatory Activities

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Creek nuclear power plant as well. This modification meant a savings of approximately \$26.9 million to Kansas City Power and Light customers. Scheduled rate increases of 3.5 percent for years 1987 through 1992 were reduced to 2.2 percent.

While the Commission acted upon several Tax Reform Act related rate changes during the 1987 fiscal year, several more were scheduled for consideration during the early part of the 1988 fiscal year.

### **PSC STAFF AUDITS AND/OR COMPLAINT CASES**

For many years, the Commission was placed in a reactionary mode; having to react to a utility company request to increase rates. That changed, however, during the 1987 fiscal year. A decline in the cost of capital and federal Tax Reform Act changes presented the PSC Staff with the need to audit various utility companies in an effort to determine whether rates should be reduced. In many instances during the 1987 fiscal year, PSC Staff audits led to rate reductions. In fact, PSC Staff audits led to utility rate reductions of approximately \$21 million. That \$21 million is in addition to

the approximate \$135 million related to the federal Tax Reform Act.

The Commission continues to closely monitor the earnings of all utilities under its jurisdiction. If a pattern of possible over-earnings is detected, PSC Staff personnel take a closer look through an audit of the company. Based upon that audit, the PSC Staff may file a complaint against the utility company seeking to have present rates lowered. During the 1987 fiscal year, the PSC Staff in most instances, was able to reach an agreement with the utility company after conducting an audit which lead to lower utility rates for consumers. On two occasions, the PSC Staff filed a complaint against the company. A complaint case against Union Electric regarding the company's Callaway rate phase-in was scheduled for hearing before the Commission this September. The PSC Staff is seeking to end the phase-in of the Callaway

related rate increases. Presently, the phase-in plan calls for electric rate increases of 4.6 percent in years 1988, 1989 and 1990.

### **TELEPHONE ISSUES**

For the first time since 1913, laws governing the telecommunications industry in Missouri underwent major revision when the General Assembly passed and Missouri Governor John Ashcroft signed into law House Bill 360 during the 1987 fiscal year. House Bill 360 was the end result of a telecommunications task force which was appointed by Missouri Governor John Ashcroft in April of 1986. Missouri Public Service Commission Chairman William D. Steinmeier was named to chair the task force.