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**Case No.:**

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Various  
Hyneman/Surrebuttal  
Public Counsel  
ER-2016-0156

**SURREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

Submitted on Behalf of the Office of the Public Counsel

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

CASE NO. ER-2016-0156

September 2, 2016

**NP**

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater                     )  
Missouri Operations Company's                    )  
Request for Authority to Implement                )     File No. ER-2016-0156  
a General Rate Increase for                     )  
Electric Service                                        )

**AFFIDAVIT OF CHARLES R. HYNEMAN**

STATE OF MISSOURI    )  
                                  )    ss  
COUNTY OF COLE     )

Charles R. Hyneman, of lawful age and being first duly sworn, deposes and states:

- 1. My name is Charles R. Hyneman. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
- 2. Attached hereto and made a part hereof for all purposes is my surrebuttal 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.




Charles R. Hyneman, C.P.A.  
Chief Public Utility Accountant

Subscribed and sworn to me this 2<sup>nd</sup> day of September 2016.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2017  
Cole County  
Commission #13754037



Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2017.

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**SURREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**CASE NO. ER-2016-0156**

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

2 A. Charles R. Hyneman, PO Box 2230, Jefferson City, Missouri 65102.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as the Chief Public  
5 Utility Accountant.

6 **Q. Are you the same Charles R. Hyneman who filed direct and rebuttal testimony in this**  
7 **case?**

8 A. Yes, I am

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. The purpose of this testimony is to address some of the statements made and positions  
11 taken in rebuttal testimony of Staff witness Mark Oligschlaeger. I also respond to the  
12 rebuttal testimonies of Ron Klote and Steven Busser, who are employees of Kansas City  
13 Power & Light Company (“KCPL”) and are testifying on behalf of KCP&L Greater  
14 Missouri Operations Company (“GMO”) in this rate case.

15  
16 **SURREBUTTAL TO THE REBUTTAL TESTIMONY OF STAFF WITNESS MARK**

17 **OLIGSCHLAEGER**

18 **Q. Have you reviewed the rebuttal testimony of Staff witness Oligschlaeger in this case?**

1 A. Yes, I have. The page number references to Mr. Oligschlaeger's testimony refer to his  
2 rebuttal testimony unless otherwise noted.

3 **Q. What is your overall impression with this testimony?**

4 A. I agree with much of what Mr. Oligschlaeger says in his rebuttal testimony. While he may  
5 understate the critical importance of regulatory lag as a foundation of effective ratemaking  
6 in Missouri, I generally agree with his comments on regulatory lag.

7 I also agree with Mr. Oligschlaeger's defense of Staff's position against allowing GMO to  
8 include estimate future expenses in its cost of service in this case and his discussion on the  
9 importance of the ratemaking matching principle that has been adopted by this Commission.  
10 I agree that Staff's concerns on this issue and I believe that, if the Commission allows  
11 GMO's use of estimated future transmission expenses in this rate case, the ratemaking  
12 matching principle would no longer be applicable to the Missouri style of rate regulation.

13 However, I do have disagreements with other parts of Mr. Oligschlaeger's rebuttal  
14 testimony related to the purpose of expense trackers and what I view as Staff's  
15 "unbalanced" ratemaking treatment of utility expense trackers.

16 Finally, I address the issue of the past Commission practice of issuing Accounting Authority  
17 Orders ("AAOs") in Missouri. The Federal Energy Regulatory Commission ("FERC") itself  
18 and the FERC's Uniform System of Accounts ("USOA") is clear on how regulatory asset  
19 deferrals should be handled under the USOA. FERC itself does not issue AAOs but places  
20 the specific burden of the decision whether or not to defer expenses outside of a rate case  
21 test year as a regulatory asset on utility management. Mr. Oligschlaeger, contrary to the  
22 USOA, wants to continue the practice of placing that burden on the Missouri Public Service  
23 Commission ("Commission") and expresses that desire in his rebuttal testimony.

1 **RATE BASE TREATMENT OF GMO EXPENSE TRACKERS**

2 **Q. At pages 3 and 4 Mr. Oligschlaeger defines a tracker and states that the use of trackers**  
3 **in Missouri rate regulation should be rare. He also states that trackers should only be**  
4 **used in unique or unusual circumstances. Do you agree with this position?**

5 A. Yes. However, if you look at the rates of most, if not all, major utilities in Missouri you can  
6 see that while Staff may support this ratemaking position as theory, it is questionable if it  
7 applies this position in practice.

8 Missouri utilities' cost of service rate bases and income statements are heavily loaded with  
9 trackers supported by the Staff and have been in this state for several years. While Mr.  
10 Oligschlaeger says in testimony he believes the existence of trackers should be rare, in  
11 actuality, Staff has supported many trackers as a normal ratemaking practice common in  
12 most, if not every rate case.

13 OPC believes that trackers should actually be rarely be used and should only be applied to  
14 actual unique or highly unusual circumstances. A major concern of OPC is the manner in  
15 which Staff has supported the long-term use of trackers, especially in the area of utility  
16 employee and executive compensation such as accrued retirement expenses and accrued  
17 postretirement health care costs. Due to their inherent ratepayer detriments, which have  
18 been recognized by the Commission and Staff, OPC opposes the long-term use of trackers  
19 and only supports the use of trackers only on a very short-term basis.

20 **Q. At page 4 line 6 Mr. Oligschlaeger says that he supports the use of trackers to**  
21 **reimburse utilities for any under-recovery of expenses. Is this an appropriate use of**  
22 **trackers?**

23 A. No. This use of trackers is very similar to the very definition of single-issue ratemaking  
24 and trackers should not be used as a ratemaking technique to "reimburse" utility  
25 shareholders for past losses.

1 Trackers are designed track a single and specific expense or set of similar expenses that  
2 tend to increase between rate cases. All other expenses that may be decreasing (such as  
3 interest expense, equity costs, fuel and purchased power costs) are ignored and increases  
4 in revenues are ignored as well. As such, the use of trackers significantly mismatches the  
5 necessary balance between revenues, expenses, and rate base. Mr. Oligschlaeger states he  
6 believes the in the importance of the matching principle, but his support of trackers as a  
7 reimbursement mechanism for one single tracked expense is not consistent with his  
8 support of the matching principle.

9 In addition to bordering on single-issue ratemaking, Mr. Oligschlaeger's basis for his  
10 support for the use of trackers (a reimbursement mechanism) contrary to even very basic  
11 ratemaking principles. As will be discussed later, Mr. Oligschlaeger's rebuttal testimony  
12 reflects Staff's clear position that Missouri utilities should have little or no risk in direct  
13 rate recovery of any expenses that are recorded on a utility's books under an expense  
14 tracker mechanism. That is not a purpose of a tracker.

15 **Q. What is the purpose of an expense tracker?**

16 A. To mitigate a utility cost currently undergoing a significant volatility or some other  
17 circumstance not allowing for a reasonable method to determine an appropriate expense  
18 level in a revenue requirement. It is to mitigate a short-term revenue requirement  
19 calculation issue. It is not to be used with intent to reimburse shareholders for past losses  
20 or to eliminate all risk in rate recovery of the tracked expense.

21 **Q. Do all trackers have some degree of single-issue ratemaking?**

22 A. Yes, all trackers have some degree of single-issue ratemaking and that is why it is  
23 important to narrowly define the appropriate use of a tracker. While single-issue  
24 ratemaking - as I understand the term - is prevalent in Missouri through infrastructure

1 surcharges and fuel adjustment clauses as examples, it still is bad ratemaking and should  
2 be restricted as much as possible.

3 Trackers should not be used as a safeguard against a potential increase in a single utility  
4 expense. Once rates are set (based primarily on the ratemaking matching principle) all  
5 revenues and expenses on which the rates were set will increase or decrease. It is the  
6 utility's responsibility to manage these revenue and expense increases and decreases.

7 If a tracker is granted to protect against future expense increases, or "reimburse" the  
8 utility shareholders for increases in an expense not directly included in the utility's  
9 revenue requirement, it becomes single-issue ratemaking. From my experience, I  
10 understand that practice is generally prohibited in Missouri.

11 OPC supports the use of trackers to mitigate short-term revenue requirement calculation  
12 issues and should only be applied to expenses that have an equal chance of increasing as  
13 decreasing. In that sense, there is no intent behind the granting of an expense trackers to  
14 reimburse shareholders for past losses but to mitigate any financial impact on the utility  
15 from an expense that cannot be reasonable measured until the next rate case when the  
16 tracker can be revaluated.

17 **Q. Are expense trackers agreed to in a rate case similar to utility expense deferrals to a**  
18 **regulatory asset account outside of a rate case test year?**

19 A. Yes. Mr. Oligschlaeger recognized this at line 21 of page 6 through line 2 of page 7.  
20 Here, Mr. Oligschlaeger says the ratemaking treatment of expense trackers authorized in  
21 a rate case are similar to expense deferrals outside of a rate case which, in Missouri, have  
22 traditionally been deferred under a Commission order ("accounting authority order" or  
23 "AAO").

24 While Mr. Oligschlaeger recognizes these two types of ratemaking mechanisms are  
25 similar, he reserves a much more shareholder-friendly ratemaking treatment (including



1 the expenses deferred in the utility's rate base for ratemaking purposes) primarily for  
2 expense trackers granted in a rate case.

3 **Q. How does Mr. Oligschlaeger justify a much more shareholder-friendly ratemaking**  
4 **treatment for trackers 1) authorized in a rate case over trackers that are 2)**  
5 **authorized prior to a rate case under an AAO?**

6 A. Mr. Oligschlaeger provides his justification for the different ratemaking treatment at page  
7 6 line 19 through page 7 line 17. Mr. Oligschlaeger believes there should be different  
8 ratemaking treatment for the two types of trackers based on the "nature" of the costs  
9 involved.

10 **Q. Are there any substantive differences between the "nature" of a cost deferred under**  
11 **an AAO and the nature of a cost that is granted tracking ratemaking treatment in a**  
12 **rate case?**

13 A. No, and Mr. Oligschlaeger's testimony confirms that there is no substantive difference.  
14 At page 3 of his rebuttal testimony, Mr. Oligschlaeger describes that trackers should be  
15 rare and the expense under a tracker should be dependent on "unique" and "unusual"  
16 circumstances. At page 7 of his rebuttal testimony, Mr. Oligschlaeger describes the other  
17 type of tracker – expenses deferred prior to a rate case - as costs that are "unanticipated,  
18 unusual, and unique." Mr. Oligschlaeger makes a distinction between the nature of costs  
19 that deserve different rate treatment but then attributes the same or similar characteristics  
20 to these types of costs.

21 **Q. Is Mr. Oligschlaeger's description of the "nature" of the costs deferred under both**  
22 **types of trackers essentially the same?**

23 A. Yes. The only distinction I can see between the two is he attributes costs deferred under  
24 a pre-rate case tracker (AAO) as nonrecurring. However, my review of these types of

1           trackers over the past 20 years leads me to conclude that very few, if any, of the expenses  
2           deferred under a pre-rate case tracker are nonrecurring.

3           Therefore, I conclude that there are no significant differences in the nature of costs  
4           tracked in a pre-rate case tracker and a tracker authorized in a rate case. Given the fact  
5           that there are no differences in the nature of these costs, Staff has no basis for  
6           differentiating the ratemaking treatment of the two types of trackers by supporting rate  
7           base treatment for one and only amortization treatment for the other.

8           **Q. At page 4 line 6 Mr. Oligschlaeger states that the use of trackers is to “provide**  
9           **reimbursement in rates to utilities or customers of any over or under-recovery of**  
10           **individual rate components...”. Please comment on his inclusion “utility**  
11           **customers” in this statement.**

12           **A.** Here Mr. Oligschlaeger portrays some type of “ratemaking equivalence” in Staff’s  
13           treatment of expense trackers between utility shareholders and utility customers. There is  
14           no such equivalence and it is important for the Commission to recognize there is no  
15           equivalence. The Commission should recognize any Staff attempt to attribute ratepayer  
16           benefit with the use of utility expense trackers is simply a way for Staff to justify its very  
17           generous ratemaking positions on expense trackers. Mr. Oligschlaeger does this by  
18           portraying trackers as less detrimental than they really are and attributing a fairness  
19           element that does not exist. OPC believes it is important to point out and to emphasize  
20           there is no fairness element to expense trackers.

21           Due to the Staff’s minimal ratemaking standards it actually applies to utility expense  
22           trackers, especially in the area of utility employee benefits expenses and utility  
23           construction projects, the public has suffered financially by being charged millions of  
24           dollars in utility costs solely through Staff’s expressed desire to reimburse utility  
25           shareholders for past losses.

1 Missouri ratepayers have been forced, unnecessarily, to pay millions of dollars in utility  
2 expenses and profit. Staff's testimony improperly attempts to portray that expense  
3 trackers provides benefit to utility ratepayers. It is simply not the case. Expense trackers  
4 are a distortion of normal regulatory lag. Sometimes, however, it is necessary in certain  
5 circumstances and for short time periods to take some action to mitigate the potential  
6 negative impact on a utility from a utility expense that cannot be reasonably measured in  
7 a rate case.

8 Expense trackers were never created either with the goal in mind to protect ratepayers. To  
9 insinuate otherwise and associate any ratepayer benefit with the use of expense trackers,  
10 as Staff does in this testimony, is a gross distortion of the truth.

11 **Q. Does Mr. Oligschlaeger attempt to equalize the benefits of expense trackers to**  
12 **ratepayers and shareholders in other sections of his rebuttal testimony?**

13 A. Yes. It has been said and it is appropriate to quote here "the worst form of inequality is  
14 to try to make unequal things equal." In just one partial paragraph at page 17 lines 12  
15 through 20 Mr. Oligschlaeger associates equal shareholder/ratepayer benefit of expense  
16 trackers four times. This association is incorrect as utility customers rarely receive any  
17 benefit from this process.

18 Utilities **or their customers** are typically given rate recovery of  
19 those amounts through a multi-year amortization to expense.  
20 However, unless rate base treatment is given to the unamortized  
21 balance of tracker regulatory asset/liabilities, either the utility **or**  
22 **its customers** will not be made fully "whole" for the tracked cost  
23 differential as **either party** would lose the "time value of money"  
24 associated with the expense outlay. Therefore, allowing rate base  
25 treatment of unamortized tracker balances gives full rate recovery  
26 of the cost differential to utilities **or their customers**; not allowing  
27 rate base treatment of these balances will only provide partial  
28 recovery of the tracked cost differential. (emphasis added)  
29

1 **Q. Mr. Oligschlaeger again discusses his theory that ratepayers benefit from rate base**  
2 **inclusion of expense trackers at page 18 lines 6-10 of his rebuttal testimony. Please**  
3 **elaborate on your comments above about the detrimental impact of expense**  
4 **trackers on ratepayers.**

5 A. As noted above and as acknowledged by Mr. Oligschlaeger, removing regulatory lag  
6 through the use of expense trackers eliminate or significantly reduces utility cost  
7 management incentives. The removal of utility management cost control incentives will  
8 increase the likelihood of higher costs incurred by the utility and higher utility rates  
9 charged to ratepayers.

10 The Commission, OPC, and Staff, recognizes this ratepayer detriment associated with the  
11 use of expense trackers. It is time for Missouri utilities to recognize this ratepayer  
12 detriment associated with the use of expense trackers and seek to minimize the detriment  
13 on its customers to the greatest extent possible.

14 **Q. When Mr. Oligschlaeger refers to a benefit to ratepayers, as he does on page 18 line**  
15 **8, to what specifically is he referring?**

16 A. As I understand his testimony he can only be referring to the mechanics of how so-called  
17 “symmetrical” trackers work. For example, 1) if the actual expense that is tracked is less  
18 than the level directly included in rates (which is not common); or 2) if the utility over-  
19 recovers the tracked expense in rates, then ratepayers will be charged actual costs  
20 incurred and will be protected from a utility double recovery of the expense. That is what  
21 Mr. Oligschlaeger incorrect characterizes as a ratepayer benefit. However, there is an  
22 issue in this rate case associated with expense trackers where GMO is refusing to  
23 recognize a double recovery of tracked expenses and return this over-recovery of a  
24 tracked expense to its customers. The problem between Staff and GMO on this issue  
25 only illustrates further the inherent detrimental nature of expense trackers and why  
26 trackers should be rarely used.

1 **Q. You state that, contrary to Mr. Oligschlaeger’s testimony, there is common**  
2 **understanding that expense trackers are created, designed, and implemented for**  
3 **one purpose – to protect utility shareholders. Given this common understanding,**  
4 **why would Mr. Oligschlaeger make reference to utility customers in his discussion**  
5 **of utility expense trackers?**

6 A. I believe that Mr. Oligschlaeger, as a member of the Staff, feels a need to portray that  
7 Staff acts in a “fair and balanced” manner in its positions on ratemaking positions in  
8 general. For this reason, he repeatedly includes “ratepayers” along with “shareholders”  
9 as entities who benefit from expense trackers even though he knows, or should  
10 reasonably know based on his experience, ratepayers receive no benefit at all from the  
11 use of expense trackers.

12 **Q. Has Staff represented to you that one of its purposes is to be “fair and balanced” in**  
13 **the sense of balancing the interests of the ratepayers and the shareholders?**

14 A. Yes, I have been so advised by members of the Staff on several occasions, including Mr.  
15 Oligschlaeger previously.

16 **Q. Do you believe that is the appropriate role of the Commission Staff?**

17 A. No and it is the position of the OPC this is not the function of the Commission or its  
18 Staff.

19 **Q. What do you believe is the purpose and role of the Missouri Public Service**  
20 **Commission Staff?**

21 A. The role of the Commission Staff is to support the Missouri Public Service Commission  
22 (“Commission”). The Commission has declared its “guiding purpose” in a rate  
23 proceeding is to protect the consumer against the natural monopoly of the public utility.  
24 That should be the guiding purpose of the Staff as well.

1 The Commission stated that its dominant “thought and purpose in setting rates” is to  
2 protect the public. The Commission addressed this point in its December 3, 2014 Report  
3 and Order in Case No. GR-2014-0152, (“2014 Liberty Report and Order”). At paragraph  
4 9 Commission stated:

5 The Commission’s guiding purpose in setting rates is to protect the  
6 consumer against the natural monopoly of the public utility,  
7 generally the sole provider of a public necessity.<sup>29</sup> “[T]he dominant  
8 thought and purpose of the policy is the protection of the public . . .  
9 [and] the protection given the utility is merely incidental.”<sup>30</sup>  
10

11 **Q. Please provide an example where you believe Staff fails to act to protect utility**  
12 **ratepayers against the natural monopoly of the utility?**

13 A. A perfect example of this is Staff’s generous support of expense trackers against the  
14 interests of the public, in situations other than very specific, rare and narrowly-defined  
15 circumstances and for long periods of time.

16 Staff has also supported a method for utilities to earn a profit on the deferral of routine  
17 and ordinary utility expenses by supporting utility requests to include expense trackers in  
18 rate base as if they were some type of real shareholder investment in the utility. The Staff,  
19 in supporting this rate base treatment of ordinary utility operating expenses consistently  
20 fails to comply with a Commission Report and Order which established specific  
21 standards for costs that are eligible to be included in a utility’s rate base.

22 **Q. At page 17 lines 12 through 20 Mr. Oligschlaeger states that unless rate base**  
23 **treatment is given to the unamortized balance of tracker regulatory asset/liabilities,**  
24 **the utility will not be made fully “whole” for the tracked expense. Has it ever been a**  
25 **goal or objective of the Commission to ensure utility ratepayers are 100% made**  
26 **“whole” for expenses that are incurred outside of a rate case test year?**

1 A. No, it never has been such a goal or objective. Unlike the expressed positions of  
2 regulated utilities and the expressed position of the Commission Staff, I don believe the  
3 Commission has ever expressly supported a position of including trackers in a utility's  
4 rate base or provided any rationale or justification for such inclusion.

5 However, since the Commission has approved past Staff and Company rate case  
6 Stipulations and Agreements that included trackers in rate base, one might argue that the  
7 Commission indirectly approved the ratemaking treatment of including expense trackers  
8 in rate base.

9 **Q. What is your professional feelings about that argument?**

10 A. I have been involved with many rate case settlement discussions that have resulted in  
11 agreements to settle all disagreements among the parties to the rate case. Based on my  
12 direct experience I do not think the Commission would be wise to assume that  
13 compromised individual positions of parties to a rate case (as reflected in a rate case  
14 settlement Stipulation and Agreement) represent the true positions of all parties or that  
15 the compromised positions reflected in a particular rate case settlement agreement  
16 reflects good ratemaking policy.

17 **Q. At page 17 lines 12-20 Mr. Oligschlaeger seems to confuse the definitions of “partial**  
18 **recovery” and “full rate recovery.” Can you explain the correct distinctions**  
19 **between these two terms?**

20 A. Yes. When a utility expense is “tracked” for ratemaking purposes, all risk of full rate  
21 recovery of this individual expense is eliminated. Thus, a tracked expense is guaranteed  
22 “full rate recovery” and not “partial rate recovery” as may exist without the guarantee.

23 Partial expense recovery may, in theory, exist in circumstances where no tracker is in  
24 effect and a utility fails to recover all of its actual incurred expenses in a given time  
25 period. However, as far as I am aware, no utility in Missouri has ever failed to recover

1 100 percent of the expense that it incurred in any annual period. Therefore, there is no  
2 relevance to the term “partial recovery” of expenses as used in the testimony of Mr.  
3 Oligschlaeger. As it applies to expenses, all Missouri utilities have always enjoyed “full  
4 rate recovery.”

5 **Q. When Mr. Oligschlaeger uses the term “full rate recovery” what is he referring to?**

6 A. He is referring to not only full rate recovery of all incurred expenses, but also a guarantee  
7 that a utility will earn its authorized return on equity. That is the purpose of including  
8 expense trackers in rate base.

9 Rate base treatment of deferred expenses is, in part, an attempt to 1) guarantee full  
10 expense recovery of that specific expense through amortization to the income statement  
11 and cost of service and 2) require ratepayers to pay utility shareholders its long-term  
12 capital costs, including a profit on the expense deferrals.

13 The effect of including trackers in rate base goes well above guaranteeing full recovery of  
14 the tracked expense. Staff, through its position on supporting trackers in rate base, seeks  
15 to protect the utility against any downward movement in actual earned profit levels.

16 **Q. If the Commission believes that with certain expense trackers utility shareholders  
17 should be compensated for some level of capital costs associated with under-  
18 recovery of a tracked expense, is there a more reasonable position than including  
19 the tracked expense in rate base?**

20 A. Yes. In the past the Commission has authorized the addition of short-term capital costs to  
21 be applied to tracked expenses in prior KCPL rate cases. While OPC believes adding any  
22 capital costs to expense tracker balances is unnecessary, OPC finds applying a short-term  
23 financing cost against a short-term tracked expense to make much more sense than  
24 applying long-term debt and equity costs to a short-term expense trackers.



1 **Q. If the Commission allows GMO's current expense trackers to include financing**  
2 **costs, does the OPC recommend that the Commission continue a past practice**  
3 **toward certain KCPL trackers by assigning a lower-cost short-term financing rate**  
4 **to these expense deferrals as opposed to the higher-cost long term financing costs?**

5 A. Yes, it does. OPC is making this request of the Commission in this testimony.

6 **Q. At page 18 line 14 Mr. Oligschlaeger appears to develop a Staff standard or Staff**  
7 **policy on what types of expense trackers it will support being included in rate base.**  
8 **Have you ever heard of this policy prior to the date Mr. Oligschlaeger filed his**  
9 **rebuttal testimony?**

10 A. No, I have not. I was employed as a regulatory auditor in the Staff's Auditing Department  
11 for 22 years and have worked on dozens of rate cases involving rate base and expense  
12 deferral issues. I have had numerous discussions with Mr. Oligschlaeger and other senior  
13 Staff rate case auditors and I have never heard that policy expressed or even discussed. It  
14 appears that this policy was recently created. This policy developed by Mr.  
15 Oligschlaeger, however, is not based in any substantive ratemaking foundation.

16 **Q. Why do you believe this new Staff policy has no substantive ratemaking foundation?**

17 A. Beginning at page 18 line 15 and continuing through page 19 line 7 Mr. Oligschlaeger  
18 differentiates between utility costs that he supports being included in rate base as ongoing  
19 and recurring and the types of costs that Staff has traditionally not proposed be included  
20 in rate base. These are the costs are typically deferred under an AAO, which he  
21 characterizes as "infrequent" and "no ongoing amount for this type of cost included in  
22 utility rates".

23 Mr. Oligschlaeger then states that "Staff does not believe that the regulatory policy  
24 applied in the past to extraordinary and nonrecurring costs should be automatically  
25 applicable to ongoing, recurring expenses subject to tracking treatment."

1 This new Staff policy is not based on a solid ratemaking foundation because it fails to  
2 state why one type of expense is more deserving of rate base treatment than another.  
3 Should shareholders be more protected and have more risk removed for costs that are  
4 routine and recurring utility expenses that Staff supports rate base inclusion? Why are  
5 shareholders entitled to less rate protection for costs that are unusual in nature and  
6 infrequent in occurrence than routine everyday utility expenses? Mr. Oligschlaeger  
7 established no foundation or rationale why there should be a ratemaking difference for  
8 these two types of costs.

9 In fact, Staff's position is actually counter-intuitive from a ratemaking standpoint. In  
10 situations where the expense at issue was caused by a natural disaster, one could argue  
11 that rate base treatment is more justifiable as the Commission would want to encourage  
12 the utility as much as possible to put forth all the effort it can to address the situation  
13 without worrying about the impact on its earnings. Rate base inclusion of these types of  
14 deferred expenses actually have more of a justification to be included in rate base than  
15 normal compensation expense trackers such as plant operations expenses and  
16 compensation expense deferral such as pension expense trackers. This position, as  
17 developed by Mr. Oligschlaeger, is arbitrary and not justified.

18 **COMMISSION STANDARDS ON RATE BASE INCLUSION OF DEFERRED EXPENSES**

19 **Q. At page 19 lines 8-20 Mr. Oligschlaeger states that he does not believe the**  
20 **Commission should apply and enforce the standards on rate base inclusion that it**  
21 **set in its Report and Order in Case No. ER-2006-0314. Do you agree?**

22 **A.** No. Mr. Oligschlaeger says that I am arguing that "only tangible assets, such as  
23 "possessions" or "property" should be eligible for rate base inclusion. However, I am not  
24 making that argument only because it is solid ratemaking practice but also because that is  
25 what the Commission ordered as a standard for rate base inclusion in KCPL's 2006 rate

1 case. If Mr. Oligschlaeger does not agree with the Commission on this policy, he should  
2 express this disagreement with the Commission in his testimony. He does not.

3 By testifying around this Commission Report and Order and not addressing it in his  
4 testimony, Mr. Oligschlaeger indicates that while he may not like the language in the  
5 Commission's Report and Order, he cannot argue against it. He provides no substantive  
6 argument against the facts and very reasonable position established by the Commission in  
7 its ER-2006-0314 Report and Order on the types of costs that should be included in rate  
8 base.

9 **Q. Did the Commission's Report and Order in Case No. ER-2006-0314, where the**  
10 **Commission established standards for including operating expenses in rate base,**  
11 **support the Staff's position in that rate case?**

12 A. Yes it did. In effect, Mr. Oligschlaeger argues against a Staff position in Case No. ER-  
13 2006-0314. While this is acceptable, I believe Mr. Oligschlaeger should at least address  
14 why he is changing a Staff position that has been in effect for ten years and the very Staff  
15 position on which the Commission based its 2006 Report and Order on this issue.

16 **Q. How does Mr. Oligschlaeger characterize the Commission's stated standards on**  
17 **rate case inclusion on deferred expenses?**

18 A. At page 19 line 13 he characterizes the Commission's standards for rate base inclusion as  
19 "unduly narrow" if applied to GMO's tracked deferred expenses.

20 **Q. Mr. Oligschlaeger states that Staff generally agrees that only "true" utility assets**  
21 **and liabilities should be included in rate base. Does he define what he considers**  
22 **"true" utility assets?**

23 A. No. Without this definition, his testimony on this issue is incomplete.

1 **Q. Mr. Oligschlaeger states at page 19 line 15 that “regulatory assets” and “regulatory**  
2 **liabilities” are “valid” assets and liabilities in the financial and regulatory**  
3 **accounting sense and should be eligible for rate base inclusion.” Does Mr.**  
4 **Oligschlaeger define what he means by “valid assets”?**

5 A. No, and his testimony on this issue is incomplete without this definition.

6 **Q. At page 19 line 17 it appears Mr. Oligschlaeger advocates that the Commission**  
7 **abandon its standards for rate base inclusion of deferred expenses and make up new**  
8 **standards in each rate case when this issue is presented. Do you agree with his**  
9 **recommendation?**

10 A. I disagree that the Commission should abandon its general standards on rate base. The  
11 Commission must have ratemaking standards and principles that are general in nature and  
12 that can be applied to all utilities. The Commission’s standard on rate base inclusion of  
13 deferred expenses is such a standard that applies in general to all utility rate cases, much  
14 like the Commission’s rate case matching principle.

15 In his rebuttal testimony Mr. Oligschlaeger makes much use, appropriately so, of the  
16 Commission’s matching principle. I don’t see where he states that the Commission’s  
17 matching principle should be applied on a case-by-case basis and applied, potentially  
18 differently, for different utility rate cases. That would not be reasonable for the matching  
19 principle and it is not reasonable for the standards for rate base inclusion. The  
20 Commission needs general standards and principles that form the core basis of its  
21 ratemaking positions.

22 **Q. You stated earlier that it is your understanding that the Commission has never**  
23 **expressly supported rate base inclusion of expense trackers. Is it your**  
24 **understanding that the Commission has expressed, in a very clear manner, its**  
25 **position that expense trackers do not belong in a utility’s rate base?**

1 A. Yes. As discussed above, its *Report and Order* in KCPL's 2006 rate case, ER-2006-0314,  
2 the Commission expressed its position on which types of costs are eligible to be included  
3 in rate base and which types of costs are not eligible. The Commission described that  
4 additions to rate base must be an "asset". The Commission also described an "asset" as  
5 "some sort of possession or belonging worth something that is owned or controlled by the  
6 utility."

7 Tracker expense deferrals are classified as "regulatory assets" in the FERC USOA and  
8 included in FERC account 182.3, Other Regulatory Assets. A description of this account  
9 is included in FERC USOA Definition No. 31

10 Expense tracker deferrals are "regulator-created assets" or "regulatory assets". These are  
11 not assets provided by utility investor to provide utility service. These regulator-created  
12 assets are no more than a set aside of dollars designated to receive special and  
13 preferential ratemaking treatment in rate cases under certain situations. They are not a  
14 shareholder investment in the utility; they are not even owned and controlled by a utility  
15 as they are created and controlled by the ratemaking actions of a regulatory agency:

16 FERC USOA Account 182.3 Other regulatory assets.

17 A. This account shall include the amounts of regulatory-created  
18 assets, not includible in other accounts, resulting from the  
19 ratemaking actions of regulatory agencies. B. The amounts  
20 included in this account are to be established by those charges  
21 which would have been included in net income, or accumulated  
22 other comprehensive income, determinations in the current period  
23 under the general requirements of the Uniform System of Accounts  
24 but for it being probable that such items will be included in a  
25 different period(s) for purposes of developing rates that the utility  
26 is authorized to charge for its utility services.

27  
28 FERC USOA Definition 31.

29 Regulatory Assets and Liabilities are assets and liabilities that  
30 result from rate actions of regulatory agencies. Regulatory assets  
31 and liabilities arise from specific revenues, expenses, gains, or  
32 losses that would have been included in net income determination

1 in one period under the general requirements of the Uniform  
2 System of Accounts but for it being probable: A. that such items  
3 will be included in a different period(s) for purposes of developing  
4 the rates the utility is authorized to charge for its utility services; or  
5 B. in the case of regulatory liabilities, that refunds to customers,  
6 not provided for in other accounts, will be required.  
7

8 **Q. Are the utility rate base inclusion tests and standards developed by the Commission**  
9 **in its ER-2006-0314 Report and Order applicable to utility requests to include**  
10 **expense trackers in rate base?**

11 A. Yes, they are.

12 **Q. Does the Commission, in its ER-2006-0314 Report and Order, include language**  
13 **relevant to GMO's proposal to include expense trackers in its rate base in this case?**

14 A. Yes. The Commission stated that, to include expense projects in rate base, as KCPL  
15 proposed in the 2006 rate case, would make a "mockery" out of what constitutes a rate  
16 base asset. I believe, consistent with my understanding of the Commission position on  
17 this very issue in Case No. ER-2006-0114, that GMO's and Staff's position to include  
18 expense trackers in this rate case also makes a mockery out of what constitutes a rate  
19 base asset. The Commission described its rationale and standards on the types of assets it  
20 will allow in rate base as follows:

21 "...In order for an item to be added to rate base, it must be an  
22 asset. Assets are defined by the Financial Accounting Standards  
23 Board (FASB) as 'probable future economic benefits obtained or  
24 controlled by a particular entity as a result of past transactions or  
25 events' (FASB Concept Statement No. 6, Elements of Financial  
26 Statements).  
27

28 Once an item meets the test of being an asset, it must also meet the  
29 ratemaking principle of being 'used and useful' in the provision of  
30 utility service. Used and useful means that the asset is actually  
31 being used to provide service and that it is actually needed to  
32 provide utility service. This is the standard adopted by many

1 regulatory jurisdictions, including the Missouri Public Service  
2 Commission."

3  
4 The Commission finds that the competent and substantial evidence  
5 supports the position of Staff, and finds this issue in Staff's favor.  
6 While KCPL's projects appear to be prudent, KCPL produced  
7 insufficient evidence for the Commission to find that these projects  
8 rise to the level of an asset, on which the company could earn a  
9 rate of return.

10  
11 What is at issue is not whether a project is a "probable future  
12 economic benefit", as KCPL asserts in its brief; what is at issue is  
13 the remainder of the FASB definition Mr. Hyneman quoted, which  
14 is "obtained or controlled by an particular entity as a result of past  
15 transactions or events."

16  
17 In other words, an asset is some sort of possession or belonging  
18 worth something. KCPL obtains or controls assets, such as  
19 generation facilities and transmission lines.

20  
21 To attempt to turn an otherwise legitimate management expense,  
22 such as a training expense, into an asset by dubbing it a "project"  
23 makes a mockery of what an asset really is, which is some type of  
24 property.

25  
26 Using KCPL's argument, any expense is potentially an asset by  
27 simply calling it a "project", and thus could be included in rate  
28 base. KCPL's projects do not rise to the level of rate base.  
29 (Emphasis added)  
30

31 **Regulatory Asset Deferral Decisions**

32 **Q. At page 20 line 12 Mr. Oligschlaeger addresses your direct testimony on the issue of**  
33 **who (utility management or the Commission) should make the determination to defer**  
34 **expenses to FERC account 182.3, Other regulatory assets. Please comment.**

35 **A. Mr. Oligschlaeger correctly describes past Commission practice which were based on**  
36 **Staff's AAO recommendations and Staff's understanding of the FERC's USOA going**

1 back many years. However, the Staff's policy has never been consistent with FERC and  
2 the requirements of the FERC USOA.

3 **Q. Does Mr. Oligschlaeger understand that under the FERC USOA the Commission is**  
4 **not required to grant an AAO to Missouri utilities in order for utility management to**  
5 **defer expenses outside of a rate case test year as a regulatory asset on its balance**  
6 **sheet?**

7 A. Yes, I believe he understands the correct methodology under the FERC USOA based on  
8 his rebuttal testimony on this issue in this rate case. I noted that he does not state in his  
9 testimony that the Commission is required to approve utility AAO expense deferral  
10 requests. He only states that "in most instances it is both acceptable and appropriate for  
11 utilities to seek authority from the Commission before it defers as a regulatory asset  
12 certain incurred expenses."

13 **Q. Do you believe it is acceptable and appropriate for utilities to seek authority from**  
14 **the Commission before it defers as a regulatory asset certain incurred expenses?**

15 A. In most cases, no, it is not appropriate for the Commission to make accounting (as  
16 opposed to ratemaking) decisions for utility managers. In all cases, it is not appropriate  
17 for the Commission to determine ratemaking treatment in an AAO case where the  
18 Commission, by granting an AAO, is required to make a clear declaration that the  
19 expenses at issue are probable of rate recovery.

20 **Q. At page 20 line 15, Mr. Oligschlaeger states that "(d)eferral treatment is an**  
21 **exception to normal utility accounting for costs under the prescribed USOA." Do**  
22 **you agree with that statement?**

23 A. No. If the USOA allows for a utility to defer expenses as a regulatory asset to FERC  
24 account 182.3, *Other Regulatory Assets*, upon certain conditions being met, then it is not  
25 an exception to normal utility accounting and it is not so characterized by the FERC in its



1           USOA. While it is common for a utility to recognize an expense in its income statement  
2           in the year incurred, normal utility accounting treatment provided by the FERC USOA  
3           allows for different treatment, such as the authority to defer an expense to a regulatory  
4           asset or a deferred charge account.

5   **Q. Do you believe that the Commission should continue its current practice of making**  
6   **routine utility management accounting decisions related to whether or not to defer**  
7   **expenses as a regulatory asset?**

8   A. No. This is an accounting decision best made by utility management and FERC requires  
9   this decision to be made by utility management. There are no ratemaking implications at  
10   all when utility management makes a decision to defer an expense as a regulatory asset.  
11   The only criteria that must be evaluated by utility management is 1) whether or not this  
12   particular expense is being recovered in current rates and 2) whether or not it is probable  
13   that this expense will be recovered in future rates.

14           I have seen concern in the past expressed by the Commission about being asked to  
15           “micromanage” utility decisions. I believe making routine accounting decisions for utility  
16           management that have no ratemaking implications is a form of micromanagement.  
17           Utility management is required by the Commission to comply with the provisions of the  
18           USOA. If they meet the FERC requirements to defer expenses to account 182.3, they  
19           should be allowed to do so without Commission involvement.

20   **Q. Are you stating that the Commission should ignore requests by utilities to give**  
21   **guidance on significant accounting decisions?**

22   A. No. I think the Commission should respond to such requests and provide general  
23   guidance if necessary. However, the decision to defer expenses outside of a rate case test  
24   year must be made by utility management. In addition, it must be utility management  
25   and not the Commission who makes the decision (as is required by the FERC USOA)

1 that the deferred expenses are probable of rate recovery in the next rate case. There are  
2 major problems that are created when the Commission makes that decision.

3 **Q. Please explain why there is a problem with the Commission making the decision**  
4 **that a utility expense deferred to account 182.3 Other Regulatory Assets is probable**  
5 **of future rate recovery?**

6 A. I understand that there are legal issues surrounding the Commission making a ratemaking  
7 determination outside of a rate case. I won't address those issues here, but I will state  
8 that all the Commission's AAOs that have been issued in the past include language that  
9 clearly states that the Commission is making no ratemaking determination. Those AAOs  
10 have technically been incorrect. By the Commission granting an AAO and allowing a  
11 deferral to regulatory asset account No. 182.3, it is telling all parties that the costs  
12 deferred under the AAO are "probable" of future rate recovery. That is a clear and strict  
13 requirement of the FERC for an expense to be deferred to FERC account 182.3 and this is  
14 in direct conflict with a Commission statement that an AAO that it is not making a  
15 ratemaking decision.

16 **Q. Over the past several years have you witnessed the Commission expressing**  
17 **frustration with being told that they must issue an AAO stating that it is granting no**  
18 **ratemaking treatment yet also being told that the deferred expenses must be**  
19 **"probable" or rate recovery to be deferred?**

20 A. Yes, I have, and I have expressed this concern to Staff management at the time. Staff  
21 management, as expressed by the testimony of Mr. Oligschlaeger, disagrees with my  
22 concern on this issue and sees no problem with this inherent conflict.

23 **SURREBUTTAL TO THE REBUTTAL TESTIMONY OF GMO WITNESS RON KLOTE**

24 **Inclusion of GMO's Expense Trackers in Rate Base**

1 **Q. Have you reviewed the rebuttal testimony of GMO witness Ron Klote in this case?**

2 A. Yes, I have. Any page number references to Mr. Klote's testimony refer to his rebuttal  
3 testimony unless otherwise noted.

4 **Q. At page 34 Mr. Klote takes issue with OPC's position that expense trackers do not**  
5 **meet the Commission's standards for rate base inclusion. Has OPC proposed any**  
6 **expense adjustment to remove or even lessen GMO's expense rate recovery of any**  
7 **of GMO's expense trackers in this rate case?**

8 A. No, it has not. OPC has made no adjustment to any of GMO's recovery of its expense  
9 trackers in this case. OPC simply takes the position consistent with the Commission's  
10 2006 KCPL rate case decision that "expense" trackers do not rise to the level of real rate  
11 base assets and should not be included in GMO's rate base.

12 GMO, however, seeks a full "expense" recovery of these tracked expenses in cost of  
13 service ("recovery of") as well as a full "capital" cost recovery ("recovery on") on these  
14 normal utility operating expense deferrals. GMO seeks to unnecessarily force its  
15 customers to pay a full weighted average cost of capital ("WACC"), including a 9.9%  
16 profit plus taxes on the profit on every dollar of these expense deferrals. This is simply a  
17 highly unsound and inequitable ratemaking method that OPC cannot support.

18 **Q. Does the Commission agree that the use of expense trackers is generally bad**  
19 **ratemaking policy but may be appropriate in special circumstances?**

20 A. Yes, I will address that Commission position later in this testimony.

21 **Q. What specifically are expense trackers?**

22 A. Expense trackers are special ratemaking mechanisms designed to mitigate the natural  
23 flow of regulatory lag on the rate-setting process. Mechanically they are quite simple. For  
24 a specific expense that has been granted a tracker, the utility records its normal day-to-

1 day operating expense and compares this booked amount with what it believes is the  
2 dollar amount of that expense reflected in utility rates in its last rate case.

3 If the specific expense that is being tracked is higher than what the utility believes it is  
4 recovering in rates for that item, it defers this excess in a special account so it is able to  
5 seek rate recovery of this excess in a future rate case.

6 Since past practice has been that the utility selects the expense to be tracked and seeks  
7 regulatory authority for a tracker, most of the individual expense trackers involve  
8 expenses that have a tendency to increase over time. However, it is theoretically possible  
9 for a tracked expense to decrease over time and result in a future rate offset.

10 **Q. At page 34 line 23 through page 35 line 5 Mr. Klote lists GMO's expense trackers**  
11 **that have been included in GMO's rate base in past rate cases only though**  
12 **negotiated settlement agreements. Is that correct?**

13 A. Yes it is correct. To my knowledge, the Commission has never addressed the merits of  
14 including these specific expense trackers in rate base. However, the Commission has  
15 allowed, as a total package of negotiated ratemaking issues and revenue requirement  
16 settlements, GMO to reflect these expense trackers in rate base for the specific time  
17 period between rate cases.

18 There has never been any indication that just because an item receives special ratemaking  
19 treatment in one rate case that item will receive that same special ratemaking treatment in  
20 future rate cases. That is not how ratemaking works, or should work, in Missouri. Items  
21 that receive special ratemaking treatment, such as expense trackers, should be fully  
22 reviewed in every rate case to see if the special ratemaking treatment is still reasonable  
23 and appropriate.

24 **Q. Is it possible that OPC would support a negotiated settlement of this current GMO**  
25 **rate case that includes these trackers being included in rate base?**

1 A. It is possible. If the other elements to a settlement agreement provide a benefit that  
2 outweighs the detriment of including expense trackers in rate base, then OPC would act  
3 in the best interests of the Missouri public and support such an agreement. However, that  
4 does not mean that OPC agrees with the very bad accounting theory, ratemaking theory,  
5 and public detriments inherent in the process of including expense trackers in rate base.

6 Mr. Klote tries to persuade the Commission that just because parties to previous cases  
7 agreed to certain provisions in rate case settlements that they somehow have agreed with  
8 the appropriateness of each and every ratemaking methodology reflected in that  
9 settlement. That is just not the case and I doubt if GMO would accept that restriction on  
10 its ability to seek different ratemaking positions on certain issues in future rate cases.

11 **Q. At page 34 line 23 and 24 of his rebuttal testimony, Mr. Klote discusses pension**  
12 **expense and operating expenses specifically related to utility generation plant in**  
13 **service. Does he attempt to associate some special distinction between these normal**  
14 **and routine operating expenses and other normal operating expenses that are not**  
15 **tracked?**

16 A. Yes, but there is absolutely no distinction nor is there any reason to treat these normal  
17 and recurring operating expenses differently from other operating expenses.

18 Mr. Klote singles out normal and recurring pension expense and normal and recurring  
19 utility expenses associated with prior construction projects as somehow being unusual or  
20 unique. They are neither but rather normal and recurring utility expenses that should be  
21 reflected on GMO's income statement as an expense and not on GMO's rate base balance  
22 sheet accruing an unnecessary additional capital cost. Here, Mr. Klote is making a  
23 distinction between expenses without any substance whatsoever.

1 **Q. At page 35 lines 6 through 9 Mr. Klote lists pension and OPEB expense**  
2 **prepayments that you recommend be included in GMO's rate base. Why are you**  
3 **not opposing the reflection of these employee compensation-type prepayments in**  
4 **GMO's rate base?**

5 A. While these pension and OPEB prepayments are not the typical prepayments historically  
6 included in a utility's rate base, they do appear to have some characteristics of rate base  
7 prepayments. OPC has concerns about the increasing level of these expense deferrals  
8 with Missouri utilities on deferred pension costs (referred to as prepaid pension assets)  
9 and will be addressing this issue in future utility rate cases.

10 In this current case, however, OPC is primarily concerned with the expense tracker  
11 deferrals that have no association with any typical rate base asset, such as the trackers  
12 listed at the top of page 35 of Mr. Klote's rebuttal testimony.

13 **Q. At page 35 line 17 of his rebuttal testimony, Mr. Klote makes the point that Staff has**  
14 **included these expense trackers in its rate base recommendation. Do you agree with**  
15 **his assertion?**

16 A. Yes. However, in its direct filing Staff did not justify nor even address its reasons why it  
17 supports rate base inclusion of these expense trackers. Staff simply did not support its  
18 case. From my experience, Staff has a history of continuing the ratemaking treatment of  
19 individual issues that were the result of prior rate case settlement agreements. This is not  
20 a reasonable position but explains Staff's ratemaking treatment of expense trackers in this  
21 rate case and its lack of support for this position in its direct testimony.

22 In response to my direct testimony on GMO's rate base inclusion of normal expense  
23 trackers, Staff witness Oligschlaeger puts forth what I consider a vague and general  
24 defense of Staff's position on expense trackers in this case. I addressed Mr.  
25 Oligschlaeger's rebuttal testimony earlier in this testimony.

1 **Q. At page 35 line 18 through page 37 line 11, Mr. Klote recites the history of GMO's**  
2 **expense trackers at issue in this case. Do you have any reason to question the**  
3 **accuracy of this testimony?**

4 A. No. In this testimony, Mr. Klote notes GMO expense trackers were originated in the  
5 Stipulation and Agreement to rate case ER-2009-0090, which allowed for the tracking  
6 and deferral of depreciation expense, interest expense, and profit. These items are period  
7 costs required to be reflected in the year incurred on GMO's income statement. These  
8 normal and routine operating expenses have no attributes of capital costs of the type that  
9 meet the Commission's standards of rate base inclusion and are nothing more than  
10 normal and recurring utility operating expenses that have been granted special accounting  
11 and ratemaking treatment. They are not rate base assets.

12 Mr. Klote also cites the Commission's Accounting Authority Order in Case EU-2011-  
13 0034 as authority for GMO to track and defer depreciation expense, interest expense,  
14 profit, normal operations and maintenance ("O&M") expenses, and fuel and revenue  
15 impacts. As with the ER-90-0090 deferrals, GMO was allowed to defer normal and  
16 recurring utility period costs but not capital costs. Period costs, or expenses, must be  
17 recognized in current operations (the year incurred).

18 If period costs receive special accounting and ratemaking treatment as these expenses  
19 have received, they are then allowed to be deferred and amortized to future periods with  
20 the potential to be recovered in utility rates. There's no guarantee this will happen.  
21 Nothing about the nature or the circumstances surrounding these normal and recurring  
22 utility expenses raise them to a level necessary to receive rate base treatment. They  
23 simply do not meet the Commission standards of rate base inclusion that I addressed in  
24 response to Staff witness Oligschlaeger's rebuttal testimony and will address below.

1 **Q. Should normal operations and maintenance expenses required to be reflected in**  
2 **current operations on the income statement be deferred as an asset on the balance**  
3 **sheet (rate base)?**

4 A. No. Deferred expenses should not be included in a utility's rate base as they are not plant  
5 in service, prepayments, working capital, or other capital investments. Trackers track an  
6 expense that is all they do. Expenses belong on the income statement and reflected in  
7 current operations and do not belong in the balance sheet or rate base. Tracked expenses  
8 have no association with rate base assets.

9 **Q. Does the Commission consider the ability to track and defer certain expenses**  
10 **outside of a rate case test year for future rate recovery as extraordinary ratemaking**  
11 **treatment?**

12 A. Yes, it does.

13 **Q. Does the Commission consider the ability to track and defer certain expenses**  
14 **outside of a rate case test year for future rate recovery violates the Commission's**  
15 **rate case matching principle?**

16 A. Yes, it does.

17 **Q. Did the Commission very recently define and describe its position on expense**  
18 **trackers?**

19 A. Yes. Exactly one year ago, the Commission provided its current position on expense  
20 trackers in the Findings of Fact section of its September 2, 2016 Report and Order in  
21 KCPL's 2014 rate case, No. ER-2014-0370.

22 In this Report and Order, the Commission expressed its concern about the use of trackers  
23 and one of the most serious detriments in the use of trackers – they violate the matching  
24 principle that is so integral to the process of setting reasonable utility rates. Specifically,



1 the Commission correctly recognized that trackers affect a utility's earnings for a prior  
2 period by increasing revenues in future periods - a violation of the matching principle in  
3 addition to unreasonably skewing ratemaking results. Finally, the Commission noted  
4 expense trackers "dull the incentives a utility has to operate efficiently and productively  
5 under the rate regulation approach employed in Missouri."

6 At paragraphs 114-116 of its September 2, 2015 ER-2014-0370 Report and Order, the  
7 Commission stated:

8 Findings of Fact  
9

10 114. In Missouri, rates are usually established based upon a historical test  
11 year where the company's expenses and the rate base necessary to produce  
12 the revenue requirement are synchronized. The deferral of costs from a prior  
13 period results in costs associated with the production of revenues in one  
14 period being charged against the revenues in a different period, which  
15 violates the "matching principle" required by Generally Accepted  
16 Accounting Principles (GAAP) and the Uniform System of Accounts  
17 approved by the Commission.  
18

19 The matching principle is a fundamental concept of accrual basis  
20 accounting, which provides that in measuring net income for an accounting  
21 period, the costs incurred in that period should be matched against the  
22 revenue generated in the same period.  
23

24 Such matching creates consistency in income statements and balance sheets  
25 by preventing distortions of financial statements which present an unfair  
26 representation of the financial position of the business. One type of deferral  
27 accounting, a "tracker", has the effect of either increasing or decreasing a  
28 utility's earnings for a prior period by increasing or decreasing revenues in  
29 future periods, which violates the matching principle.  
30

31 115. A tracker is a rate mechanism under which the amount of a particular  
32 cost of service item actually incurred by a utility is tracked and compared to  
33 the amount of that item currently included in a utility's rate levels. Any  
34 over-recovery or under-recovery of the item in rates compared to the actual  
35 expenditures made by a utility is then booked to a regulatory asset or  
36 liability account and would be eligible to be included in the utility's rates in  
37 its next general rate proceeding through an amortization to expense.

1           116. The broad use of trackers should be limited because they violate the  
2           matching principle, tend to unreasonably skew ratemaking results, and dull  
3           the incentives a utility has to operate efficiently and productively under the  
4           rate regulation approach employed in Missouri.  
5

6           **Q.    At page 34 line 16 Mr. Klote states that rate base inclusion of GMO’s deferred**  
7           **expense trackers has been “approved by the Commission in previous rate cases.” Is**  
8           **this your understanding?**

9           A.    No, it is not. I do not recall any rate case where the Commission addressed or approved  
10           rate base inclusion of expense trackers.

11           **Q.    Despite the testimony of Mr. Klote where he states the Commission has approved**  
12           **expense deferrals in rate base, has the Commission deliberated and rejected rate**  
13           **base inclusion of certain deferred expenses?**

14           A.    Yes, it has. As addressed in my surrebuttal to the rebuttal testimony of Staff witness  
15           Oligschlaeger, its *Report and Order* in KCPL’s 2006 rate case, ER-2006-0314, the  
16           Commission provided a lot of guidance on its position on this issue. The Commission  
17           required that additions to rate base must be an “asset”. The Commission also described  
18           an “asset” as “some sort of possession or belonging worth something that is owned or  
19           controlled by the utility.”

20           In fact, the Commission stated that to include expense projects in rate base, as KCPL  
21           proposed in its 2006 rate case and as GMO proposes in this rate case, makes a “mockery”  
22           out of what constitutes a rate base asset. I agree 100 percent with this conclusion.

23           In this case, GMO seeks to include in rate base depreciation expense, interest expense,  
24           profit, fuel expense, and other normal day-to-day utility operating expenses. This  
25           specific request in this case is identical to the request made by KCPL in its 2014 rate

1 case. Like that case, GMO is making a “mockery” of what constitutes a rate base asset in  
2 this rate case.

3 The Commission stated:

4 "...In order for an item to be added to rate base, it must be an  
5 asset. Assets are defined by the Financial Accounting Standards  
6 Board (FASB) as 'probable future economic benefits obtained or  
7 controlled by a particular entity as a result of past transactions or  
8 events' (FASB Concept Statement No. 6, Elements of Financial  
9 Statements).

10  
11 Once an item meets the test of being an asset, it must also meet the  
12 ratemaking principle of being 'used and useful' in the provision of  
13 utility service. Used and useful means that the asset is actually  
14 being used to provide service and that it is actually needed to  
15 provide utility service. This is the standard adopted by many  
16 regulatory jurisdictions, including the Missouri Public Service  
17 Commission."

18  
19 The Commission finds that the competent and substantial evidence  
20 supports the position of Staff, and finds this issue in Staff's favor.  
21 While KCPL's projects appear to be prudent, KCPL produced  
22 insufficient evidence for the Commission to find that these projects  
23 rise to the level of an asset, on which the company could earn a  
24 rate of return.

25  
26 What is at issue is not whether a project is a "probable future  
27 economic benefit", as KCPL asserts in its brief; what is at issue is  
28 the remainder of the FASB definition Mr. Hyneman quoted, which  
29 is "obtained or controlled by a particular entity as a result of past  
30 transactions or events."

31  
32 In other words, an asset is some sort of possession or belonging  
33 worth something. KCPL obtains or controls assets, such as  
34 generation facilities and transmission lines.

35 To attempt to turn an otherwise legitimate management expense,  
36 such as a training expense, into an asset by dubbing it a "project"  
37 makes a mockery of what an asset really is, which is some type of  
38 property.  
39

1                   Using KCPL's argument, any expense is potentially an asset by  
2                   simply calling it a "project", and thus could be included in rate  
3                   base. KCPL's projects do not rise to the level of rate base.  
4                   (emphasis added)  
5

6 **Q. At page 34 lines 20 through 22 Mr. Klote testifies that the majority of my argument**  
7 **“is based on excerpts from a past KCP&L rate case that involved ice storm expense**  
8 **recovery.” Is any part of the issue in the “past KCP&L rate case” that you cite**  
9 **related in any way to ice storm expenses?**

10 A. No. I referenced the Commission’s Report and Order in Case No. ER-2006-0314 (“2006  
11 Report and Order”) and the Commission’s decision related to rate base inclusion of  
12 deferred expense. Nothing in that rate case issue had anything to do with ice storm costs.

13 The greater point here is Mr. Klote’s attempt at false association by attempting to portray  
14 the Commission’s 2006 Report and Order rate base standards as being only related to the  
15 specific expenses at issue in that 2006 rate case. They are not.

16 The Commission set the standards for rate base inclusion in the 2006 Report and Order  
17 and applied them to the specific expenses proposed by KCPL to be included in its rate  
18 base. As is clear from reading this Report and Order the Commission was creating  
19 general standards that apply generally to all attempts to put expenses in rate base and call  
20 them an asset. Mr. Klote portrays these general standards as applying to only the specific  
21 expenses addressed by the Commission in the 2006 rate case. Clearly he is wrong on this  
22 point.

23 **Q. In KCPL’s 2006 rate case the Commission found competent and substantial**  
24 **evidence supported Staff’s position of no rate base treatment for these deferred**  
25 **expenses, and the Commission ruled on this issue in favor of Staff. Please**  
26 **summarize Staff’s position on the issue of rate base inclusion of deferred expenses in**  
27 **KCPL’s 2006 rate case.**

1 A. The Commission accepted and ordered that there are clear standards for a cost to be  
2 included in rate base. Some of the evidence on which the Commission based these  
3 standards was provided in the surrebuttal testimony I fled as a member of the  
4 Commission Staff in Case No. ER-2006-0314. A portion of my surrebuttal testimony in  
5 this 2006 rate case reads as follows:

6 Q. What is the standard for inclusion in rate base?  
7

8 A. To be included in rate base, a deferred cost, such as these project costs,  
9 has to meet the definition of an asset. After it meets this test, the asset then  
10 has to meet the same tests as KCPL's plant in service - used and useful in  
11 the provision of utility service.  
12

13 Q. Please describe these standards. A. In order for an item to be added to  
14 rate base, it must be an asset. Assets are defined by the Financial  
15 Accounting Standards Board (FASB) as "probable future economic  
16 benefits obtained or controlled by a particular entity as a result of past  
17 transactions or events" (FASB Concept Statement No. 6, Elements of  
18 Financial Statements). Once an item meets the test of being an asset, it  
19 must also meet the ratemaking principle of being "used and useful" in the  
20 provision of utility service. Used and useful means that the asset is  
21 actually being used to provide service and that it is actually needed to  
22 provide utility service. This is the standard adopted by many regulatory  
23 jurisdictions, including the Missouri Public Service Commission.  
24

25 Q. Does the Staff believe that the deferred costs of these two projects meet  
26 the definition of an asset?  
27

28 A. No. The Staff does not believe that these project cost deferrals meet the  
29 "probable future benefit" test of an asset. As discussed below, no material  
30 weakness in KCPL's management existed to be corrected by these projects  
31 KCPL's management is tasked to ensure that the utility provides safe and  
32 adequate service at reasonable prices. The Staff believes that KCPL has  
33 met this task. From the comments of its Chairman and CEO described  
34 below, it appears that the Company also believes it has accomplished this  
35 task very well. The lack of a management problem to address with the  
36 expenditure of millions of dollars in outside consultant costs raises doubt  
37 as to the existence of probable future economic benefits from the initiation  
38 of these projects.  
39

1 Q. Why did Staff take the position that the KCPL should be allowed  
2 recovery of these cost through an amortization to cost of service, but not a  
3 recovery on these costs by inclusion in rate base?  
4

5 A. The Staff concluded that some long-term benefits may or may not be  
6 realized as a result of these projects. Given this possibility, the Staff  
7 believes the best rate treatment of these costs in this case is to allow  
8 recovery over a finite period of time. Because these costs do not meet the  
9 well-established tests for rate base inclusion, the Staff opposes any rate  
10 base treatment of these costs. The Staff does not believe it is appropriate to  
11 recommend disallowance of these project costs on the basis that they were  
12 not necessary to provide electric service or that they were a non-recurring  
13 cost. However, Staff also did not want to support a total and complete  
14 recovery of those costs. The position taken by the Staff is a compromise  
15 between the extreme positions of no recovery and a total recovery of and  
16 on these costs.

17 **Q. In its 2006 KCPL Report and Order did the Commission also rely on the summary**  
18 **of the Staff's evidence on this issue as put forth in the Prehearing Brief of the Staff's**  
19 **Counsel's Office?**

20 A. Yes. The Staff's Counsel's Office summarized the Staff's evidence on this issue at page  
21 29 of its Prehearing Brief:

22 13. Corporate Projects and Strategic Initiatives: Should the costs of the  
23 LED-LDI and CORPDP-KCPL projects, which are being deferred and  
24 amortized over 5 years, be included in rate base?  
25

26 KCPL and GPE have certain projects and strategic initiatives that involved  
27 large payments to outside contractors. Staff and the Company are in  
28 substantial agreement as to the treatment of the costs associated with these  
29 projects. For three of the four projects, Staff recommended that the test year  
30 expenses be deferred and expensed over five years. This treatment was  
31 proposed because the results of the projects will benefit ratepayers over a  
32 period of years and it is therefore equitable to pay for the projects over a  
33 period of years.  
34

35 KCPL agrees, but proposes that the deferred amounts be included in rate  
36 base. In that case, KCPL would earn a return on the deferred portion of the  
37 expenses.  
38

1           Deferred and unamortized expenses are not normally included in rate base.  
2           To be included in rate base, the deferred and unamortized expense must be a  
3           used-and-useful asset. Assets are defined by the Financial Accounting  
4           Standards Board as "probable future economic benefits obtained or  
5           controlled by a particular entity as a result of past transactions or events."

6  
7           Even if an item qualifies as an asset, it must also be used and useful in order  
8           to be included in rate base. An item is "used and useful" when it is actually  
9           being used, and is actually necessary, to provide utility service. The  
10          deferred and unamortized expenses that KCPL proposes to include in rate  
11          base here are not assets and are not used and useful. Therefore, they cannot  
12          be included in rate base.

13  
14  
15       **Q.    At page 37 line 12 through page 38 line 2 Mr. Klote correctly describes the specific**  
16       **types of expense tracker deferrals that KCPL sought to include in rate base in its**  
17       **2006 rate case. Is the nature of these individual expense deferrals relevant to or**  
18       **even associated with the Commission's standards for rate base inclusion?**

19       A.    As I noted earlier, the answer is clearly no. Mr. Klote spends some time describing the  
20       nature of the 2006 expenses that the Commission declined to include in KCPL's rate base  
21       in the 2006 case. While his description of the nature of the expenses appears accurate, the  
22       nature of these specific expenses did not have any impact on the Commission's standards  
23       on rate base inclusion. Actually, just the opposite is true. The Commission applied  
24       separate and stand-alone rate base inclusion standards to these specific expenses and  
25       determined they do not meet the standards.

26           Mr. Klote, again, attempts to portray false association between general Commission  
27           standards that apply to all utilities in Missouri for all types of expenses with the specific  
28           individual expenses at issue in the 2006 rate case.

29       **Q.    Does GMO have a burden of proof to support its rate increase in this rate case?**

30       A.    Yes, that is my understanding based on previous statements by the Commission over the  
31       years.

1 **Q. Does that burden of proof also apply to the expense trackers and other deferred**  
2 **expenses it seeks to include in rate base in this rate?**

3 A. Yes, I believe it does.

4 **Q. Does that burden of proof also require GMO to show how its expense trackers in**  
5 **this case meet the specific standards for rate base inclusions developed by the**  
6 **Commission in its ER-2006-0314 Report and Order?**

7 A. That is a question for the Commission to address, but I believe it should.

8 **Q. Has GMO met or even attempted to meet its burden of proof that the expense**  
9 **trackers and other deferred expenses it seeks to include in rate base in this rate case**  
10 **meet the specific standards for rate base inclusions developed by the Commission in**  
11 **its ER-2006-0314 Report and Order?**

12 A. Again, that will be a decision the Commission will need to make on this issue but I  
13 believe the answer is no. GMO has made no attempt to justify these expenses being  
14 included in rate base. Mr. Klote's only support is that "it has been done before." But that  
15 is not sufficient in my opinion and if he means the Commission has determined these  
16 expenses qualify for inclusion in GMO's rate base, he is not correct.

17 Mr. Klote merely provides testimony about the origin and nature of GMO's expense  
18 trackers but he does not apply the Commission's rate base inclusion standards to any of  
19 GMO's expense trackers. Based on Mr. Klote's failure to address the existing  
20 Commission's standards, I can only conclude that GMO realizes it cannot meet these  
21 Commission standards. GMO can only resort to argument that these expense trackers  
22 were included in rate base in past rate cases as a result of compromised rate case  
23 positions seeking an overall settlement of the rate case. From an auditor's perspective,  
24 that is not evidence of any substance.



1 **Q. At page 38 line 15 Mr. Klote indicates that the rate base treatment and amortization**  
2 **period of GMO's expense deferrals were "approved" by the Commission. Is that a**  
3 **true statement?**

4 A. No. The individual amortization periods where the deferred expense tracker is reflected  
5 in GMO's utility rates may have been an issue in previous rate cases and decided by the  
6 Commission. The amortization period is not an issue in this GMO rate case. OPC is  
7 supporting full rate recovery of these expense trackers over the amortization period  
8 proposed by GMO in this rate case.

9 Mr. Klote's inference, however, that the Commission approved rate base inclusion of  
10 these expense trackers is not correct. As noted earlier, I do not recall any GMO rate case  
11 where the issue of rate base inclusion of these expense trackers was addressed by the  
12 Commission. I am sure if there was a Commission Order where the Commission ordered  
13 rate base treatment of these expense tracers, Mr. Klote would cite to that Order in his  
14 testimony. He does not.

15 **Q. At page 38 line 19 Mr. Klote states "The record speaks clearly that these assets**  
16 **should be included in rate base." Please comment.**

17 A. The reality is just the opposite. The Commission standards have been put forth in my  
18 direct testimony. GMO decided to ignore these Commission standards even when the  
19 standards were raised as an issue in this rate case. GMO continues to rely on only false  
20 rate case precedents.

21 **Q. How should the Commission treat GMO's expense trackers in rate base?**

22 A. I would urge the Commission to look to its 2006 Report and Order for standards on the  
23 nature and characteristics of the types of costs that should be allowed in a utility's rate  
24 base. The Commission should determine that rate case positions of rate case parties that

1 were compromised in the interest of settling rate cases should not be used against them in  
2 future rate cases as precedent. This is what GMO is doing in this rate case.

3 From my vantage point as an expert who has participated in Commission rate cases for  
4 over 20 years, ratemaking positions of the parties should stand on their own merit and  
5 should be evaluated by the Commission based on the ratemaking principles, ratemaking  
6 standards, and regulatory policy established by the Commission. If the Commission  
7 applies its standards in this case, OPC is confident that it will conclude that GMO's  
8 expense trackers do not meet Commission standards for rate base inclusion.

9 **Q. If the Commission adopts OPC's position in this rate case, will GMO shareholders**  
10 **be made whole by recovering of each and every dollar that has been deferred under**  
11 **its several expense trackers.**

12 A. Yes. OPC's position allows for GMO's shareholders to be made whole and recover 100  
13 percent of the deferred expenses. GMO's ratepayers, however, will not be forced to pay  
14 for the interest and profit unnecessarily added to these normal and recurring deferred  
15 expenses.

16 **Q. If the Commission believes that GMO's shareholders are entitled to be compensated**  
17 **a financing charge associated with the expense trackers, is there a method available**  
18 **for the Commission to accomplish this without sacrificing its standards for rate base**  
19 **inclusion?**

20 A. Yes there is and the Commission has adopted this approach in the past.

21 OPC believes strongly that allowing 100 percent recovery of expense trackers through an  
22 income statement amortization to rates is significantly more than fair treatment to GMO's  
23 shareholders. However, if the Commission would like to provide some capital cost  
24 recovery of the tracked expense balances, other options are available.

1 For example, the Commission could order GMO remove these expense trackers from rate  
2 base but capitalize to these deferred expenses an interest cost at GMO's short-term  
3 interest cost rate. That would lessen the burden on GMO's ratepayers but also provide  
4 GMO's shareholders with recovery of interest expense on these expense deferrals.

5 This short-term debt cost adder to revenue and expense trackers has been ordered by the  
6 Commission in the past for trackers related to KCPL's off-system sales sharing  
7 mechanisms.

8 **Q. What is the source of the use of short-term interest rates for tracker deferrals?**

9 A. As part of KCPL's Experimental Regulatory Plan approved by the Commission in Case  
10 No. EO-2005-0329, there was an agreement on the sharing between ratepayers and  
11 shareholders of KCPL's off-system sales revenues. While KCPL initially opposed the  
12 addition of any capital costs to this regulatory liability, on the witness stand during the  
13 rate case hearings in Case No. ER-2007-0291, KCPL's Director of Regulatory Affairs  
14 Mr. Chris Giles, testified that KCPL would agree to add a short-term debt rate component  
15 to this regulatory liability to be returned to ratepayers.

16 In KCPL's Post Hearing Brief in its ER-2007-0291 rate case, KCPL included the  
17 following discussion.

18 Although KCPL opposed such a process of interest calculation and flow-  
19 back to ratepayers in its pre-hearing Statement of Position, the Company  
20 indicated at the hearing that it would be appropriate to pay interest on the  
21 amount of off-system sales that exceeded the 25% Level.

22  
23 Mr. Giles testified that the Company would agree to pay a short-term  
24 interest rate on such amounts, consisting of LIBOR (London Interbank  
25 Offered Rate) plus 32 basis points. See Tr. 516.

26  
27 Additionally, any such interest paid to ratepayers would not be included in  
28 the Company's cost of service. Id. at 516-17.  
29

1           Although KCPL did not present a specific proposal in writing, Mr. Giles  
2 testified in detail that interest on such excess amounts should be tracked on  
3 a monthly basis and that the excess should be flowed back to ratepayers in a  
4 subsequent rate case. See Tr. 518-22.

5  
6           At page 39 of its Report and Order in Case No. ER-2007-0291, the Commission ordered  
7 that KCPL's excess off-system sales revenues that should be returned to ratepayers must  
8 include an interest component calculated at KCPL's short-term interest rate, which at that  
9 time was LIBOR rate plus 32 basis points.

10           That proposal by KCPL during the rate case hearing was accepted and adopted by the  
11 Commission in its Report and Order:

12           KCPL's rates should continue to be set at the 25th percentile of nonfirm off-  
13 system sales margin as projected in this case for 2008 as proposed by  
14 KCPL, and accepted by the Staff, and not at the 40th percentile as proposed  
15 by Public Counsel.

16  
17           KCPL shall continue to book all amounts above the 25th percentile as a  
18 regulatory liability, with no corresponding regulatory asset should sales fail  
19 to meet the 25th percentile, as ordered in Case No. ER-2006-0314.

20  
21           KCPL shall pay a short-term interest rate of LIBOR<sup>148</sup> plus 32 basis points  
22 on all margin amounts exceeding the 25% level, with the interest paid not  
23 charged to ratepayers in cost of service.

24  
25           Any margins in excess of the 25th percentile, and any interest paid on those  
26 margins, shall be returned to the ratepayers no later than the conclusion of  
27 "Rate Filing #4" as defined in Paragraph III.B.3.d on page 41 of the  
28 Stipulation and Agreement approved in Commission Case No. EO-2005-  
29 0329.

1 **Capitalization of SERP Expenses to Current Construction Projects**

2 **Q. As it relates to the issue of capitalization of GMO's SERP expenses, at page 18 Mr.**  
3 **Klote states that since its filing of direct testimony on February 23, 2016, GMO**  
4 **changed its position on the capitalization of SERP expenses. Do you agree with this**  
5 **changed GMO position?**

6 A. No. GMO changed from a correct position to an incorrect position simply because Staff  
7 failed to properly account for GMO's SERP expenses in its direct testimony. Staff failed  
8 to be consistent with its prior position of not capitalizing (allocating a portion of current  
9 expense to current construction projects) SERP expenses without any explanation in  
10 direct testimony why it changed its position.

11 Mr. Klote explained in rebuttal testimony that in GMO's direct testimony it did not  
12 allocate (or charge) a portion of its supplemental pension cash payments to former  
13 executive employees ("Supplemental Executive Retirement Plan" or "SERP") to current  
14 construction projects. This accounting treatment is based on correct accounting and  
15 ratemaking principles and OPC agrees with the ratemaking position taken by GMO in its  
16 direct filing in this rate case. OPC disagrees with GMO's new position on SERP  
17 capitalization.

18 **Q. Did GMO previously testify before this Commission that it agreed that SERP**  
19 **expenses should not be charged to current construction projects?**

20 A. Yes. In her 2010 rebuttal testimony GMO witness Ellen E. Fairchild testified in Case  
21 No. ER-2010-0356 that she agreed with Staff's position that SERP payments should not  
22 be capitalized. Ms. Fairchild is currently Vice President, Chief Compliance Officer and  
23 Corporate Secretary, Great Plains Energy and KCPL. At page 3 of her rebuttal testimony  
24 in Case No. ER-2010-0356 Ms. Fairchild stated:

1                   While I do have a number of areas of disagreement, I do agree with  
2                   Mr. Hyneman's rational for not allocating any SERP expense to  
3                   capital; the reduction of monthly annuities by 20 percent to reflect  
4                   that some SERP expense was based on bonus payments and  
5                   incentive compensation which were not included in cost of service;  
6                   and the exclusion of SERP for former L&P executives and certain  
7                   former Aquila executives. (Emphasis added)  
8

9   **Q.    Did you read the Staff's direct testimony on the issue of SERP?**

10 A.    Yes. Staff's direct testimony on GMO's SERP can be found on pages 114-115 of the  
11 Staff's Cost of Service Report filed on July 15, 2016. In its direct testimony Staff  
12 correctly defined a SERP as "non-qualified retirement plans for officers and executives,  
13 which provide pension benefits these highly-compensated individuals would have  
14 received under other company retirement plans but for compensation and benefit limits  
15 imposed by the Internal Revenue Service ("IRS")." Staff then described how it calculated  
16 an appropriate level of SERP to include in GMO's cost of service.

17 **Q.    Did Staff even address the issue of capitalization of SERP expenses in its direct**  
18 **testimony?**

19 A.    No, it did not. It appears that GMO changed its stated position on this issue, a position  
20 that it expressly supported in prior testimony, with no reasonable theoretical basis for the  
21 change in position.

22 **Q.    If Staff changed its position on SERP capitalization, a position that was agreed to be**  
23 **GMO in past rate cases, should the Staff at least explain why it changed its position?**

24 A.    Yes, it should.

25 **Q.    How does Mr. Klote explain GMO's changed position on SERP capitalization?**

1 A. Mr. Klote explains this position at page 19 lines 11-22. His argument is that  
2 supplemental cash payments to retired former highly compensated employees provides  
3 the same benefit to utility's current construction projects as the services provided by  
4 current utility employees who provide current benefit to these projects.

5 **Q. Is this a reasonable argument?**

6 A. No, it is not reasonable at all. This argument is contrary to current generally accepted  
7 accounting principles (GAAP) theory and is simply not sound ratemaking.

8 **Q. Are you aware of any specific GAAP that provides general guidance on**  
9 **capitalization policies for self-constructed assets for an entity's own use, such as**  
10 **utility construction plant projects?**

11 A. Yes. FASB Accounting Standards Codification ("ASC") is the source of authoritative  
12 generally GAAP recognized by the FASB to be applied to nongovernmental entities.  
13 FASB's ASC 360-10 ASC 360, Property, Plant, and Equipment, provides guidance on  
14 accounting for property, plant, and equipment.

15 ASC 360-10 states that:

16 The basis of accounting for depreciable fixed assets is cost, and all  
17 normal expenditures of readying an asset for use are capitalized.  
18 However, unnecessary expenditures that do not add to the utility of  
19 the asset are charged to expense.  
20

21 **Q. Are the services provided by current utility employees necessary to ready utility**  
22 **construction projects for use in providing utility service?**

23 A. Yes, they are, and therefore the costs of these services should be capitalized to the  
24 construction project.

25 **Q. Are the services provided by retired former utility employees necessary to ready**  
26 **utility construction projects for use in providing utility service?**

1 A. No, they are not. Therefore the current expenses for these past services should not be  
2 capitalized to current construction projects. This was the policy adopted by both Staff  
3 and GMO in recent cases that, without any reasonable explanation from either party, was  
4 suddenly abandoned in this rate case.

5 **Q. Has there been very recent discussions by the Financial Accounting Standards**  
6 **Board on this very issue - capitalization of pension costs?**

7 A. Yes. On January 26, 2016 the FASB recently issued an Exposure Draft titled Proposed  
8 Accounting Standards Update, Compensation—Retirement Benefits (Topic 715):  
9 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement  
10 Benefit Cost (the “ED”). One of the questions for respondents proposed by the FASB  
11 was:

12 FASB Questions for Respondents

13  
14 Question 1: Should the service cost component be reported in the  
15 income statement apart from the other components of net benefit  
16 cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be  
17 the only component eligible to be capitalized in assets? Why or  
18 why not?

19  
20 PricewaterhouseCoopers LLP’s (“PwC”) is a large international accounting firm.  
21 In its Appendix 1 to PwC’s April 26, 2016 letter to the FASB responding to this ED, PwC  
22 expressed its agreement that capitalizing only the service cost component of pension  
23 expense is a reasonable interpretation of current generally accepted accounting principles  
24 on cost capitalization:

25 We can understand a view that includes service cost as the only  
26 component eligible for capitalization in the cost of assets. Even if  
27 service cost is not presented separately in the income statement, we  
28 believe that a reasonable interpretation of the cost capitalization  
29 guidance in ASC 330 and ASC 360 could nonetheless be limited to  
30 the service cost component of net benefit cost.  
31



1           Asset capitalization guidance is not explicit as to the types of costs  
2           to include; the principle is the expenditures and charges incurred in  
3           bringing an article to its existing condition and location through  
4           current production (ASC 330-10-30-1) or the costs incurred to  
5           bring an asset to the condition and location necessary for its  
6           intended use (ASC 360-10-30-1).

7  
8           On balance, given the relatively broad principles-based cost  
9           capitalization guidance in ASC 330, Inventory, ASC 350-40,  
10          Internal use software, and ASC 360, Property, Plant and  
11          Equipment, we would be supportive of providing entities an  
12          accounting policy election to capitalize only the service cost  
13          component of net periodic benefit cost.[Comment Letter No. 22  
14          File Reference No. 2016-200, April 25, 2016  
15          PricewaterhouseCoopers LLP letter to FASB]

16  
17  
18   **Q.    How did Ernst & Young LLP (“EY”), another large accounting firm respond to the**  
19   **FASB’s ED?**

20   A.    My understanding of EY’s letter to the FASB supported the position that only employee  
21    service costs rendered in the current period should be capitalized to construction projects  
22    of the current period. Payments to former retirees for past services do not meet this  
23    standard:

24           We support the FASB’s objective to improve the reporting of net  
25           periodic pension cost and net periodic postretirement benefit cost  
26           (net benefit cost) in the financial statements. We agree that only  
27           the service cost component of net benefit cost should be eligible  
28           for capitalization in assets because this component is directly  
29           attributable to employee services rendered in the current period.

30           [EY April 25, 2016 letter to FASB- Proposed Accounting  
31           Standards Update, Compensation — Retirement Benefits (Topic  
32           715): Improving the Presentation of Net Periodic Pension Cost and  
33           Net Periodic Postretirement Benefit Cost (File Reference No.  
34           2016-200)] (Emphasis added).

1 **Q. Earlier you stated that Mr. Klote’s argument that payments to retirees in the form**  
2 **of GMO’s SERP should be charged to current construction projects is contrary to**  
3 **GAAP theory and is not sound ratemaking. You have explained why GMO’s**  
4 **position in contrary to GAAP theory. Please explain why it is also bad ratemaking.**

5 A. Not all expenses are capitalized to construction projects. Only expenses that provide  
6 value or benefit to the construction project should be charged to that project. For  
7 example, the cost of paying a SERP retiree in 2016 for utility services performed in 2005  
8 should not be charged to a construction project underway in 2016. That project and the  
9 service provided to ratepayers from that current construction project benefits in no way  
10 from the payment to that SERP retiree for service rendered 10 years ago.

11 In addition to this basic ratemaking principle, another regulatory principle that has been  
12 recognized by this Commission is referred to as “intergenerational equity.” This is a  
13 regulatory term used to describe the ratemaking principle that customer rates should be  
14 set to reflect an appropriate share of costs for the benefits received.

15 This ratemaking principle has often been associated with depreciation ratemaking and  
16 requires that the generation of customers for whom a particular asset was used to provide  
17 service should be the generation from whom the costs of removing that asset is collected.  
18 However, the ratemaking principle of intergenerational equity also applies to SERP  
19 ratemaking.

20 SERP cash payments are made to former employees for the service that was provided  
21 during the employment of these former employees, sometimes, many years ago. While  
22 SERP payments are a retiree compensation expense that must be reflected in the income  
23 statement as an expense. Under cash accounting (or pay-as-you-go accounting), that is  
24 the nature of the transaction and some intergenerational equity concerns are inevitable.

1           However, the issue is made worse by accounting treatment that is designed to charge  
2           ratepayers many years in the future (over the life of long-lived utility assets) for the  
3           employee service provided by utility employees that provided no value to the  
4           construction of that utility plant.

5           **Q.    How should the Commission address this issue?**

6           A.    The Commission should adopt a position that was a former Staff position and a former  
7           GMO position that SERP expenses should not be capitalized to current construction  
8           projects for the reasons cited above. The Commission should base this decision based on  
9           good accounting methods reflected in GAAP and supported by the FASB and major  
10           accounting firms. The Commission should also base its decision on this issue on the  
11           ratemaking equity considerations discussed above.

12           **Q.    Does GMO address a second SERP issue in its rebuttal testimony?**

13           A.    Yes. GMO witness Klote takes issue with OPC's position on not reflecting costs for  
14           services that never provided any benefit to GMO's ratepayers in GMO's cost of service  
15           in this case. This issue is discussed below.

16           **KCPL SERP Charges to GMO Customers**

17           **Q.    Describe the issue between OPC and GMO related to the allocation to GMO for**  
18           **former KCPL executives.**

19           A.    GMO was acquired by Great Plains Energy ("GPE"), KCPL and GMO's parent company  
20           in July 2008. Prior to July 2008, GMO was named Aquila, Inc. and had no relationship  
21           with GPE or KCPL.

22           In this case, Mr. Klote proposes to charge GMO customers for SERP payments KCPL  
23           currently makes to KCPL's retired former executives. Many if not all of these KCPL  
24           retired executives were not employed by KCPL at or subsequent to July 2008 and could

1 not have provided any benefits to GMO's utility operations. That fact, however, does not  
2 matter to Mr. Klote. He believes that GMO's customers should pay a portion of KCPL's  
3 SERP expense for which GMO's customers never have, nor ever will, receive any benefit  
4 from the service provided by these former KCPL employees.

5 **Q. What argument does Mr. Klote make to support GMO's customers paying for**  
6 **employee services of which they never received any benefit?**

7 A. At page 20 lines 4 through 13 Mr. Klote merely states that SERP is a "common corporate  
8 cost". He says that not charging GMO customers for benefits they did not receive created  
9 a complexity that is not necessary. He then goes on to state that the SERP program  
10 benefits both utilities.

11 **Q. Does this argument make any sense to you?**

12 A. No it does not make any sense because it is totally devoid of any substance. I would ask  
13 how not charging GMO ratepayers for costs that provided them no benefit adds  
14 complexity. What complexity? What is made more complex? To me, charging GMO  
15 customers for costs that actually provided them with a benefit adds simplicity, clarity and  
16 equity to GMO's ratemaking process. OPC's position adds to the simplicity and  
17 transparency of GMO's SERP accounting. Trying to account for costs and then allocate  
18 these costs on a sound, logical basis is very complex if the costs are allocated to a cost  
19 center that was unrelated to the creation of the cost. That accounting would be complex.

20 Mr. Klote's argument that KCPL and GMO's SERP are one SERP that benefits both  
21 utilities is just not based on facts. This would be the same as saying that KCPL's  
22 nonregulated payroll costs should be allocated to regulated utility customers because the  
23 overall payroll system also provides benefits to regulated employees. That position by  
24 Mr. Klote is unsupportable from reasonable person basis and reflects a serious struggle  
25 on the part of GMO to justify this ratemaking proposal.

1 **Q. By his discussion of “complexity” does Mr. Klote attempt to mislead the**  
2 **Commission?**

3 A. Yes, there is no doubt that he does. As noted, not charging GMO customers for  
4 payments KCPL makes to former and retired KCPL employees makes GMO’s SERP  
5 less, not more complex. It makes GMO’s SERP easier and simpler to manage, not harder  
6 and more complex. These are just the facts.

7 To take these facts, twist them and try to put the blame of a nonexistent “added  
8 complexity” on the backs of the Commission if it rules correctly on this issue is  
9 misleading the Commission. His statement that “If the Commission....wants to create  
10 this complexity into the SERP calculation.....” is not appropriate. The Commission did  
11 not create this “complex” SERP ratemaking schedule, GMO did. GMO needs to take  
12 responsibility for this “complex” SERP scheme and not try to pass any blame for what it  
13 created on the backs of the Commission.

14 **Severance Payments**

15 **Q. At pages 38 and 39 Mr. Klote addresses the issue of severance payments and states**  
16 **that OPC removed two severance payments that were paid during 2014 and 2015.**  
17 **Is Mr. Klote correct concerning this OPC adjustment?**

18 A. No, he is not. OPC made no adjustment related to GMO’s severance payments. As I  
19 noted in my direct testimony, no charges to a severance resource code was found in  
20 GMO’s test year income statement. GMO, however, did state in response to Staff Data  
21 Request No. 125 (“DR 125”) that it made severance payments in 2014 and 2015. As I  
22 noted in my direct testimony, if all of the severance payments listed in DR 125 were  
23 charged to KCPL and not GMO, then OPC is not proposing an adjustment in this rate  
24 case.

1 In his rebuttal testimony, Mr. Klote confirms that GMO did not include severance  
2 payments in its test year income statement either as a direct charge or an adjustment and  
3 therefore was not seeking recovery of severance payments in this rate case. Since GMO  
4 is not seeking recovery by including severance costs in its test year general ledger  
5 expense accounts, OPC is not proposing any adjustment to these accounts for severance.

6 **Q. In your opinion, why has Mr. Klote testified in support of rate recovery of severance**  
7 **payments even though it is not an issue in this case?**

8 A. The Commission has historically not allowed rate recovery of severance payments. I  
9 believe Mr. Klote's testimony is directed at this policy rather than something OPC has  
10 specifically offered testimony.

11 **Q. What are the two primary reasons why severance payments should not be reflected**  
12 **in a utility's cost of service?**

13 A. The first reason is that severance payments are often recovered by the utility through  
14 regulatory lag in amounts significantly in excess of the payment. I addressed this point in  
15 my direct testimony and Mr. Klote did not refute the factual nature of this reason not to  
16 allow rate recovery, or more correctly double and triple rate recovery, of severance  
17 payments.

18 The second reason not to allow rate recovery of severance payments is that severance  
19 payments are designed primarily, if not solely, to protect utility management and utility  
20 shareholders.

21 Severance agreements typically required to be signed by the severed employee contains  
22 language designed to protect utility management, utility directors and utility shareholders  
23 from potential litigation and embarrassment. This is the consideration received by the  
24 utility in return for the severance payments provided to the former utility employee. Since  
25 the primary purpose of these expenses is to secure the former employee does not speak or

1 act ill of the utility and its management, the cost of securing these types of commitments  
2 from severed employees should be borne by shareholders and not ratepayers.

3 If the purpose of the severance agreement is to prevent the employee from disclosing  
4 potential illegal acts or otherwise improper actions by utility management, this also does  
5 not reach the level of a ratepayer benefit. In fact, it could be a ratepayer detriment if this  
6 “forced silence” on the part of the severed utility employee of potentially illegal or  
7 improper management actions is allowed to continue as a result of the utility-employee  
8 severance agreement. In my experience, the Commission has been particularly sensitive  
9 to this aspect of severance payments in a past KCPL rate case.

10 **Q. Does Mr. Klote adequately describe reasons why ratepayers should bear the cost of**  
11 **utility employee severance payments?**

12 A. No. Mr. Klote does not address the issue of double recovery of severance payments. He  
13 also does not address the Commission’s concerns with charging ratepayers for severance  
14 agreements that are little more than shareholder and management protections  
15 mechanisms. He simply states standard verbiage that severance payments are a business  
16 expense that is “necessary” and “recurring”. He does not explain how the terms of  
17 severance agreements and the payments to severed employees to get them to sign the  
18 agreements benefit ratepayers or why they are necessary to operate the utility.

19 **Q. Could a utility structure a severance payment that would appropriately be included**  
20 **in a utility’s cost of service?**

21 A. Yes. If utility employees were severed due to technology advances or other utility  
22 efficiency initiatives, then the cost of the severance payments would be matched with the  
23 recovery of the employee salary and benefit savings. If the severance payments exceeded  
24 the compensation savings, then it would be appropriate for the utility to seek rate  
25 recovery of the net severance charges. However, for rate recovery to be allowed, the

1 severed employees would not be required to sign any agreements that prevented them  
2 from exercising their rights nor put any restrictions on them from making disparaging  
3 statements about the utility or its management.

4 **Q. Did Mr. Klote raise the issue of accounting for rate base prepayments in his rebuttal**  
5 **testimony?**

6 A. Yes, he did. Mr. Klote attempts to justify GMO's improper accounting of its PSC  
7 Assessment as a rate base prepayment. I address this issue below.

8 **Prepayments**

9 **Q. What are prepayments and why are they included in GMO's rate base?**

10 A. Prepayments relate to items that the Company "prepaid" so that the services required will  
11 be available during the normal course of the utility's operations. Prepayments are booked  
12 to FERC asset account No. 165. FERC Account 165 includes amounts representing  
13 prepayments of insurance, rents, taxes, interest and miscellaneous items

14 **Q. Does USOA General Instruction 11 define the types of utility prepayments that**  
15 **should be charged to Account 165 Prepayments?**

16 A. Yes.

17 General Instruction

18 11. Accounting to be on Accrual Basis.

19 A. The utility is required to keep its accounts on the accrual basis.  
20 This requires the inclusion in its accounts of all known transactions  
21 of appreciable amount which affect the accounts. If bills covering  
22 such transactions have not been received or rendered, the amounts  
23 shall be estimated and appropriate adjustments made when the bills  
24 are received.

25  
26 B. When payments are made in advance for items such as  
27 insurance, rents, taxes or interest the amount applicable to future



1 periods shall be charged to account 165, Prepayments, and spread  
2 over the periods to which applicable by credits to account 165, and  
3 charges to the accounts appropriate for the expenditure.  
4

5 **Q. FERC USOA General Instruction No. 11 lists four types of utility prepayments.**  
6 **They are insurance, rents, taxes, or interest. Does GMO's PSC Assessment fit into**  
7 **any of these categories?**

8 A. No.

9 **Q. Does FERC in account 165 define the types of utility prepayments that should be**  
10 **charged to account 165 Prepayments?**

11 A. Yes. See the FERC definition of account 165 below:

12 165 Prepayments.  
13 This account shall include amounts representing prepayments of  
14 insurance, rents, taxes, interest and miscellaneous items, and shall  
15 be kept or supported in such manner as to disclose the amount of  
16 each class of prepayment.  
17

18 **Q. Does FERC's own definition of account 165 Prepayments include any mention of**  
19 **PSC assessments?**

20 A. No.

21 **Q. At page 3 line 26 Mr. Klote states that GMO considers its PSC assessment to be a**  
22 **"miscellaneous item" and therefore meets the definition of Account 165. Is this a**  
23 **good argument?**

24 A. It could be a good argument if the FERC did not include direct and explicit instructions  
25 on how to account for PSC assessments in its USOA. However because the FERC does  
26 provide this, Mr. Klote makes a very weak argument on this accounting.

1 FERC does give explicit instructions that the PSC assessment, if it is to be paid over  
2 future periods, must be debited to asset account 186 Miscellaneous Deferred Debits and  
3 amortized over the payment period to FERC expense account 928.

4 Mr. Klote's argument could also have some merit if a PSC assessment was a  
5 "miscellaneous item" as he suggests. But it is not. It cannot be a miscellaneous item  
6 because the accounting for this item is defined and proscribed in the FERC USOA. This  
7 fact shows that GMO's classification of a PSC assessment as a "miscellaneous item" has  
8 no merit.

9 **Q. Does FERC in account 928 state the required utility accounting for PSC**  
10 **assessment?**

11 A. Yes. FERC states that if you have a regulatory commission expense that is to be spread  
12 over future periods, as GMO does, then the appropriate asset account to charge the  
13 unamortized portion of the payment is FERC account 186, Miscellaneous Deferred  
14 Debits and not FERC account 165 Prepayments. This is a clear accounting order of the  
15 FERC. It is not ambiguous.

16 FERC account 928 states explicitly without any ambiguity that PSC Assessments will be  
17 charged to account 186. If FERC believed PSC Assessments should be charged to  
18 account 165, it would not have required them to be charged to account 186. It really is as  
19 simple as that.

20 **Q. At page 3 Mr. Klote states that "I don't believe that the definition of FERC account**  
21 **186 is the proper account to record the PSC Assessment payments." Is it important**  
22 **for Mr. Klote to agree to this accounting?**

23 A. No, it is not important at all. It is not relevant to this issue at all if Mr. Klote agrees with  
24 FERC in FERC's requirements for the accounting of the PSC Assessment. The only  
25 thing that is relevant is that Mr. Klote complies with the Commission rule that requires

1 compliance with the FERC USOA. Under the Commission's FERC USOA rule, GMO  
2 may seek Commission approval for a waiver of this requirement. GMO should either  
3 correct its accounting or seek a Commission waiver from the FERC USOA on this  
4 required accounting.

5 **Q. At page 4 Mr. Klote states that "The prepaid PSC Assessment charges are not costs**  
6 **that are deferred in a particular regulatory docket that are spread over future**  
7 **periods that are longer than one year." Does the FERC in describing how utilities**  
8 **are to account for the PSC assessment discusses regulatory dockets or future**  
9 **periods longer than one year?**

10 A. No. I do not see the relevance of this argument nor does Mr. Klote provide any  
11 indications how this statement is supportive of his position or relevant to this issue.

12 **Q. At page 4 Mr. Klote states that "Further the definition of Account 186 for major**  
13 **utilities states, "This account must include all debits not provided for elsewhere,**  
14 **such as miscellaneous work in progress, and unusual or extraordinary expenses, not**  
15 **included in other accounts, that are in process of amortization and items the proper**  
16 **final disposition of which is uncertain." Based on this account description he argues**  
17 **that the PSC Assessment does not fall into any of these definitions. Please comment.**

18 A. The correct definition of account 186 for Major utilities is shown below. Even if the  
19 FERC did not give explicit direction for utilities to charge PSC assessments to account  
20 186 in its description of account 928 (which it does), Mr. Klote's argument here is weak.

21 In examples of the types of charges to record to account 186, FERC uses the term "such  
22 as". I don't believe anyone who reads the term "such as" would conclude that this means  
23 an all inclusive list of the types of charges to be charged to this account.

24 In account 928, FERC states that "Amounts of regulatory commission expenses which by  
25 approval or direction of the Commission are to be spread over future periods shall be

1 charged to account 186, Miscellaneous Deferred Debits, and amortized by charges to this  
2 account.” It is difficult to understand why GMO does not understand this very clear  
3 accounting direction by FERC.

4 186 Miscellaneous deferred debits.

5  
6 A. For Major utilities, this account shall include all debits not  
7 elsewhere provided for, such as miscellaneous work in  
8 progress, and unusual or extraordinary expenses, not  
9 included in other accounts, which are in process of  
10 amortization and items the proper final disposition of which  
11 is uncertain.

12  
13 **Q. At page 5 Mr. Klote referenced a text on utility ratemaking to support his**  
14 **interpretation of the FERC USOA Please comment.**

15 A. I do not believe this source referenced by Mr. Klote addresses FERC’s required  
16 accounting for PSC assessment. GMO’s compliance with FERC’s USOA on PSC  
17 assessments is the only issue I addressed in my testimony.

18 **Q. If GMO actually complied with FERC’s explicit instructions and charged its PSC**  
19 **assessment to account 186 (asset) and 918 (expense), could GMO get rate base**  
20 **ratemaking treatment of this expense?**

21 A. Yes. GMO could propose a line item in its Cash Working Capital rate base calculation to  
22 account for the cash impact of making quarterly payments of its PSC assessment. This  
23 ratemaking treatment of the PSC assessment would be consistent with the USOA.

24 **Q. At page 4 Mr. Klote takes the position that because its outside auditor has not**  
25 **addressed this issue in its audit report this is evidence that GMO is accounting for**  
26 **prepayments correctly. Please comment.**

27 A. Absence of a comment in an audit report about a relatively minor accounting issue is not  
28 evidence that GMO is accounting for its PSC assessment correctly. What would be

1 evidence to support GMO's position is if GMO obtain a letter, memo or email signed by  
2 its outside auditor Deloitte and Touché LLP ("Deloitte") affirming GMO's position.

3 This letter should state that Deloitte has read FERC USOA General Instruction 11,  
4 Account 165, 928 and 186 definitions in the FERC USOA, and that Deloitte agrees that  
5 the FERC account 926 language requiring PSC assessments to be charged to account 186  
6 is not required accounting under the FERC USOA. Deloitte should also explain its  
7 reasons for its position.

8 **Q. Did OPC submit a data request asking for a meeting with Deloitte on this issue?**

9 A. Yes. On August 19, 2016, OPC submitted the following data request to GMO. On  
10 September 1, 2016, GMO provided a response to this data request and OPC and GMO  
11 are currently arranging for a meeting. This accounting issue may be resolved as a result  
12 of this meeting between OPC and Deloitte:

13 1039. Reference Ron Klote's rebuttal testimony at pages 4 and 5  
14 where he indicates Deloitte & Touche LLP ("Deloitte") supports  
15 GMO's position on the appropriate accounting under the USOA of  
16 GMO's Prepayments. Please arrange for a meeting between OPC  
17 and Deloitte where the issue of Deloitte's position on this  
18 accounting issue, as presented in Mr. Klote's testimony in this rate  
19 case, can be discussed.  
20  
21

22 **Q. If GMO can provide this documentation from Deloitte, would this likely resolve this  
23 issue?**

24 A. Yes, as long as the basis for Deloitte's position is reasonable. However, if GMO will not  
25 provide this documentation, the Commission should consider this fact in its deliberation  
26 on this issue.

27 **Q. Please summarize OPC's position on the correct FERC USOA accounting for the  
28 PSC assessment?**

1 A. The unamortized balance of the PSC assessment is required by the FERC USOA to be  
2 recorded in FERC asset account 186, Miscellaneous Deferred Debits. FERC's description  
3 of Account 928 in its USOA is reflected below. I do not believe the required accounting  
4 for GMO's PSC assessment can be more clearly articulated than how FERC articulates  
5 this requirement in its Account 928 definition:

6 928 Regulatory commission expenses.

7  
8 A. This account shall include all expenses (except pay of regular  
9 employees only incidentally engaged in such work) properly  
10 includible in utility operating expenses, incurred by the utility  
11 in connection with formal cases before regulatory  
12 commissions, or other regulatory bodies, or cases in which  
13 such a body is a party, including payments made to a  
14 regulatory commission for fees assessed against the utility for  
15 pay and expenses of such commission, its officers, agents, and  
16 employees, and also including payments made to the United  
17 States for the administration of the Federal Power Act.

18  
19 B. Amounts of regulatory commission expenses which by  
20 approval or direction of the Commission are to be spread over  
21 future periods shall be charged to account 186, Miscellaneous  
22 Deferred Debits, and amortized by charges to this account.  
23 (Emphasis added).  
24

25 **KCPL and GMO Expense Account Adjustment**

26 **Q. Before describing this adjustment, please explain the relationship between KCPL**  
27 **and GMO as it relates to management expense reports.**

28 A. GMO has no employees and no management. All of GMO's operations are run by KCPL  
29 employees. It is KCPL management who incurs expense account charges and either  
30 direct charges or allocates a portion of these expenses to GMO. Also, GMO has no  
31 policies and procedures. Since only KCPL has employees all policies and procedures

1 that related to employee activities only apply to KCPL. As it relates to this section of my  
2 surrebuttal testimony, the entities KCPL and GMO should be considered one entity.

3 **Q. As you respond to GMO's criticisms of OPC's adjustment that was made to protect**  
4 **the public from KCPL's excessive expense account spending, what is the real source**  
5 **of this issue that has allowed KCPL's expense account spending to be an issue in**  
6 **rate case after rate case for the past 10 years?**

7 A. The real source of the problem is not KCPL's expense account policies and procedures.  
8 While they are vague and too general in nature, they can be sufficient if there was not an  
9 embedded problem with KCPL's corporate culture of entitlement. KCPL management  
10 does not believe they should be held to any standards when it comes to incurring expense  
11 report charges. They believe they are entitled to spend whatever they desire to spend.

12 In a past regulatory proceeding, Case No. EA-2015-0146, Commissioner Rupp when  
13 questioning an Ameren witness said that corporate culture is defined by "the behavior the  
14 leadership is willing to tolerate." I believe that is absolutely correct. The behavior that  
15 KCPL management engages in, never mind is willing to tolerate, reflects its corporate  
16 culture of entitlement.

17 **Q. Mr. Klote describes at page 23 how you calculated OPC's proposed GMO Expense**  
18 **Account adjustment. Does he accurately describe the calculation OPC's**  
19 **adjustment?**

20 A. Yes. Based on my review of a sample of KCPL officer expense reports, I determined that  
21 a conservative, yet reasonable, dollar amount of average excessive charges per monthly  
22 KCPL management monthly expense report is \$150. Multiplying this monthly amount  
23 time the twelve months of expense account charges in the test year is \$1,800. I then  
24 multiplied this average monthly excess charge of \$1,800 times KCPL's 1,100  
25 management employees, which resulted in a total amount of \$1.98 million. Applying

1 KCPL allocation to GMO of 30% results in an OPC adjustment of a reduction of  
2 \$594,000 to GMO's FERC account 921 test year amount.

3 **Q. Did Mr. Klote propose an adjustment in his direct testimony to remove certain**  
4 **GMO employee expense account charges?**

5 A. Yes he did.

6 **Q. At page 24 line 6 of Mr. Klote describes new "enhanced practices" related to**  
7 **GMO's expense report reimbursements. What caused these so-called enhanced**  
8 **practices?**

9 A. Pursuant to paragraph G of the July 1, 2015 *Partial Non-Unanimous Stipulation and*  
10 *Agreement as to Certain Issues* in KCPL's 2014 rate case (ER-2014-0370), KCPL  
11 provided a copy of its changes to its expense report procedures. This document is  
12 attached as Schedule CRH-S-1 to this testimony. In addition to adding controls on  
13 appropriate accounting for expense account reimbursements, KCPL also added the  
14 following controls:

15 **Officer Expenses-**The general ledger default account for all officers has  
16 been set to below-the-line non-utility accounts. In order for an officer  
17 expense to be recorded to an operating utility account, the officer or  
18 administrative assistant must positively enter an operating utility account  
19 code to override this default coding.

20  
21 **Additional Review of Transactions-** The Wells Fargo company credit card  
22 program administrator is reviewing various samples of company credit card  
23 business transactions each month to ensure company credit card policy  
24 compliance as well as accurate accounting code block coding is followed.  
25

26 **Q. Should these changes that came out of KCPL's last rate case somewhat improve**  
27 **KCPL's expense account procedures?**



1 A. I have seen no improvements but I am hopeful these changes will lead to at least some  
2 improvement. These new expense account procedures should improve KCPL's expense  
3 report process by adding more review and reducing the number of account coding errors.  
4 However, none of the new procedures affect the major problem with KCPL's expense  
5 account policies and procedures which is excessive, imprudent and unreasonable  
6 spending by KCPL management.

7 As long as KCPL management refuses to place serious restrictions on the number of local  
8 meals charged by management as well as the excessive costs of its meals and travel  
9 expenses, these new controls will add only minimal improvements to the process.

10 **Q. Mr. Klote expresses concern over your imputation of a dollar amount of excessive**  
11 **expense report charges based on a sample of KCPL management to all of KCPL**  
12 **management. Please comment on Mr. Klote's concern.**

13 A. Mr. Klote states the following at page 24 line 17:

14 Secondly, the simple insinuation that every management employee on a  
15 monthly basis turns in an expense report that is contrary to the companies  
16 expense reimbursement policy is simply outlandish and should not be given  
17 any attention by this Commission.

18  
19 This statement by Mr. Klote that I made any such insinuation is factually incorrect. In  
20 my direct testimony, I made no insinuation that any KCPL management employee's  
21 expense report was contrary to KCPL's expense reimbursement policy.

22 The real problem is that KCPL's expense reimbursement policy exists only on paper and  
23 appears to be intentionally written to be vague and unenforceable. The policy uses terms  
24 like "reasonable" without defining what "reasonable" means or providing any guidance  
25 or limitations on what is a reasonable expense report charge. With KCPL, "reasonable"  
26 is a standard with no boundaries and KCPL management takes full advantage of this lack  
27 of real standards.

1 For example, in November 2015 five KCPL officers dined at a restaurant in Hollywood,  
2 Florida. The total bill for this one meal was \$1,203. This is an average per meal charge  
3 of \$240. OPC asserts \$240 for a travel meal is not reasonable. However, the leadership of  
4 KCPL management believes it is. This one example shows that the term “reasonable” in  
5 KCPL’s expense account policies has no meaning.

6 The KCPL officers who incurred \$240 each for one travel meal are the same officers who  
7 create and enforce KCPL’s expense report reimbursement policies. These are the same  
8 individuals who wrote and enforce the policy that to be reimbursed, employee meal  
9 expenses must be “reasonable”.

10 KCPL’s senior management who validate one single employee travel meal that cost \$240  
11 as allowable under their standard of reasonableness sets and defines the acceptable  
12 standard for a per meal cost. KCPL’s senior management publishes this new standard to  
13 all of KCPL management by reimbursing themselves for this charge.

14 **Q. Did you review each and every expense report for each and every KCPL or GMO**  
15 **management employee?**

16 A. No, I did not. Such a review would not be possible or prudent use of resources.

17 **Q. Why would such a review not be possible or prudent?**

18 A. There is not sufficient time in this rate case audit period for OPC to audit the thousands  
19 of individual expense accounts for KCPL’s approximately 1,100 management employees.  
20 Due only to past excessive spending by KCPL management, OPC spent a significant  
21 number of audit hours on this specific audit area as it is.

22 The only way to reasonably and effectively audit this scope of work (management  
23 expense reports) is to perform an audit of a number of employee expense reports and  
24 reach conclusions about the potential dollar amount of excessive charges that are

1 embedded in GMO's books and records. This process is referred to as audit sampling.  
2 My conclusion, based on audit sampling techniques, is that this amount is approximately  
3 \$594,000 for GMO in this rate case's test year. This is the amount of an adjustment that  
4 is necessary to protect GMO ratepayers from the inappropriate and excessive expense  
5 report charges from its utility company.

6 **Q. Do you believe Mr. Klote is aware of audit sampling techniques?**

7 A. Yes. According to his direct testimony, Mr. Klote is a certified public accountant  
8 ("CPA") and has worked for CPA firms in the past performing audits of financial  
9 statements. Mr. Klote has either used audit sampling techniques in his work with a CPA  
10 firm or, at a minimum, he developed an understanding of audit sampling techniques  
11 through his accounting education.

12 **Q. What is audit sampling?**

13 A. Audit sampling is a primary audit procedure used by professional auditors. Auditing  
14 Standard ("AS") 2315 defines audit sampling as "the application of an audit procedure to  
15 less than 100 percent of the items within an account balance or class of transactions for  
16 the purpose of evaluating some characteristic of the balance or class."

17 **Q. Did you use audit sampling to arrive at OPC's adjustment to GMO's management  
18 expense report charges?**

19 A. Yes, I did. I performed a selective audit sample of GMO's expense reports by reviewing  
20 the expense reports of KCPL's officers and executives. The purpose of using a sample is  
21 to evaluate a reasonable overall level of excessive expense report reimbursements booked  
22 to GMO's test year cost of service.

23 **Q. Did Mr. Klote review each and every KCPL employee expense report submitted in  
24 the test year?**

1 A. No, he did not indicate in his testimony his audit scope but, based on past practice, I am  
2 confident it was restricted to KCPL officers as well.

3 **Q. Did Mr. Klote review only a limited number of KCPL employee expense report**  
4 **charges?**

5 A. Yes. He reviewed only a very limited number of employee expense reports and proposed  
6 a removal of only a small amount of employee expense account charges.

7 **Q. Would you say your audit findings based on the use of audit sampling techniques is**  
8 **more reliable than Mr. Klote's audit findings based on his limited scope that ignored**  
9 **thousands of other KCPL management expense reports?**

10 A. There is no question my audit results, findings, and conclusions are significantly more  
11 reliable than those of Mr. Klote. My findings were based on audit sampling techniques as  
12 used in generally accepted auditing standards. By not using sampling techniques for this  
13 type of adjustment, Mr. Klote potentially overlooked millions of dollars in excessive  
14 expense report charges.

15 Mr. Klote's immaterial dollar adjustment assumes that each and every KCPL  
16 management employee whose expense reports he did not review had no inappropriate,  
17 excessive, or imprudent charges in the test year. That audit assumption would not be  
18 accepted by any professional auditor but would be viewed with derision.

19 **Q. Please describe more fully what OPC's proposed GMO expense account adjustment**  
20 **purports to represent?**

21 A. This adjustment purports to represent a reasonable calculation of KCPL's excessive  
22 expense account charges that KCPL allocated to GMO in GMO's test year books and  
23 records.

1 OPC reviewed and analyzed in great detail approximately 120 individual employee  
2 expense reports. The group of employees selected by OPC was the very same group of  
3 KCPL officer expense reports reviewed by Mr. Klote.

4 From its review, OPC determined that, on average, excessive charges for these specific  
5 employees were approximately \$150 per month. From this determination, OPC imputed  
6 this average dollar amount of excessive charges to all KCPL management employees.

7 **Q. What was your basis and rationale for imputing the results of your sample to all**  
8 **KCPL management employees?**

9 A. This imputation was based on the assumption that, since all KCPL management  
10 employees operate under the exact same expense report policies and procedures as KCPL  
11 officers and executives (my sample group), all of KCPL management employees would  
12 likely have similar expense report charges with no restrictions on the dollar amounts of  
13 expenses incurred.

14 KCPL has no reason, regulation, policy, or internal control that would treat different  
15 levels of managerial/executive expense reports differently. Therefore, my assumption  
16 that similar expense account charges will be incurred throughout KCPL management is  
17 reasonable.

18 **Q. Please provide one simple example of why that assumption is reasonable.**

19 A. If a senior KCPL manager determined their \$200 meal was reasonable and sought  
20 reimbursement, it would be difficult for this same manager to deny reimbursement of a  
21 \$200 meal for a subordinate. This is why the concept of “tone at the top” is critical.  
22 Lower level management will tend to act in a way that senior management acts. If senior  
23 management acts imprudently or stretches the limits of what a reasonable costs is, then  
24 junior management will follow this lead. Conversely if senior management set an  
25 appropriate tone at the top, one that expresses excessive expense report charges will not

1 be tolerated, then that will be the likely result throughout the organization. The problem  
2 is that for at least 10 years, KCPL's senior management has acted imprudently when it  
3 comes to managing KCPL's expense report process.

4 **Q. Is the statement made by Mr. Klote at page 24 line 20 through page 25 line 2**  
5 **concerning your direct testimony a true statement?**

6 A. No. Mr. Klote has a habit of finding "insinuations" in my direct testimony that are not  
7 there. If Mr. Klote believes such an insinuation was made, he should point to the specific  
8 area of my direct testimony to which he refers. He does not do that because he cannot do  
9 that. Mr. Klote states the following at page 24 line 20:

10 In addition, Mr. Hyneman is insinuating that every supervisor of all  
11 management employees who are requesting expense reimbursement is  
12 approving an expense reimbursement that is contrary to GMO's corporate  
13 expense reimbursement policy which provides that employees will be  
14 reimbursed for all reasonable, legitimate and properly documented business  
15 expenses made in accordance with KCPL-E201 and any other applicable  
16 policy.

17  
18 As noted above, KCPL uses terms like "reasonable" and "legitimate" as criteria to  
19 approve an expense that is requested for reimbursement. KCPL has determined that a  
20 reimbursement for a \$240 meal is "reasonable and legitimate" in accordance with its  
21 policies. My point is that KCPL and GMO have no effective expense reimbursement  
22 policies or any internal controls over what KCPL management will reimburse as a  
23 "reasonable" and "legitimate" expense.

24 The problem is not that all KCPL managers are violating an expense report policy; the  
25 problem is KCPL has no effective and legitimate expense report policy to violate. With  
26 KCPL, any and all charges fall within the scope of allowable expenses under the expense  
27 report policy. There are currently no meaningful standards for any expense  
28 reimbursement that applies to KCPL employees and there has not been since KCPL's  
29 2006 rate case.

1 **Q. Have you reached a conclusion after ten years of auditing KCPL's employee**  
2 **expense accounts that KCPL's corporate culture as to expense account charges is to**  
3 **spend ratepayer funds imprudently, excessively, unreasonably, and without any**  
4 **concern at all about the financial well being of its customers?**

5 A. Yes that is a very accurate description of KCPL's corporate culture. Attached to this  
6 testimony I have included portions of past Staff testimony over 10 years addressing  
7 KCPL's imprudent and excessive expense report charges. These Staff findings in past  
8 KCPL rate cases go back to the 2006 rate case, No. ER-2006-0316, through KCPL's last  
9 rate case, No. ER-2014-0370. Prior to that, KCPL had not sought a rate increase for  
10 twenty years.

11 A review of this prior Staff testimony will reveal the basis of my description of the  
12 flawed nature of KCPL's deeply embedded corporate culture on this issue.

13 **Q. Would you expect that KCPL's officer expense reports reviewed by OPC and Mr.**  
14 **Klote would have less excessive charges than the expense reports of lower ranking**  
15 **management employees?**

16 A. Yes. KCPL officers should set the "tone at the top" when it comes to spending. They are  
17 charged with setting an example of reasonable and prudent spending. One would, in  
18 theory, conclude that KCPL officers would have less excessive charges based on this  
19 leadership responsibility. Given that expectation, the imputation of an average \$150 per  
20 month in excessive charges for KCPL officers should result in a conservative adjustment  
21 as many KCPL management employees may have significantly higher excessive charges.

22 **Q. How many KCPL employees did Mr. Klote review in formulating his expense report**  
23 **review?**

24 A. My review of his work papers indicates that Mr. Klote reviewed the test year expense  
25 reports of approximately eleven KCPL management employees?

1 **Q. What dollar amount of inappropriate expense report charges did Mr. Klote find?**

2 A. He proposed an adjustment to remove only \$5,456 from GMO's cost of service in this  
3 case. The \$5,456 is the allocation to GMO of the total KCPL dollar amount of \$17,629.

4 **Q. What does Mr. Klote's employee expense account adjustment purport to represent?**

5 A. His adjustment purports to represent only the exact dollars he found to be questionable  
6 for only approximately 11 KCPL management employees.

7 **Q. Even though he proposes to remove these expenses, does Mr. Klote believe these  
8 specific expenses - listed on Schedule CRH-S-2 - are reasonable, prudent, and  
9 appropriately charged to GMO customers?**

10 A. Yes, he does. At page 32 line 26 of his direct testimony, Mr. Klote states that these  
11 officer expense report items are ordinary and reasonable business expenses.

12 **Q. Does Mr. Klote's adjustment really purport to represent that all the other 1,089  
13 KCPL management employees whose expense reports he did not review had no  
14 excessive, imprudent, inappropriate or incorrectly allocated expense report charges  
15 in GMO's test year?**

16 A. Yes, that is exactly what his adjustment represents.

17 **Q. What is this total dollar amount if Mr. Klote did not assume that only these eleven  
18 employees and no other KCPL employees had inappropriate expense report  
19 charges?**

20 A. Mr. Klote's total KCPL dollar amount of \$17,629 divided by eleven employees in his  
21 group equals \$1,602 of inappropriate charges per reviewed employee. If you multiply  
22 this \$1,602 per employee amount times 1,100 (equal to KCPL management employees)  
23 you calculate \$1,762,200. Multiplying this amount by a 30% GMO allocation factor



1 results in an adjustment of \$528,660. This amount is in the ballpark of OPC's \$594,000  
2 GMO expense account adjustment.

3 **Q. Would you say that Mr. Klote's employee expense report adjustment validates**  
4 **OPC's adjustment?**

5 A. Yes, it does. If Mr. Klote would have applied reasonable audit standards and audit  
6 sampling techniques and imputed the inappropriate charges found in his sample audit to  
7 the whole KCPL management employee population, his results would be remarkably  
8 similar to my results and his audit supports the reliability of OPC's adjustment.

9 **Q. How do you respond to Mr. Klote's assertion that your adjustment was arbitrary?**

10 A. Mr. Klote has made the same accusation in past KCPL rate cases. I will respond now the  
11 same way I responded then. Merriam Webster's online dictionary defines "arbitrary" in  
12 part as "not planned or chosen for a particular reason: not based on reason or evidence:  
13 done without concern for what is fair or right." If that is what Mr. Klote had in mind  
14 when he characterized this adjustment as arbitrary, then I disagree.

15 OPC's adjustment was planned with a reason to protect KCPL's ratepayers from  
16 excessive, imprudent, or inappropriately allocated charges. The adjustment was based on  
17 OPC's review and analysis of hundreds of documents related to KCPL's employee  
18 expense report charges. The adjustment was based on the reliance on my extensive audit  
19 work over the past 10 years on KCPL's employee expense accounts. There is nothing  
20 even remotely close to arbitrary associated with OPC's adjustment.

21 **Q. At page 24 of his rebuttal testimony does Mr. Klote criticize you for not providing**  
22 **more documentation to support your adjustment?**

23 A. Yes, he does. Mr. Klote should be aware of the hundreds of expense report documents  
24 on which OPC based its adjustment in this case as he provided the responses to OPC's

1 data requests. In an attempt to be discreet and not air all of GMO's "dirty laundry" in  
2 testimony and not associate names with specific activities, OPC decided to limit the  
3 number of documents and the type of information filed with its direct testimony.

4 However, in his rebuttal testimony, Mr. Klote is calling for more documentation and OPC  
5 is willing to provide such documentation. Attached to this testimony is a summary sheet  
6 of the test year changes incurred by most, if not all, of KCPL officers that should address  
7 Mr. Klote's concern about the lack of documentation provided in OPC's testimony.

8 **Q. Did you provide examples of inappropriate and excessive officer expense report**  
9 **charges in your testimony in this case?**

10 A. Yes. In my direct testimony, I provided a few examples of excessive officer expense  
11 report charges and a list that included several excessive charges by just one single KCPL  
12 officer. In my direct testimony, I referenced a March 2015 charge for goods and services  
13 from Gibson's Bar & Steakhouse in Chicago, IL for \$516 for two individuals. GMO  
14 refused to provide any additional information related to this charge.

15 In my direct testimony I also referenced an OPC data request about a March 2015 charge  
16 for goods and services from Capital Grille in the amount of \$455 for three individuals.  
17 GMO refused to answer any questions related to these employee expense report charges.

18 Finally, OPC sought data from GMO about a June 2015 charge for goods and services  
19 from Kauffman Stadium of \$1,929. GMO refused to provide a response that frustrated  
20 OPC's audit of GMO's expense report policies and expenses in this rate case.

21 **Q. Please provide an example of the type of expenses that Mr. Klote included in his cost**  
22 **of service adjustment CS-11 where he remove some management expense account**  
23 **charges?**

1 A. In July 18 of 2014, a high ranking KCPL officer attended a convention in Los Angeles  
2 unrelated to the regulated utility industry. This officer charged KCPL a total of \$359 for  
3 one meal. This amount was reduced due to the employee's wife meal charge of \$90  
4 deemed a non-cost of service account. The KCPL officer's meal and, it appears, the meal  
5 of someone not related to KCPL, was charged to a regulated cost of service account 921  
6 in the test year in this case. As shown below, ratepayers were charged \$269 for a meal at  
7 this entertainment event not related to utility operations. This is a charge that GMO, as  
8 testified to by Mr. Klote, considers to be a reasonable business expense.

October 8, 2014	Dinner	Fleming's - Los Angeles, CA	\$269.41	921000
October 8, 2014	Dinner	Fleming's - Los Angeles, CA - Spouse	\$89.80	417100

9  
10 This one KCPL officer has been with KCPL for many years and is very familiar with  
11 KCPL's expense report policies and procedures. He obviously thought it was appropriate  
12 to charge ratepayers for excessive meal costs for him and guests not related to utility  
13 operations. This officer is an individual who enforces KCPL's policies and procedures  
14 and helps set the tone at the top of KCPL. This one example shows that KCPL has  
15 neither internal controls nor any concern over the expense report costs it charges to its  
16 regulated utility ratepayers.

17 **Q. Has Mr. Klote been making adjustments to remove KCPL officer expense report**  
18 **charges in many of KCPL and GMO's past rate cases?**

19 A. Yes. Based on the problems found by Staff in KCPL Case No. ER-2007-0291 and  
20 problem areas found by KCPL's own internal auditors during that period, Mr. Klote and  
21 another KCPL employee were assigned to review officer expense reports and remove  
22 inappropriate charges through a cost of service adjustment in its subsequent rate cases. I  
23 don't know how many individual rate cases Mr. Klote performed such a review but it was  
24 at least done in one prior KCPL rate case.

1 In KCPL's last rate case, ER-2014-0370, Mr. Klote did not make any adjustment to  
2 remove excessive expense report charged when it filed its revenue requirement in direct  
3 testimony. However, when he received certain data requests from Staff in that case, Mr.  
4 Klote decided to make a rate case adjustment to remove the expense account charges  
5 associated only with Great Plains Energy, KCPL and GMO's holding company, test year  
6 expense accounts.

7 In Response to Staff DR 502 in Case No. ER-2014-0370 KCPL responded:

8 KCPL Response to DR 502:

9 Subsequent to its direct filing in this case, the Company informed MPSC  
10 Staff that it was removing all GPE Officers expense report costs, this  
11 includes.... from its request. There are no longer any expense report costs  
12 incurred by (REDACTED) requested by the Company in this case. In total,  
13 the Company informed MPSC Staff that the impact of removing GPE  
14 Officer expense report costs from its Direct Case totaled \$67,521.55.  
15 Information provided by: Ron Klote Attachments: Q0502\_HC\_expense  
16 report charges.xlsx Q0502\_Verification.pdf  
17

18 **Q. Why did Mr. Klote propose an adjustment to remove these charges late in its 2014**  
19 **rate case?**

20 A. As KCPL did in this current GMO rate case when OPC sought additional answers, KCPL  
21 management refused to answer specific expense report questions proposed by the Staff in  
22 the 2014 rate case. The questions posed by Staff in DR 502 in Case No. ER-2014-0370  
23 that KCPL refused to answer are shown below:

24 Reference the attached Excel spreadsheet which lists certain  
25 expense report charges and questions listed below related to those  
26 charges:

27  
28 A Nos. 37-40, please explain the reason for over \$800 in cell  
29 phone charges

30 B For all meal charges, please provide the cost per person, the  
31 name of the person who approved the charge and a description

1 stating why the cost was necessary to provide regulated utility  
2 service

3 C. Item number 8, was the cost of the baby shower charged to  
4 regulated customers? If so, why?

5 D. For the Ipad related charges. Why were these Ipads purchased?  
6 Have they been and are they currently being used for regulated  
7 utility operations?

8 E. For the Ipad related charges. Why were these Ipads not  
9 capitalized to plant in service accounts?

10 F. No. 2, why is this cost to KCPL regulated accounts?

11 G. No. 18, what is the business purpose of this trip?

12 H. No, 19 how is this book related to KCPL's regulated operations?

13 I. No. 20, what is the business purpose of this trip?

14 J. No. 6, what is the business purpose of this trip?

15 K. No. 14, what is the business purpose of this trip?

16 L. No. 15, what is the business purpose of this trip?

17 M. Nos. 17,27,28, Does KCPL pay approximately \$300 to \$400  
18 per month for one employee's cell phone service? If so, is this the  
19 fair market price for one cell phone?

20  
21 In KCPL's 2014 rate case, the Company made the decision that it would not provide  
22 justification for certain officer expense report costs addressed in Staff DR 502. KCPL  
23 decided just to remove these costs from this rate case and stopped any further discussion  
24 of the issue.

25 In this current GMO rate case, KCPL and GMO have been asked a series of questions in  
26 an attempt to understand the business purpose of the expenses or how these expenses  
27 received approval to be paid under KCPL's internal control procedures. Again, KCPL  
28 management refused to answer auditor's questions about expense account  
29 reimbursements.

30 It is interesting to note that KCPL and GMO chose not to justify any of these charges as  
31 having a legitimate business purpose in this rate case and in past rate cases. Nonetheless,  
32 under its expense account policies and procedures – and corporate culture – the Company  
33 approved these expense reports and reimbursed these expenses.

1 **Q. What conclusion does an auditor make when an entity refuses to answer legitimate**  
2 **inquiries?**

3 A. At a minimum, in any situation where an entity refuses to cooperate with auditor requests  
4 for data, an auditor will elevate the level of audit risk assigned to that specific audit area.  
5 Given KCPL and GMO's serious problems with its corporate culture associated with no-  
6 limit management spending on expense accounts, the risk I assigned to this audit in my  
7 audit of GMO's expense account charges was very high.

8 **Q. Given a very high audit risk of excessive management expense report charges, what**  
9 **action does an auditor need to take to mitigate this risk level?**

10 A. Faced with strong evidence of a very high risk of excessive expense account charges by a  
11 utility's management, a rate case auditor who represents the public must propose an  
12 adjustment that reduces the risk of excessive charges passed on to ratepayers to an  
13 acceptable level. My adjustment to remove \$594,000 from GMO's account 921, where  
14 the majority of test year expense report charges were booked, reduces this risk in a  
15 reasonable manner.

16 **Q. You've provided evidence in your direct testimony and in this testimony that KCPL**  
17 **and GMO have continued to incur and charge to ratepayers excessive management**  
18 **expense account charges over the past 10 years. Do you expect this behavior to**  
19 **continue?**

20 A. Yes, I am confident it will continue as this management behavior is embedded into its  
21 corporate culture. Staff and OPC have repeated this process with KCPL and GMO over  
22 and over again in most, if not all, rate cases since 2006.

23 While I believe the Commission should and will accept OPC's expense account  
24 adjustment in this rate case, nothing will change this organization's corporate culture  
25 until it is forced to change.

1 This one \$594,000 OPC adjustment will be sufficient to protect GMO's ratepayers in this  
2 particular rate case. However, it will not be sufficient to require KCPL to reign in its  
3 corporate culture of unreasonable, excessive, and imprudent spending by its management.

4 KCPL will continue to incur hundreds of dollars in excess meal, travel, and entertainment  
5 costs. It will continue to routinely charge business lunches and other meal chargers in  
6 the Kansas City area and it will continue to engage in reckless behavior indicative of a  
7 corporate culture that is not appropriate for a regulated monopoly utility company. It is  
8 time for KCPL to change and not the piecemeal relatively minor tweaks recently adopted  
9 by KCPL as a result of the problems with these charges in its 2014 rate case.

10 **Q. You state that KCPL's corporate culture is not appropriate for a regulated utility**  
11 **monopoly. Please explain.**

12 A. There are several definitions of "corporate culture" but one that I found to be very good  
13 on that "refers to the beliefs and behaviors that determine how a company's employees  
14 and management interact and handle outside business transactions. Often, corporate  
15 culture is implied, not expressly defined, and develops organically over time from the  
16 cumulative traits of the people the company hires."

17 For KCPL, that leadership is its management and its board of directors ("Board").  
18 KCPL's corporate culture as it relates to management expense report charges has to  
19 change and its management and its Board needs to be committed to ensuring the change  
20 is long-lasting. KCPL and its Board has been "willing to tolerate" this inappropriate  
21 behavior on the part of KCPL management for far too long.

22 It is one thing for the management of a competitive business to spend lavishly in its  
23 expense accounts where the firm is subject to price competition and the completion for  
24 the acquisition of customers. The customers of a competitive business are free to

1 terminate their business relationship for any reason they chose. GMO customers are  
2 captive to its monopolistic nature and do not have this option.

3 Firms that are required to operate in a competitive environment try to minimize costs.  
4 This includes expense account costs such as travel, business meals, and entertainment.  
5 KCPL does not. KCPL's actions have demonstrated time after time that it cares nothing  
6 about cost when it comes to spending on itself and its personal meals, entertainment, and  
7 travel.

8 While KCPL and GMO do not operate in a competitive environment, it is expected of a  
9 utility that it will operate responsibly and seek to minimize costs. If it does not, the  
10 Commission is charged with the responsibility to make sure GMO operates as a  
11 competitive firm would operate in order to protect GMO's captive ratepayers from  
12 excessive and imprudent costs. One way the Commission fill that responsibility is to  
13 accept OPC's expense account adjustment in this new case and require KCPL to make  
14 substantive changes in its policies, such as adopting a per diem policy for employee  
15 meals charges.

16 **Q. Based on your review of KCPL management expense reports and the charges that**  
17 **are allocated to GMO, does it appear that KCPL's officers consume alcohol at meals**  
18 **and at entertainment events and charge their cost to purchase alcohol to**  
19 **ratepayers?**

20 A. Yes, they do.

21 **Q. Does KCPL's policies allow for alcohol consumption during work activities?**

22 A. No. KCPL and GMO's *Guiding Principles and Code of Ethical Business Conduct*  
23 provide the structure for the decisions it makes and how it deals with legal and ethical  
24 issues. It also describes how KCPL and GMO treats its employees, customers,  
25 shareholders, regulators, legislators, and communities. According to this document, there



1 is an expectation KCPL and GMO's Board of Directors and employees will maintain the  
2 highest ethical standards while doing their jobs. The policy on alcohol consumption is as  
3 follows:

4 Substance Abuse

5 Employees are expected to report for work in a condition that  
6 allows them to perform their job duties. An employee's off-the-job  
7 and on-the-job involvement with drugs and alcohol can have an  
8 impact on workplace relationships, job availability and  
9 performance. At no time does the company allow employees to  
10 purchase, use, possess, sell, distribute, manufacture or be under the  
11 influence of illegal drugs, including misused prescription drugs,  
12 during working hours (including lunch or break periods) or on  
13 company or customer property. Employees will be subject to  
14 discipline, including discharge, if they report for work with a blood  
15 alcohol concentration of 0.02 or greater or are under the influence  
16 of a controlled substance.

17  
18 Disciplinary action will also be taken if an employee possesses or  
19 uses alcohol or a controlled substance, except legally obtained  
20 prescription drugs, during working hours (including lunch or break  
21 periods) on company or customer property. Exceptions for the use  
22 or possession of alcohol in connection with authorized events will  
23 be approved in advance by the chief compliance officer. (emphasis  
24 added).  
25

26 **Q. Does KCPL allow for reimbursement of employees and guests personal use of**  
27 **alcohol?**

28 A. Yes. Just one example was a \$1,628 charge by a KCPL management employee at Kansas  
29 City's Kaufman Stadium May 6, 2015. KCPL reimbursed an employee for \$648 in  
30 alcohol charges for that one event. This including charges for vodka and whiskey. KCPL  
31 charged this expense to account 107 (construction work in progress) that, if not charged  
32 to a different entity, will eventually be charged to KCPL and GMO's rate base as plant in  
33 service and depreciation expense.

1 This event was not even related to GMO's regulated operations. The charges for this  
2 event were for food, alcohol and entertainment for KCPL and Transource employees (an  
3 affiliate of KCPL and GMO) in a celebration of the Iatan-Nashua transmission line, a  
4 non-regulated transmission line, being in-service.

5 **Q. Did you review several other examples where the use of alcohol was reimbursed by**  
6 **KCPL?**

7 A. Yes.

8 **Q. Do you believe it is ever reasonable for KCPL to charge its utility ratepayers for**  
9 **KCPL management's consumption of alcohol?**

10 A. No, it would never be appropriate.

11 **Q. If no real changes in KCPL's expense report procedures are made as a result of this**  
12 **rate case, will this issue continue in KCPL's current rate case and beyond?**

13 A. Yes. While Staff appears to have dropped this expense account audit scope from its rate  
14 case audit, OPC intends to expand the scope of its audit work in this area in the current  
15 KCPL rate case.

16 **Q. At page 25 line 14 of his rebuttal testimony, Mr. Klote references a Staff adjustment**  
17 **of \$2,500 related to employee expense reports. Why is this significant?**

18 A. Soon after I read Mr. Klote's testimony, I submitted a data request to the Staff to arrange  
19 for a meeting to discuss this Staff adjustment. The meeting with Staff took place on  
20 August, 19, 2016 at Staff's offices in Jefferson City, Missouri. From the discussion with  
21 Staff auditors who sponsored this adjustment, I reached the following conclusions:

- 22 1. Staff did not include any rate case audit scope related to KCPL  
23 and GMO's expense accounts in this current GMO rate case  
24

1                   2. Staff is currently performing a KCPL management audit under  
2                   a separate regulatory proceeding that is not related to this rate case  
3                   and these expense were found not in this rate case but in that  
4                   separate KCPL management audit.

5  
6                   3. Staff will not complete its KCPL management audit and file its  
7                   report in this separate docket until December 31, 2016.

8  
9                   4. Staff only looked at a limited number of expense reports and  
10                  only took exception to certain types of inappropriate charges such  
11                  as expenses charged to ratepayers for KCPL's management  
12                  entertainment at the Kansas City Zoo, Kansas City Royals events  
13                  and Kansas City Chiefs events. Staff did not look or make any  
14                  adjustments for excessive meal or travel costs for any KCPL  
15                  employees.

16  
17 **Q.     Would the Commission's acceptance of this minor Staff adjustment, based on a very**  
18 **limited audit scope and currently being performed in a completely different**  
19 **regulatory proceeding, be reasonable?**

20 A.     No, it would not. This adjustment was not based on work Staff performed in this rate  
21     case audit. This adjustment is based on Staff's preliminary audit findings using a very  
22     limited audit scope and for very narrow type of expenses. It would not be appropriate or  
23     reasonable for the Commission to accept this adjustment over OPC's proposed  
24     adjustment in this rate case.

25 **Q.     When it comes to expense account charges, does KCPL have completely different**  
26 **standards for itself than it does for work performed by professional consultants?**

27 A.     Yes, they are completely different. I have reviewed a KCPL contract with a vendor that  
28     includes very reasonable and prudent standards on the amount of expense account  
29     charges that KCPL will reimburse its professional consultants.

30                  For example, below is a list of requirements that KCPL placed on a consultant under  
31                  services provided to KCPL a few years ago. I have removed the name of the vendor.

1 The actual contract that includes these expense account requirements is attached to this  
2 testimony as Staff Exhibit 244HC in Case No. ER-2014-0370, which is a June 2, 2015  
3 KCPL response to Staff Data Request No. 619:

4 Travel Expenses

5 \*Travel and other out-of-pocket expenses shall be paid by GPES in  
6 addition to the hourly rates stated above, and shall be reasonable,  
7 customary and actual charges, passed through at \_\_\_\_\_'s cost, with  
8 no markup.....

9  
10 \*Airfare shall be at coach-class fares. \*\_\_\_\_\_ personnel shall share  
11 ground transportation whenever practical.

12  
13 \*Per diem meal charges shall not exceed \$50.00.

14 \*Lodging shall be at reasonable rates. \_\_\_\_\_ shall use GPES  
15 preferred hotels or hotels at which \_\_\_\_\_ has negotiated preferred  
16 rates, when possible. .

17  
18 \*Receipts shall be provided for all out-of-pocket expenses  
19 of \$25.00 or more.

20  
21 **Q. Are there changes KCPL and GMO could make to its expense report policies and**  
22 **procedures that would significantly improve KCPL and GMO's expense report**  
23 **problems?**

24 A. Yes. The first one is to eliminate reimbursement for non-travel management meal  
25 expenses incurred in the Kansas City area. KCPL currently abuses its policy of allowing  
26 reimbursement for local meals. Most people are required to pay for their own meals  
27 when not on business travel. KCPL management should be required to as well. There is  
28 no justification for KCPL management to get reimbursed for meals charges that it incurs  
29 at its home base during the normal work day. That is not prudent or reasonable.

30 The second change that should be made by KCPL and GMO, as I proposed in my direct  
31 testimony, would be to adopt a per diem policy for meals. Per diem rates are set by the  
32 General Services Administration ("GSA") and are used by the federal government, local

1 governments, and private-sector companies to reimburse employees for business travel  
2 expenses.

3 My research through GSA's website indicates that the highest average current 2016 per  
4 diem meal allowance for most large cities in the U.S. approximates \$70 - \$75 per day. If  
5 KCPL adopted a per diem for meal reimbursement, I estimate it would save thousands of  
6 dollars annually in management employee travel meal reimbursements. Adopting a per  
7 diem for meals would also allow cost savings to KCPL in processing expense reports as  
8 meal receipt expenses would no longer be required.

9 **Q. Has GMO responded to your direct testimony recommending KCPL and GMO  
10 adopt a per diem policy for management employee meal reimbursement?**

11 A. Yes. GMO witness Steven Busser filed surrebuttal testimony on this issue.

12 **SURREBUTTAL TO THE REBUTTAL TESTIMONY OF GMO WITNESS STEVEN BUSSER**

13 **GMO Expense Account Adjustment – Per Diem Meal Policy**

14 **Q. What was GMO's response to your proposal that KCPL adopt a per diem policy as  
15 addressed in the rebuttal testimony of GMO witness Busser?**

16 A. The positions taken by Mr. Busser in his testimony are premised on his assumption that  
17 GMO's meal reimbursement policy only reimburses reasonable, legitimate, and properly  
18 documented meal expenses. It has been proven over the past ten years for KCPL and over  
19 the past eight years for GMO this statement is false. The whole premise of Mr. Busser's  
20 testimony, that there is no need for a change in KCPL's expense report procedures, is  
21 wrong.

22 My conclusion that a per diem policy is needed is based on overwhelming evidence that  
23 KCPL currently has no controls on the level of meal charges its employees can seek

1 reimbursement. KCPL habitually reimburses excessive, inappropriate, and imprudent  
2 meal charges without any regard for who pays for these costs.

3 If Mr. Busser believes that KCPL and GMO only reimburse reasonable meal charges, I  
4 suggest he review KCPL and GMO rate cases over the past 10 years.

5 **Q. Mr. Busser states at page 6 line 15 of his rebuttal testimony that, in his “professional**  
6 **opinion”, KCPL and GMO’s expense report policies protects ratepayers. What is**  
7 **your response?**

8 A. Given the substantial evidence to the contrary in this rate case and over the past ten years,  
9 the Commission should consider the credibility of GMO witness Busser’s testimony  
10 based on his “professional opinion” that KPL and GMO expense report policies and  
11 procedures protect ratepayers. The Commission should weigh the evidence put forth by  
12 OPC in this case as well as consider the historical problems with KCPL and GMO in this  
13 area when they evaluate the credibility of GMO witness Busser’s rebuttal testimony.

14 **Q. At page 3 line 18 of his rebuttal testimony, Mr. Busser states that adopting a per**  
15 **diem policy will add to administrative burdens. Is he correct?**

16 A. No. Adopting a per diem policy will actually reduce KCPL’s expense report  
17 administrative burdens by eliminating the need to keep, track, and audit receipts for  
18 expenses. Mr. Busser may not be aware, but under a per diem policy there is not a need  
19 to endure the administrative burden of managing receipts.

20 **Q. Mr. Busser states at page 4 line 13 that by adopting a per diem policy KCPL would**  
21 **have to “track meal cost indices by region”. Is that correct?**

22 A. No it is not correct. While it is not at all difficult or administratively burdensome to track  
23 individual city per diems, KCPL could adopt average per diem in a particular state or  
24 region. In lieu of that, KCPL could adopt the policy of using the highest per diem rate

1 published by GSA and just use that one single rate for all expense reports per year. That  
2 would be approximately \$75 per day for employees in travel status and significantly less  
3 than the current charges incurred by KCPL management. If KCPL adopted the highest  
4 per diem rate allowable, it will save ratepayers thousands of dollars in meal charges along  
5 each year.

6 These are just some ways KCPL could make the inherent reduction in administrative  
7 costs of adopting a per diem policy even greater. Mr. Busser should recognize these  
8 benefits. If he had a concern about these costs, he would personally advocate for KCPL's  
9 adoption of a per diem meal reimbursement policy instead of opposing it.

10 **Q. Mr. Busser states at page 4 line 22 that he thinks adopting a per diem policy will**  
11 **lead to higher costs? Is that even possible?**

12 A. No it is not possible. Mr. Busser's statement is counter-intuitive. Adopting a per diem  
13 policy reduces costs by limiting inappropriate and excessive employee charges as well as  
14 reducing the administrative expenses of processing expense reports by eliminating need  
15 to keep, track, document, and audit meal receipts.

16 **Q. Did the Commission used to require its Staff to keep and provide receipts for travel**  
17 **meals for a period of time prior to adopting a per diem policy?**

18 A. Yes and I was a member of the Staff during that short time period. In my personal  
19 experience, not having to deal with meal receipts allowed by the adoption of a per diem  
20 policy significantly reduced the administrative burden on the employee seeking  
21 reimbursement and on the employees who are required to audit requests for  
22 reimbursements.

23 **Q. Mr. Busser concludes his rebuttal testimony by stating that the use of per diems is**  
24 **not customary in the utility industry. Please comment on this assertion**

1 A. The fact whether or not it is “customary” in the utility industry is not relevant at all to this  
2 rate case issue with GMO. However, Mr. Busser does not even know if it is customary in  
3 the utility industry as his conclusion on how he interprets the practices is based solely on  
4 a utility he used to work for, El Paso Electric, Westar, Inc. Ameren and a utility  
5 company he talked to through an online message board. I would not make any such  
6 broad conclusion based on only four of the hundreds of utility companies in the U.S.

7 But even if one does assume it is not customary in the utility industry, the expense  
8 account problems that have been experienced with KCPL and GMO are also likely not  
9 customary in the utility industry. This problem calls out for special treatment for KCPL  
10 and GMO due to the nature and severity of its problems expense report problems.

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

12 A. Yes, it does.



## KCPL/GMO

### 2016 Expense Account Implementation Plan

Pursuant to paragraph G of the July 1, 2015 *Partial Non-Unanimous Stipulation and Agreement as to Certain Issues* in Case No. ER-2014-0370, Kansas City Power & Light Company (“KCP&L” or “Company”) hereby submits the actions it has implemented to address expense account issues.

- **Officer Expenses**

- The general ledger default account for all officers has been set to below-the-line non-utility accounts. In order for an officer expense to be recorded to an operating utility account, the officer or administrative assistant must positively enter an operating utility account code to override this default coding.

- **Additional Review of Transactions**

- The Wells Fargo company credit card program administrator is reviewing various samples of company credit card business transactions each month to ensure company credit card policy compliance as well as accurate accounting code block coding is followed.
- When company credit card accounting code block coding is questioned, follow up is done with the employee to get more information on the transaction and educate the employee on proper use of accounting code block values.
- Company credit card business transactions are looked at every month for proper information regarding meal attendees, business purpose and to/from information on mileage. Employees who might be missing this information are contacted directly.

- **Job Aids**

- Job aids used by all the executive administrative assistants were reviewed for completeness and accuracy regarding company accounting code block policies associated with the implementation of the new company credit card transaction process.
- Training sessions were held with the executive administrative assistants to educate them on the coding of expense reports.

- **Restriction of Chartfield Values**

- Wells Fargo, the company credit card provider, has been provided a shortened list of available accounting code block chartfield values. With this reduced list, employees can only choose from those values that should be used for company credit card purchases.
- All combinations of accounting code block chartfield values are sent thru all possible accounting code block edits to ensure no coding rules are broken in the combinations that are entered.

- **Default Accounting Code Block Chartfield Values Review**

- Default accounting code block chartfield values were reviewed in the third and fourth quarters of 2015. This review enabled the Company to continue to educate employees on the proper use of operating unit and accounting code block.
- All default accounting code block chartfield values are now re-reviewed on a quarterly basis.

**OFFICE OF THE PUBLIC COUNSEL  
DATA REQUEST**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY  
CASE NO. ER-2016-0156**

Requested From: Lois J Liechti  
Requested By: Chuck Hyneman  
Date Requested: April 4, 2016

Information Requested:

Reference Expense Report 0000049698 dated 6/11/2015.

1. The 3/18/15 charge for goods and services from Gibson's Bar & Steakhouse in Chicago, IL was \$516.40 for apparently two individuals. Once receipt for \$33.07 at 8pm and a second receipt for \$483.33 at 9:34 pm. A) Please provide the names of the individuals who attended this event, B) Please provide a comprehensive and detailed description of the business purpose of this event, C) Please attest to the fact that KCPL believes these charges are prudent and explain why KCPL believes these charges are prudent. D) Was alcohol consumed at this event? If so, please provide the KCPL/GPE policy that allows the consumption of alcohol at a business event and describe how the consumption of alcohol at this event was consistent with the KCPL/GPE employee policy.

Reference Expense Report 0000050937 dated 6/11/2015.

2. The 3/31/15 charge for goods and services from Capital Grille was \$455.23 for apparently three individuals. A) Please provide the names of the individuals who attended this event, B) Please provide a comprehensive and detailed description of the business purpose of this event, C) Please attest to the fact that KCPL believes these charges are prudent and explain why KCPL believes these charges are prudent. D) Was alcohol consumed at this event? If so, please provide the KCPL/GPE policy that allows the consumption of alcohol at a business event and describe how the consumption of alcohol at this event was consistent with the KCPL/GPE employee policy.

Reference Expense Report 0000051748 dated 7/6/2015.

3. The 6/3/15 charge for goods and services from Kauffman Stadium was \$1,929.36 for apparently 20 individuals. A) Please provide the names of the individuals who attended this event, B) Please provide a comprehensive and detailed description of the business

purpose of this event, C) Please attest to the fact that KCPL believes these charges are prudent and explain why KCPL believes these charges are prudent. D) Was alcohol consumed at this event? If so, please provide the KCPL/GPE policy that allows the consumption of alcohol at a business event and describe how the consumption of alcohol at this event was consistent with the KCPL/GPE employee policy. E) Was the \$180 all day beverage refresh for alcoholic or non-alcoholic beverages?

Reference Expense Report 0000051748 dated 7/6/2015.

4. The May 21-June 20 charge from Verizon Wireless is for monthly wireless charges for an employee of KCPL. Is KCPL paying for this employee's personal home wireless charges or wireless phone charges? If yes, why? B) Please provide a comprehensive and detailed description of the business purpose of this charge, C) Please attest to the fact that KCPL believes these charges are prudent and explain why KCPL believes these charges are prudent.

Response Provided:

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The information provided to the Office of the Public Counsel in response to the above information request is accurate and complete, and contains no material misrepresentations or omissions based upon present facts known to the undersigned. The undersigned agrees to immediately inform the Office of the Public Counsel if any matters are discovered which would materially affect the accuracy or completeness of the information provided in response to the above information.

Date Received: \_\_\_\_\_ Received By: \_\_\_\_\_

Prepared By: \_\_\_\_\_

**ER-2016-0156**

**Hyneman Surrebuttal**

***CRH-S-3***

has been deemed

“Highly Confidential”

in its entirety

**ER-2016-0156**

**Hyneman Surrebuttal**

***CRH-S-4***

has been deemed

“Highly Confidential”

in its entirety

ER-2016-0156 GMO Adjustmnet CS-11 backup workpaper KCPL Officer Expense Reports		Total
Attended Burns & McDonnell Coal Symposium & Golf Tournament at Falcon Ridge Golf Club, Lenexa, KS		\$23.00
Acendas service charge for change to SWA itinerary for flight back from Oakland - Oct. 1, 2014 from Tesla/Sungevity meetings.		\$29.00
Agent fee for Travel from EEI in NOLA to KC for Zulema Bassham - June 7 - 10, 2015		\$15.00
Agent fee for Travel to EEI in NOLA for Zulema Bassham - June 7 - 10, 2015		\$29.00
Airline Travel to EEI in NOLA for Zulema Bassham - June 7 - 10, 2015		\$122.00
Early bird check-in for Travel to EEI in NOLA for Zulema Bassham - June 7 - 10, 2015		\$12.50
Hotel accommdations in Oakland for Tesla and Sungevity meetings		\$409.49
NCLR Convention July 18-21, 2014, Los Angeles, CA - Dinner for Zulema and Terry Bassham		\$269.41
Parking at MCI for GKC Leadership Exchange trip/Tesla/Sungevity Trip to CA 9-26/10-1, 2014		\$44.00
Travel From EEI in NOLA to KC for Zulema Bassham - June 7 - 10, 2015		\$563.60
Tesla/Sunagevity meeting - Oakland, CA 9-30 to10-1 2014		\$20.33
Acendas fee for airfare from MCI to SFO for Tesla Motors and Sungevity meetings CA 9/30-10/2 2014		\$31.00
Airfare from MCI to SFO for Tesla Motors and Sungevity meetings CA 9/30-10/2 2014		\$590.20
Airfare from Washington DC to KC - Funeral for Mike Poling		\$417.00
Airfare KC to Washington DC - Mike Poling funeral		\$566.00
Airport parking - trip to Washington DC for Mike Poling funeral		\$40.00
Car service from airport to Tesla Motors Plant in Fremont, CA for meetings 9/30-10/2 2014		\$105.00
Car service from hotel to SFO after meetings 9/30-10/2 2014		\$95.00
Charge for Wifi on flight from KC to Washington DC for Mike Poling funeral		\$9.95
Charge for wifi on flight from Washington DC for Mike Poling funeral		\$8.00
Chuck Caisley's meal - trip for Mike Poling funeral		\$20.05
Early check-in charge for flight from Washington DC to KC - Funeral for Mike Poling		\$12.50
Gas for car rental Sungevity trip.		\$6.52
Hotel accommodations for Tesla/Sungevity trip to Oakland, CA -30/10-2 2014		\$815.94
Lodging - trip to Washington DC for Mike Poling funeral		\$283.75
Meal - trip to Washington DC for Mike Poling funeral		\$26.00
Meal during Tesla/Sungevity trip to Oakland, CA 9-20/10-2 2014		\$11.97
Meal during Tesla/Sungevity trip to Oakland, CA 9-30/10-2 2014		\$19.91
Meal durnig Tesla/Sungevity trip to Oakland, CA 9-30/10-2 2014		\$8.65
Meal on Tesla/Sungevity meeting trip to Oakland, CA 9-30/10-2/2014		\$23.26
Meal on trip Oakland, CA for Tesla/Sungevity meetings		\$23.68
Meal on trip to Washington DC for Mike Poling funeral		\$20.05
Parking at MCI for trip to Oakland, CA for Tesla/Sungevity meetings 9-30/10-2 2014		\$66.00
Taxi fare - Trip to Washington DC for Mike Poling funeral		\$29.75
Taxi to airport from hotel - trip to Washington DC for Mike Poling funeral		\$24.66
Travel agent fee for booking flight from KC to Washington DC for Mike Poling funeral		\$31.00
Travel agent fee for booking flight from Washington DC to KC for Mike Poling funeral		\$15.00
WiFi during trip to Tesla/Sungevity meetings in Oakland, CA 9-30/10-2 2014		\$16.95
Travel food for Mike Poling's funeral (company employee).		\$2.00
airfare for visit to Columbus, OH on 10/8-9/2014 re: Transource		\$659.20
airfare on Southwest for travel to Columbus, OH for Transource meeting		\$462.20
airfare on Southwest to Columbus, OH for Transource meeting on November 12		\$208.00
airfare to Columbus, OH for AEP/Kiewitt Demo		\$659.20
airfare to Columbus, OH to attend the Transource meeting.		\$658.00
airport parking at KCI while traveling to Columbus, OH for Transource meeting		\$39.00
airport parking while in Columbus, OH attending the Transource meeting		\$28.49
airport parking while traveling to Columbus, OH for the AEP/Kiewitt demo		\$37.00
breakfast while in Columbus, OH attending the Transource meeting.		\$9.00
business breakfast with John Olander of Burns & McDonnell re: Transource		\$26.50
business dinner with Julie Shull, Todd Fridley, Forrest Archibald and Ted Pfisterer with ECI along with AEP folks: Mike Higgins & Bryan Hanft re: Transource		\$216.41
business lunch at Bristol with Todd Fridley regarding Transource		\$55.01

business lunch at O'Malley's in Weston, MO regarding Iatan/Nashua Line with Erin Pogue, M Higgins, M. Elliott, Julie Shull, Rick Albertson	\$176.00
business lunch at Shadow Glen Golf Club with Jim Shay and Dean Oskvig and Joe Plubell of Black & Veatch	\$64.01
cab fare in Columbus, OH from meeting place to airport while attending Transource meetings.	\$75.00
cab fare while in Columbus, OH for the AEP/Kiewitt Demo	\$56.76
golf cart at Shadow Glen with Jim Shay and Joe Plubell & Dean Oskvig of Black & Veatch	\$25.04
hotel and food expense while in Columbus, OH for the Transource meeting	\$306.96
hotel expense at the Hilton Hotel Columbus Downtown while traveling for AEP/Kiewitt Demo	\$304.33
hotel expense while in Columbus, OH attending the Transource Meeting	\$245.58
misc. cash used for travel while in Columbus, OH attending the Transource Meeting	\$15.00
personal expense	\$6.17
personal items purchased at Target. Mistakenly used T&E card instead of personal card.	\$169.96
r/t airport mileage for travel to Columbus, OH for a Transource meeting	\$22.40
r/t airport mileage for travel to Columbus, OH for Transource meeting	\$22.40
r/t business mileage to Liberty Memorial for KLT Business Plan Update Meeting	\$2.24
r/t mileage for the Iatan - Nashua Land Acquisition celebratory Dinner @ Trezo Mare; 4105 N. Mulberry Drive, KCMO 64116	\$6.16
r/t mileage for Transource team dinner at Jack Stack's BBQ/4747 Wyandotte, KCMO	\$5.04
r/t mileage for visit to the Nashua Substation for the Iatan/Nashua site visit	\$67.76
r/t mileage to attend LaCygne Environmental Project team building golf outing at Heritage Golf Course	\$31.36
r/t mileage to First Watch in Overland Park, KS with John Olander of Burns & McDonnell re: Transource	\$19.60
r/t mileage to the airport for travel to Columbus, OH for the AEP and Kiewitt Demo	\$22.40
room service while staying at the Hilton in Columbus while attending the AEP/Kiewitt demo	\$21.30
taxi fare while in Columbus, OH attending the Transource Meeting	\$30.03
tips in Columbus, OH while traveling for the AEP/Kiewitt demo	\$4.00
tips while in Columbus, OH attending the Transource meeting.	\$9.00
United Way Thank You Lunch for Greg Lee for his service to United Way	\$42.97
Personal	\$79.00
DINNER: Transource, flights severely delayed, Columbus, OH	\$21.97
Mistakenly used CC	\$9.48
Personal	\$136.33
Personal dinner expense	\$131.05
Taxi: Transource, Columbus, OH 6/24-25/2014	\$25.00
Business meal at EEI to discuss Solar	\$559.20
Business meal meal w/ Randy Wisthoff Kansas City Zoo	\$36.06
Business meal to discuss KC Chiefs solar announcement. Attendees listed on receipt.	\$90.00
Business meal w/ Brightergy.	\$20.82
Business meal w/ Sungevity. Attendee list attached.	\$1,645.86
Business Meal: Meeting w/ Jackie DeSouza regarding KC Zoo.	\$4.19
Food & Beverage for KCP&L Suite at Arrowhead for Customer Solutions and Tier 1 Customers. Attendee list attached.	\$1,350.00
Mileage to Kauffman Stadium to host KCP&L Suite.	\$8.96
Mileage to Zoo for Zoo Cabinet meeting.	\$10.08
Parking-business development trip with KC Royals personnel.	\$37.00
Purchase of additional tickets for company guests to attend football game at Arrowhead.	\$51.30
Purchased beverage for Jason Booker on KC Royals trip.	\$7.99
Roundtrip mileage less daily commute to attend house band reception/dinner in Jefferson City.	\$176.96
Roundtrip mileage less daily commute to attend Solar meeting at Arrowhead.	\$9.04
Roundtrip mileage less daily commute to attend Zoo Board Development Committee Meeting and Fundraising Meeting.	\$10.08
Roundtrip mileage less daily commute to attend Zoo Executive Committee Board Meeting.	\$10.17
Roundtrip mileage less daily commute to host KCP&L Suite at Kauffman Stadium	\$8.96
Roundtrip mileage less daily commute to host KCP&L Suite at Sprint Center, Community/Government Affairs.	\$20.16
Roundtrip mileage to host KCP&L Suite at Arrowhead for Community Relations.	\$9.04
Roundtrip mileage to Host KCPL Chiefs Suite	\$9.04
Roundtrip to attend 101 Awards meeting at Arrowhead and KC Zoo Budget Meeting at Zoo.	\$8.96
RT Meeting w/ KC Zoo	\$9.52
RT mileage less distance to home for solar meeting at Kauffman stadium	\$8.96
RT mileage to Zoo Board Meeting at Kansas City Zoo.	\$10.08
RT Mileage to Zoological District Meeting.	\$10.08
RT to Kauffman stadium to host KCP&L Suite.	\$33.60



RT to Topeka less miles from home to meet with KS State Senators	\$71.68
RT travel less difference to attend KCPL sponosred table at 101 awards	\$20.16
Shipped suite tickets to guest.	\$45.02
Souvenirs for guests of KCP&L suite at Kauffman. Attendee list attached.	\$189.61
Transportation-business development trip with KC Royals personnel.	\$51.15
Travel back (to meetng at KC Zoo) from Tantara, Osage Beach, MO for Missouri Chamber of Commcerce Environmental Conference.	\$87.92
Travel DC for Mike Poling's funeral (company employee).	\$420.00
Travel food for Mike Poling's funeral (company employee).	\$2.53
Travel meal - business development trip with KC Royals personnel.	\$6.68
Travel meal-business development trip with KC Royals personnel.	\$3.75
Travel to Arrowhead, KC Zoo for business meetings	\$5.60
Travel to Tantara, Osage Beach, MO for Missouri Chamber of Commcerce Environmental Conference.	\$85.68
Travel to Zoo mileage less daily commute to attend Zoo Borad Meeting.	\$10.17
Zoolgoical District Meeting-KC Zoo	\$10.35
Airfare for Scott's flight from KC to Seattle to attend the BNSF's Great Pacific Train Ride, July 17 - 20.	\$505.13
Attended the Working Families' Friend Annual Golf Tournament at The National Golf Course	\$19.60
Attending the AABE 14th Annual Golf Tournament, Shoal Creek Golf Course	\$15.68
Baggage fee from Alaska Air on returning flight from Whitefish, MT to KC after attending the BNSF Train Trip, July 17-20	\$25.00
Hotel on 7/17 - 19 while attending the BNSF Train Trip, July 17-20, Seattle WA to Whitefish, MT	\$695.28
KCI Airport parking while attending the BNSF Train Trip, July 17-20, Seattle, WA to Whitefish, MT	\$75.00
Travel agent fee for Airfare for Scott's flight from KC to Seattle to attend the BNSF's Great Pacific Train Ride, July 17 - 20.	\$33.50
Travel Agent Fee for Scott Heidtbrink's round-trip ticket from KC to Seattle to Montana, back to KC (July 17 - 20) - Will be credited after plans are changed.	\$33.50
LaCygne/Transource Personnel Meeting	\$105.88
Royals Suite - Regulatory Team Building event - LA Dodgers	\$406.46
Team Building Outing - KC Royals Game - Royals v. White Sox	\$441.20
r/t mileage to Plaza for AllConnect meeting	\$5.60
r/t mileage to the Boy Scouts of America offices for Exploring Division meeting	\$16.68
r/t mileage to the Boy Scouts office to attend the Exploring Div. Dinner & Awards	\$16.24
Food for Royals Suite. Business development. Transource Attendee List attached.	\$21.75
	\$17,652.34

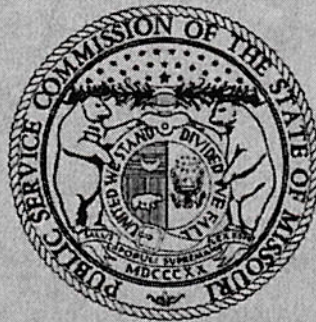
Staff Exhibit No. 200-NP  
Date 6/15/15 Reporter AT  
File No. ER-2014-0370

**MISSOURI PUBLIC SERVICE COMMISSION**

Filed  
June 29, 2015  
Data Center  
Missouri Public  
Service Commission

**STAFF REPORT**

**REVENUE REQUIREMENT  
COST OF SERVICE**



**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2014-0370**

*Jefferson City, Missouri  
April 2, 2015*

**\*\* Denotes Highly Confidential Information \*\***

**NP**

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1 29. KCPL and Great Plains Officer Expense Report Adjustment

2 In its review of KCPL responses to Staff Data Request Nos. 0339 and 0341, Staff  
3 reviewed several Great Plains/KCPL officer expense reports. Staff found that several charges to  
4 KCPL's cost of service by Great Plains/KCPL officers appeared to be imprudent, unreasonable,  
5 excessive, and incorrectly allocated to KCPL's regulated accounts. In several previous KCPL  
6 rate cases Staff has also found problems with the prudence, excessiveness and reasonableness of  
7 KCPL and Great Plains officer expense report charges. Staff is aware of attempts by KCPL to  
8 mitigate the detriment to its customers from these types of expenses, including, in a previous rate  
9 case, KCPL making rate case adjustments to remove all officer expense report charges. In  
10 response to Staff's concerns in these prior cases KCPL appeared to implement internal control  
11 procedures designed to reduce the risk of unreasonable, imprudent and excessive officer  
12 expenses from being charged to KCPL ratepayers. It seems KCPL has either failed to continue  
13 with these internal control measures or the measures are ineffectively administered.

14 Staff questioned KCPL on the appropriateness of a selected small sample of officer  
15 expense report charges in Staff Data Request No. 0502. Just a few of the charges that Staff  
16 addressed in Staff Data Request No. 0502 were:

- 17 a. Thousands of dollars in iPad purchases acquired through an expense report  
18 instead of normal procurement processes where the charges were expensed  
19 instead of capitalized as required by normal accounting procedures;
- 20 b. Over \$700 in meals expenses related to an employee baby shower in Kansas  
21 City;
- 22 c. A \$327 dinner charge for a meeting between a KCPL employee and a Kansas  
23 City Royals official;
- 24 d. A \$270 dinner charge for a KCPL employee and a former Great Plains/ KCPL  
25 Chief Executive Officer at Sullivan's Steak House in Kansas City;
- 26 e. Meal charges associated with Allconnect, Inc. non-regulated operations  
27 charged to regulated cost of service;
- 28 f. A \$293 meal charge for a KCPL employee and a former KCPL employee to  
29 discuss governmental affairs at Capital Grille in Kansas City;
- 30 g. A \$659 meal for a customer meeting at Capital Grille in Kansas City;
- 31 h. A \$1,120 meal at Capital Grille in Kansas City for a Public Affairs and  
32 Marketing Retreat; and

- 1 i. A \$530 unexplained restaurant charge for a business development meeting at  
2 Piropos Briarcliff in Kansas City.

3 On March 24, 2015, KCPL notified Staff that it will be making in its cost of service true-up  
4 filing an update to its adjustment CS-11 in the amount of \$117,422. This update is to remove all  
5 eight Great Plains officer (not KCPL officers) expense report charges from KCPL's test year  
6 expenses. KCPL advised Staff that the expense report charges of the eight KCPL officers will  
7 not be adjusted. KCPL also indicated that the adjustment will correct a KCPL officer expense  
8 report charge that was made to KCPL's books and records that should have been made to  
9 Transource Missouri's books and records. Transource Missouri is an affiliate of KCPL.

10 The fact that these costs were incurred, approved, paid, and charged to accounts that  
11 would qualify for recovery from KCPL customers raises a concern regarding KCPL's other cost  
12 of service expenses that have not received the same level of scrutiny as the officer expense report  
13 charges. The officer expense report transactions occur at the highest level of authority and  
14 control of KCPL's costs. These costs would not be removed without Staff's audit. These costs  
15 were not removed from cost of service through, KCPL's own internal controls, seeking to find  
16 and remove inappropriate, excessive and imprudent officer expenses. These costs are only being  
17 removed as a result of Staff's audit of the costs that KCPL asserts are reasonable and prudent and  
18 appropriately charged to ratepayers.

19 This is not a new discovery by Staff, as Staff identified this practice and was assured  
20 previously by KCPL that the practice was being corrected. Information in this case provides a  
21 strong indication that KCPL did not adequately review officer expenses prior to filing this rate  
22 case, let alone address this matter before the expenses were incurred, paid, and charged to  
23 regulated expense accounts.

24 Because KCPL's internal controls are ineffective and KCPL has been aware of the  
25 deficiency from prior cases, Staff has decided to remove 50 percent of all KCPL and 100 percent  
26 of Great Plains officer expenses charged to test year regulated accounts in this case. This  
27 adjustment will provide a high level of the assurance that no unreasonable costs have been  
28 included in customer rates and should provide KCPL with an incentive to improve its controls  
29 to provide reasonable assurance that officer expense report charges made to KCPL's  
30 regulated accounts are reasonable, prudent, not excessive and correctly allocated without a  
31 Staff inspection.

Staff Exhibit No. 216-NP

Date 6-15-15 Reporter AT

File No. ER-2014-0370

Exhibit No.:

Issues: *Corporate Allocations/  
Affiliate Transactions*

Witness: *Charles R. Hyneman*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Surrebuttal Testimony*

Case No.: *ER-2014-0370*

Date Testimony Prepared: *June 5, 2015*

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June 29, 2015

Data Center

Missouri Public

Service Commission

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2014-0370**

Jefferson City, Missouri

June 2015

**\*\* Denotes Highly Confidential Information \*\***

**NP**

CRH-S-6

5/35

Surrebuttal Testimony of  
Charles R. Hyneman

1 Q. Has the Staff filed a complaint case with the Commission related to KCPL's  
2 relationship with Allconnect?

3 A. Yes. The Staff filed a complaint case against KCPL on May 20, 2015 seeking  
4 that the Commission order KCPL to cease its relationship with Allconnect. The Staff finds  
5 significant detriment to KCPL's regulated customers as a direct result of KCPL's dealings  
6 with Allconnect. The Staff is seeking to protect KCPL's Missouri regulated customers from  
7 KCPL's imprudent management actions causing a detriment to its regulated customers.

8 Q. In addition to the ratepayer detriment suffered as a result of KCPL's customers  
9 being transferred to Allconnect, does the Staff have additional concerns with Allconnect?

10 A. Yes. KPCL's association with the servicing of the GPES contract with  
11 Allconnect has resulted in an additional violation of the Commission's Affiliate Transaction  
12 Rule related to the protection of customer information.

13 Q. Please explain.

14 A. When KCPL customer service employees transfer customer calls from the  
15 KCPL Call Center to Allconnect's facilities and employees, it is also transferring customer  
16 information without the customer's permission. 4 CSR 240-40.015 Affiliate Transactions  
17 paragraph (2)(C) states that "Specific customer information shall be made available to affiliate  
18 and unaffiliated entities only upon consent of the customer or as otherwise provided by law or  
19 commission rules or orders." KCPL provides Allconnect with specific customer information  
20 without the consent of the customer.

21 **Staff's Consolidated Corporate Allocations/Affiliated Transactions Adjustment**

22 Q. What is KCPL witness Klote's response to the Staff Adjustment 5, which is  
23 Staff's \$750,000 Consolidated Corporate Allocations and Affiliate Transactions adjustment?

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     Mr. Klote addresses this adjustment at pages 32 through 40 of his rebuttal  
2 testimony in which he characterizes the adjustment as "unreasonable."

3           Q.     Why does Mr. Klote find Staff Adjustment 5 to be unreasonable?

4           A.     Mr. Klote believes the adjustment is arbitrary. He also believes that Staff has  
5 overstated the level of KCPL's noncompliance with the Commission's Affiliate Transaction  
6 rule, and that Staff has overstated the degree to which KCPL is currently, or will in the future,  
7 be engaging in non-regulated operations.

8           Q.     Does Staff Adjustment 5 include the approximate \$140,000 in GPE officer  
9 expenses that, in response to a Staff Data Request, KCPL proposed to remove from its cost of  
10 service in this rate case?

11          A.     No. KCPL made the decision that it would not provide justification for certain  
12 officer expense report costs addressed in Staff Data Request No. 502 ("DR 502"). KCPL  
13 decided just to remove these costs from this rate case and stopped any further explanation into  
14 these and other potentially related costs by its decision not to address this issue by providing  
15 any further response to DR 502. KCPL notified the Staff of its decision not to address the  
16 issues listed in DR 502 on or about April 6, 2015.

17                Based on certain expenses charged by just one KCPL management employee, Staff  
18 asked a series of questions in an attempt to understand the business purpose of the expenses or  
19 how these expenses received approval to be paid under KCPL's internal control procedures.  
20 It is interesting to note that KCPL chose not to justify any of these charges as having a  
21 legitimate business purpose, but nonetheless approved these expenses, paid these expenses  
22 and charged them to regulated utility accounts where, unless challenged, the costs would have  
23 been included in customer rates.



Surrebuttal Testimony of  
Charles R. Hyneman

1

Item	Tran Amt	Merchant	Long Descr
1	\$5,447	APPLESTORE #R283	Ipads for KCP&L Corp Communications team.
2	\$2,200	GREATER KANSAS CITY CH	Registration fee for the Greater KC Chamber of Comm Leadership Exch
3	\$1,119	CAPITAL GRILLE00080150	Marketing & Public Affairs Leadership Retreat. List attached.
4	\$918	APPLESTORE #R283	IPad for Communications team.
5	\$916	MGM GRAND/CRAFTSTEAK	Trave meal at EEI Conference. Attendee list attached to receipt.
6	\$815	HYATT HOTELS BOSTON	Hotel for CCIF Conference in Boston.
7	\$797	CHESAPEAKE ENERGY AREN	MPA Customer Research Trip to Oklahoma City. Attendee list attached.
8	\$738	12 BALTIMORE	Business Meal: Baby shower for (REDACTED). Attendee list attached.
9	\$659	CAPITAL GRILLE00080150	Business Meal RE: Customer Meeting RE: Guest list attached.
10	\$611	PIROPOS BRIARCLIFF	Business meeting to discuss KC city projects. Attendee list on receipt page.
11	\$559	DEL FRISCOS #8635	Business meal at EEI to discuss Solar
12	\$540	PIROPOS BRIARCLIFF	Business development meeting.
13	\$504	SOUTHWEST	Travel to Chicago/Hearland Dialogs
14	\$482	SOUTHWEST	Airfare to Chicago for meeting with Bridge Strategy.
15	\$454	SOUTHWEST	R/T business travel to Oklahoma City for Customer Experience trip.
17	\$411	AT&T*TEXT2PAY	Company cell phone data usage.
18	\$405	WARWICK ALLERTON HOTEL	Lodging/Chicgo/Hearland Dialogues
19	\$355	FINANCIAL RESEARCH INST	Purchase Big Book of Lists
20	\$344	SOUTHWEST	Airfare for Media Conference in St. Louis.
21	\$337	CAPITAL GRILLE00080150	Business development meeting. Attendee list attached.
22	\$327	SULLIVANS STEA00085365	Dinner w/ (REDACTED), KC Royals
23	\$323	BRISTOL 162	Business Meal: Ameren
24	\$316	CAPITAL GRILLE00080150	Business Meal w/ (REDACTED) of WPA Research to discuss customer research.
25	\$301	THE MAJESTIC RESTAURANT	Business meal to discuss iFactor additional attendees on receipt.
26	\$293	CAPITAL GRILLE00080150	Business meal with (REDACTED) to discuss government affairs.
27	\$293	AT&T*TEXT2PAY	Payment for company supported electronic device.
28	\$292	AT&T*TEXT2PAY	Payment for company provided electronic device.
29	\$287	APPLESTORE #R097	Ipad equipment for Corporate Communications Team
30	\$269	SULLIVANS STEA00085365	Dinner w/ (REDACTED), Kansas City Water
31	\$263	APPLESTORE #R283	Ipad expense for Corporate Communicalton Team.
32	\$251	SULLIVANS STEA00085365	Business Meal RE: AllConnect Attendee list attached
35	\$220	LEGAL HARBORSIDE	Travel meal at CCIF in Boston w/ (REDACTED)
36	\$210	SOUTHWEST	KC Chamber of Comm Leadership Exch Conf in San Fransico, CA.
37	\$206	ATT*PAYMENT	Paymet for company provided electronic device.
38	\$206	ATT*PAYMENT	Payment for company cell phone replacement.
39	\$206	ATT*PAYMENT	Replacement of Company cell phone.
40	\$206	ATT*PAYMENT	Payment for company cell phone

2

3

Reference the attached Excel spreadsheet which lists certain expense report charges and questions listed below related to those charges:

4

5

A Nos. 37-40, please explain the reason for over \$800 in cell phone charges

6

B For all meal charges, please provide the cost per person, the name of the person who approved the charge and a description stating why the cost was necessary to provide regulated utility service

7

8

9

C. Item number 8, was the cost of the baby shower charged to regulated customers? If so, why?

10

Surrebuttal Testimony of  
Charles R. Hyneman

- 1 D. For the Ipad related charges. Why were these Ipads purchased? Have they been  
2 and are they currently being used for regulated utility operations?
- 3 E. For the Ipad related charges. Why were these Ipads not capitalized to plant in  
4 service accounts?
- 5 F. No. 2, why is this cost to KCPL regulated accounts?
- 6 G. No. 18, what is the business purpose of this trip?
- 7 H. No. 19 how is this book related to KCPL's regulated operations?
- 8 I. No. 20, what is the business purpose of this trip?
- 9 J. No. 6, what is the business purpose of this trip?
- 10 K. No. 14, what is the business purpose of this trip?
- 11 L. No. 15, what is the business purpose of this trip?
- 12 M. Nos. 17, 27, 28, Does KCPL pay approximately \$300 to \$400 per month for one  
13 employee's cell phone service? If so, is this the fair market price for one cell phone?
- 14 KCPL's response to DR 502, in part, was that "[s]ubsequent to its direct filing in this case,  
15 the Company informed MPSC Staff that it was removing all GPE Officers expense report costs."  
16 KCPL failed to attempt to explain or even address any of the individual Staff questions listed above in  
17 DR 502.
- 18 Q. How do you as an auditor respond to KCPL's response to DR 502?
- 19 A. When a regulated utility company such as KCPL refuses to provide a  
20 responsive answer to a Staff Data Request and also does not object to the data request that is  
21 always a concern. In this particular instance KCPL is attempting to just substitute providing  
22 money rather than a substantive response to the Staff Data Request. This is even a bigger  
23 problem for a Staff auditor.
- 24 If KCPL is unable to justify one dollar of expense for a list of expenses paid to one  
25 employee, it is the regulatory auditor's responsibility to determine the risk of inappropriate  
26 and excessive costs for all of KCPL management employees being passed on to Missouri  
27 ratepayers. While I increasingly view Staff Adjustment 5 to be more and more conservative,  
28 it is made with the intent, not just to quantify Great Plains' Officer excessive and imprudent  
29 charges, but all of KCPL's approximately 1,000 managers' excessive charges. Great Plains'

Surrebuttal Testimony of  
Charles R. Hyneman

1 Officers set the "tone at the top" as they are in charge of creating and enforcing corporate  
2 policies and procedures. The risk that all KCPL managers behave in a similar manner as  
3 GPE officers is extremely high. If KCPL is not enforcing its expense report policies on  
4 Great Plains officers, there is absolutely no reason to believe it is enforcing these policies on  
5 other KCPL managers.

6 Q. Why do you consider the \$750,000 total company amount of Staff  
7 Adjustment 5 to be conservative?

8 A. The fact is that KCPL could justify none of the \$23,000 in officer expenses it  
9 was asked to justify in DR 502. In DR 502, Staff inquired about a small number of  
10 transactions for only one KCPL management employee. Given this fact, it appears the Staff  
11 may have underestimated the overall level of inappropriate, imprudent, excessive or  
12 inappropriately-allocated costs in KCPL's test year regulated books of account. There is also  
13 a strong indication that further and more extensive work in this area needs to be conducted in  
14 this area in the future.

15 The Staff's consolidated corporate allocations and affiliate transactions adjustment is  
16 designed to protect against the risk of inappropriate charges in all phases of KCPL's corporate  
17 operations, not just management expense account expenses. However, when you add the  
18 Staff's \$750,000 adjustment to the \$140,000 removal of GPE expenses, the total is \$890,000.  
19 The amount \$890,000 divided by KCPL's 1,000 management employees only protects the  
20 ratepayers from a maximum of \$890 per management employee of imprudent, excessive and  
21 inappropriately allocated corporate charges in the test year. Given that Staff Adjustment 5  
22 was not designed to cover only excessive and imprudent KCPL management expense report  
23 charges but also under-allocation of residual corporate overhead charges, there is little doubt  
24 that the Staff's adjustment could be much larger.

Surrebuttal Testimony of  
Charles R. Hyneman

1 Q. Did you consider a much larger dollar amount for Staff Adjustment 5?

2 A. Yes. However, at that time I did not realize the severity of KCPL's corporate  
3 allocations issues. Also, I gave consideration that KCPL and Staff had made progress in the  
4 development of an agreed-upon CAM and that KCPL did put a General Allocator into effect  
5 in 2015. These are some of the considerations that were considered at the time Staff  
6 Adjustment 5 was made in the Staff's Cost of Service Report.

7 Q. Are there other considerations that should be considered other than the dollar  
8 amount of the management expense account charges?

9 A. Yes. When employee expense report expenses are inappropriately charged or  
10 allocated, that is an indication that the salaries and benefits of the member of management are  
11 also inappropriately charged. As an example, when KCPL management travel to Little Rock  
12 Arkansas to meet with members of the Southwest Power Pool (SPP), KCPL routinely charted  
13 this travel costs to Operating Unit 10106, which is then allocated to KCPL and GMO  
14 regulated operations. Logically, the KCPL employees who made this trip would also charge  
15 their payroll and benefit costs to only KCPL and GMO. However, Transource is also a  
16 regulated by the Federal Energy Regulatory Commission and is a member of SPP.  
17 As explained above, Transource would also benefit from KCPL management's meetings with  
18 the SPP representatives just as KCPL and GMO would benefit.

19 Q. How do you respond to Mr. Klote's assertion that your adjustment was  
20 arbitrary?

21 A. Merriam Webster's online dictionary defines "arbitrary" in part as "*not planned*  
22 *or chosen for a particular reason: not based on reason or evidence: done without concern for*  
23 *what is fair or right.*" If that is what Mr. Klote had in mind when he characterized this  
24 adjustment as arbitrary, then I disagree.

Surrebuttal Testimony of  
Charles R. Hyneman

1           This adjustment was planned with a reason to protect KCPL's ratepayers from  
2 excessive, imprudent or inappropriately allocated charges. The adjustment was based on my  
3 review of hundreds of documents related to KCPL's corporate cost allocations and affiliate  
4 transactions. The adjustment was based on my reliance on extensive work over several years  
5 on KCPL's corporate allocations and affiliate transactions, including KCPL's current CAM  
6 case. This adjustment is also based on the length of time that KCPL has had problems with  
7 non-compliance with the Commission's affiliated transaction costs as discussed in prior  
8 testimony regarding the improper handling of the Crossroads and GPP transactions. Finally,  
9 this adjustment was certainly done with concern for what is "fair" and "right".

10           Q.     Has Mr. Klote in previous KCPL rate cases reviewed and removed certain  
11 KCPL management expenses from KCPL's requested cost of service in those rate cases?

12           A.     Yes. This is not a new problem with KCPL. KCPL's lack of internal controls  
13 over its management expense accounts has been a problem for years going back to at least  
14 2006. Based on the problems found by Staff in Case No. ER-2007-0291 and problem areas  
15 found by KCPL's own internal auditors, Mr. Klote and another KCPL employee were  
16 assigned to review all, or a very significant number of officer expense reports and remove  
17 inappropriate charges through a cost of service adjustment in its rate case.

18           Q.     Did Mr. Klote perform a similar review in this rate case?

19           A.     Staff has seen no evidence of such a review. If Mr. Klote performed such a  
20 review, then he certainly would have found many of the same imprudent, excessive and  
21 inappropriately allocated costs that I found during my review.

22           Q.     How do you respond to Mr. Klote's characterization of that Staff has overstated  
23 the level of KCPL's noncompliance with the Commission's Affiliate Transactions Rule?

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     I have addressed KCPL's significant lack of compliance with the Commission's  
2 Affiliate Transactions Rule. I have summarized some very significant violations (Crossroads  
3 and GPP) that should convince anyone with an understanding of the Affiliate Transactions  
4 Rule and utility operations that KCPL has in the past and continues to exercise little or no  
5 internal control supported by effective policies and procedures designed to ensure compliance  
6 with the Affiliate Transactions Rule.

7           Effective internal control would detect and prevent inappropriate expenditures and  
8 related booking of such costs, as well as identify the individual(s) or culture (e.g., lack of  
9 instruction or the following of directives) responsible for the problem. I have also listed  
10 specific current Affiliate Transactions Rule violations between KCPL and Great Plains related  
11 to what I consider KCPL's forced business relationship with Allconnect, Inc.

12           Even in response to several Staff data requests in this case KCPL admitted  
13 noncompliance with the Affiliate Transactions Rule by stating, in effect, that KCPL needs  
14 Staff's help to record corporate allocations and affiliate transactions correctly. KCPL's exact  
15 response was "The Company and Staff personnel have made significant progress in  
16 establishing an agreed upon CAM which the Company expects will improve consistency of  
17 coding going forward." (KCPL-GMO responses to Staff Data Request Nos. 559, 564, 565,  
18 566 and 567).

19           It is difficult to understand how Mr. Klote can state that the Staff has overstated the  
20 level of KCPL's noncompliance with the Commission's Affiliate Transactions Rule given the  
21 fact that KCPL admits it cannot even record corporate allocations and affiliate transactions  
22 correctly without the Staff's assistance in creating a revised cost allocation manual and  
23 effective internal controls. As with the level of Staff's \$750,000 adjustment, the Staff's

Surrebuttal Testimony of  
Charles R. Hyneman

1 | characterization of KCPL's noncompliance with the Affiliate Transactions Rule is not  
2 | overstated, but likely significantly understated.

3 | Q. Was KCPL's response to Staff Data Request No. 502, or the other Staff Data  
4 | Requests noted above, the only Staff data requests where KCPL failed to explain or justify its  
5 | management's corporate expense account charges?

6 | A. No. Staff Data Request No. 560 ("DR 560") is another example. The Staff's  
7 | questions submitted in DR 560 and KCPL's "non-responses" are provided below. In DR 560  
8 | the Staff attempted to obtain information whether certain expenses incurred by its employees  
9 | were in compliance with Great Plains-KCPL Procurement policies. KCPL refused to address  
10 | this Staff question related to internal controls and policies.

11 | **Staff Data Request No. 560**

12 | 1. Reference Expense Report 0000038916. Was the purchase of  
13 | iPads for KCPL's Corporate Communications Team on  
14 | December 16, 2013 in compliance with KCPL's Procurement  
15 | policies in general and its procurement policies for computers in  
16 | particular? 2. Since this charge was booked to Operating Unit  
17 | 101106, how does the use of these iPads for the Corporate  
18 | Communications Team only benefit KCPL and GMO's  
19 | regulated utility operations? 3. If this purchase does not only  
20 | benefit KCPL and GMO's regulated operations, why was it  
21 | booked to Operating Unit 101016 and account 921? 4. Please  
22 | provide the name of the KCPL employee who approved this  
23 | purchase. 5. Was the approval made prior to or subsequent to  
24 | the purchase? 6. Please provide a copy of the KCPL policy  
25 | which allows KCPL Officers to purchase computer equipment  
26 | on their expense reports. 7. Please provide a copy of all KCPL's  
27 | internal controls which reduces the potential for employees to  
28 | charge to Operating Unit 101106 Utility Mass Formula, when  
29 | the charge should be to 101105 Corporate Mass Formula. 2.  
30 | Reference expense report 0000038628 and the November 11,  
31 | 2013 "business meeting" with . . . and a KCPL employee at the  
32 | Sullivan's Steak House in Leawood Kansas charged to account  
33 | 921 101106 Utility MASS Formula 1. Who is . . . and what  
34 | services did he provide to KCPL? 2. Please describe these  
35 | services in detail. 3. Since the charge was made to Operating  
36 | unit 101106, please explain in detail how these charges benefit  
37 | only KCPL and GMO regulated operations and not GPE

Surrebuttal Testimony of  
Charles R. Hyneman

1 businesses in general. 4. Has KCPL ever entered into a contract  
2 or agreement with . . .? If yes, please provide a copy. If not,  
3 why did KCPL believe it was necessary to charge KCPL and  
4 GMO ratepayers to meet with . . . DR requested by Chuck  
5 Hyneman (Chuck.Hyneman@psc.mo.gov).

6 **KCPL Response to Staff Data Request No. 560**

7 The Company made an adjustment to reduce rate recovery of  
8 GPE Officer expenses by approximately \$67k (Missouri  
9 jurisdictional) in recognition of inconsistent coding of expenses  
10 during the test year. The Company and Staff personnel have  
11 made significant progress in establishing an agreed upon CAM  
12 which the Company expects will improve consistency of coding  
13 going forward. The charge questioned above should have been  
14 coded to Operating Unit 10105 which would have spread the  
15 cost across all Business Units (including non-regulated units).

16 Q. Do you have a response to KCPL's answer to Staff DR 560?

17 A. Yes. In instances where KCPL refused to respond to basic requests for  
18 information, any auditor, especially a Certified Public Accountant, is expected to approach the  
19 audit area with an even higher-than-normal level of professional skepticism. That is how  
20 I reacted to KCPL's response to DR 560 as well as the other responses described above.

21 Q. Are Certified Public Accountants ("CPAs") required to adopt and maintain an  
22 attitude of professionalism in the conduct of audits of financial statements?

23 A. Yes.

24 Q. Are you a CPA?

25 A. Yes. Mr. Klote is a CPA as well.

26 Q. What regulatory standards require the application of auditor professional  
27 skepticism?

28 A. It is required by the Public Company Accounting Oversight Board (PCAOB)  
29 audit standards. The PCAOB was established by Congress to oversee the audits of public  
30 companies in order to protect the interests of investors and further the public interest in the



Surrebuttal Testimony of  
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1 preparation of informative, accurate and independent audit reports. As noted in the attached  
2 Schedule CRH-s6, Staff Audit Practice Alert No. 10, *Maintaining and Applying Professional*  
3 *Skepticism in Audits*, December 4, 2012, professional skepticism is essential to the  
4 performance of effective audits under PCAOB standards. PCAOB standards require that  
5 professional skepticism be applied throughout the audit by each individual auditor on the  
6 engagement team.

7 Q. Does it appear to you that KCPL and GPE officers set the appropriate "tone at  
8 the top" when it comes to the incurrence of expense account charges?

9 A. In my opinion, no. KCPL and Great Plains officers are supposed to set the  
10 example of prudent behavior in the incurrence and approval of expenses charged when  
11 travelling and when incurring or approving costs for purchases, travel, and for meals and  
12 entertainment in the local area. As discussed above, KCPL and Great Plains officers set what  
13 is referred to as the "tone at the top" as it relates to incurred expenses. This means that as  
14 KCPL non-officer employees are aware of the standards actually used by KCPL and  
15 Great Plains officers to incur and record expenses, they too will adopt and adhere to those  
16 same standards.

17 For example, if one officer incurs expenses in one month but does not submit an  
18 expense report until seven months later, this officer encourages his/her subordinates to do or  
19 even accept this same poor internal control practice. KCPL has a policy for timely submittal  
20 of expense reports with the indication that reimbursement will be denied if proper  
21 documentation is not submitted on a timely basis. Likewise, if one officer purchases items  
22 such as computers without going through the proper procurement channels, that officer  
23 encourages other employees to follow his/her example. A final example is when an officer  
24 incurs excessive meal costs and charges, including alcohol and charges not allowed by

Surrebuttal Testimony of  
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1 Company's policies, and allows these costs as expenses to be recovered by ratepayers.  
2 This officer only encourages employees to follow his/her example instead of following  
3 Company policies.

4 Q. What is the concept underlying the "tone at the top"?

5 A. I should point out that I am only referring to the principle of the "tone at the  
6 top" in this testimony as it relates to the reasonableness and prudence of KCPL and  
7 Great Plains management's internal controls over its employee expense reimbursement  
8 process. I have not found nor am I implying KCPL has engaged in any unethical behavior.

9 Tone at the top is the climate generated by an organization's leadership. It is  
10 well understood that the tone set by management has a significant influence on the employees  
11 of the organization. The behavior and actions of the employees will naturally gravitate  
12 toward what they witness in their supervisors, line managers, and upper management.  
13 "Tone at the top" is also an important component of a company's internal control  
14 environment. The tone at the top is set by all levels of management and has a trickle-down  
15 effect on all employees of the company. Setting the proper tone starts with managers at all  
16 levels leading by example. As it relates to this issue, KCPL leaders should demonstrate  
17 through their own actions their commitment to ensuring only reasonable and prudent  
18 employee expense account expenses are approved and reimbursed. Management cannot act  
19 contrary to this commitment and expect others in the company to behave differently.

20 Q. Is there an example where a Great Plains officer incurred expenses in one  
21 month but did not file an expense until seven months later?

22 A. Yes. The Staff found the following examples of extremely late submission of  
23 expense reports that are repeat violations of KCPL's policies.

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- 1                    1. Officer incurred expenses in May 2013 (0000036408) the date of  
2                    the expense report was October 16, 2013 and the officer signed  
3                    attesting to the accuracy of the expenses on December 30, 2013.  
4                    2. Officer incurred expenses in June 2013 (0000036729) the date of  
5                    the expense report was October 20, 2013 and the officer signed  
6                    attesting to the accuracy of the expenses on December 26, 2013.  
7                    3. Officer incurred expenses in July 2013 (0000036734) the date of  
8                    the expense report was October 29, 2013 and the officer signed  
9                    attesting to the accuracy of the expenses on December 26, 2013.  
10                   4. Officer incurred expenses in September 2013 (0000036742) the  
11                   date of the expense report was October 29, 2013 and the officer  
12                   signed attesting to the accuracy of the expenses on December 26,  
13                   2013.

14                   Q.    Has KCPL management been aware of significant problems with its  
15 management's treatment of expenses for several years?

16                   A.    Yes. In response to Staff Data Request No. 162 in KCPL rate case No.  
17 ER-2007-0291 Staff received a copy of Great Plains Energy Services Kansas City Power &  
18 Light Officers and Directors Expense Report Review dated January 17, 2007. One of the  
19 Audit steps in this KCPL Internal Audit Department review was to verify that "All expenses  
20 should be coded to the correct account and given a sufficient description stating the business  
21 purpose. KCPL internal auditors found that "12 out of 33 (36%) Officer expense reports did  
22 not have the correct account coding on them. It is the employee's responsibility for coding  
23 expense reports correctly and Corporate Accounting's responsibility for providing support and  
24 training to employees to ensure that expenses are coded correctly."

25                   Another significant finding by KCPL's internal auditors in 2007 that continues to exist  
26 today is that "it was difficult to determine the business purpose by the description provided on  
27 some expense reports." In my review of KCPL and GPE management expense reports in this  
28 rate case audit I have found many charges which would seem to have a questionable business  
29 purpose. When I inquired to KCPL for the provision of the business purpose of some of the

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1 questionable charges, KCPL could not or it decided not to provide the business purpose for  
2 even one of the charges.

3 Q. What was the overall assessment of KCPL's internal auditors in its 2007  
4 review?

5 A. The Overall Assessment of KCPL's internal auditors was that:

6 Based on testing performed, at the time of our fieldwork,  
7 it appears that controls over Officers' expense reporting  
8 needs improvement. For the Officers' expense  
9 reimbursement process, the review noted several  
10 expense reports that were not in compliance with the  
11 Policy. Specific areas not in compliance included lack of  
12 required receipts, incorrect coding of expenses, and  
13 spousal travel without evidence of adequate approval  
14 and review.

15 Q. Given KCPL's past problems with its officer expense reports does it appear to  
16 you that KCPL's internal audit function is performing effectively?

17 A. No. I would assume that given KCPL's past officer expense report problems  
18 that KCPL's Internal Audit Department would make it a priority to audit KCPL's officer  
19 expenses regularly and ensure past non-compliance issues were addressed and corrected.  
20 My review of KCPL's officer expense reports in this rate case shows that these actions are not  
21 taking place.

22 Q. Did you question the business purpose of a particularly questionable charge by  
23 a member of KCPL management?

24 A. Yes. KCPL apparently approved the payment, reimbursed one of its  
25 employees, and charged to KCPL and GMO ratepayers for travel to a Board Retreat for an  
26 organization not related to KCPL or regulated operations or the utility industry in general.  
27 I inquired about this charge in Staff Data Request No. 576 and KCPL decided that it could not

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1 provide a business purpose for this charge. KCPL defended the appropriateness of this charge  
2 and said it should have been allocated to all Great Plains entities, including KCPL and GMO  
3 regulated operations in Operating Unit 10105. KCPL provided the same worded response  
4 for Staff Data Request No. 576 as it did for Staff Data Request Nos. 559, 564, 565, 566, 567,  
5 and 560.

6 It is extremely difficult for me to understand as it should be for anyone to understand  
7 why KCPL ratepayers should pay, in part, as maintained by KCPL, the cost of a KCPL/Great  
8 Plains Officer to travel to attend a "Board Retreat" for a company unrelated to regulated  
9 utility business. Yet, this is KCPL's official position as attested to by Mr. Tim Rush, a KCPL  
10 witness in this rate case.

11 **Staff Data Request No. 576**

12 Reference Expense Report 0000036742, airfare for the "MEM  
13 Board Retreat" charged to Operating Unit 10106, account 921.

14 1) Is "MEM" referenced in this expense report the "Missouri  
15 Employers Mutual," a provider of workers compensation  
16 insurance? 2) What does the Missouri Employers Mutual Board  
17 Retreat have to do with KCPL or GMO? 3) Who approved this  
18 payment to the requesting KCPL employee? 3) Why was this  
19 payment approved? 4) Why was the Operating Unit -- Utility  
20 Mass Formula allocated only to KCPL and GMO regulated  
21 operations selected as the appropriate allocation factor?

22 **KCPL Response to Staff Data Request No. 576**

23 The Company made an adjustment to reduce rate recovery of  
24 GPE Officer expenses by approximately \$67k (Missouri  
25 jurisdictional) in recognition of inconsistent coding of expenses  
26 during the test year. The Company and Staff personnel have  
27 made significant progress in establishing an agreed upon CAM  
28 which the Company expects will improve consistency of coding  
29 going forward. The charge questioned above should have been  
30 coded to Operating Unit 10105 which would have spread the  
31 cost across all Business Units (including non-regulated units).

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**STAFF AUDIT PRACTICE ALERT NO. 10**  
**MAINTAINING AND APPLYING**  
**PROFESSIONAL SKEPTICISM IN AUDITS**

December 4, 2012

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Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of the standards and rules of the PCAOB and relevant laws. Auditors should determine whether and how to respond to these circumstances based on the specific facts presented. The statements contained in Staff Audit Practice Alerts do not establish rules of the Board and do not reflect any Board determination or judgment about the conduct of any particular firm, auditor, or any other person.

**Executive Summary**

Professional skepticism is essential to the performance of effective audits under Public Company Accounting Oversight Board ("PCAOB" or "Board") standards. Those standards require that professional skepticism be applied throughout the audit by each individual auditor on the engagement team.

PCAOB standards define professional skepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence. The standards also state that professional skepticism should be exercised throughout the audit process. While professional skepticism is important in all aspects of the audit, it is particularly important in those areas of the audit that involve significant management judgments or transactions outside the normal course of business. Professional skepticism also is important as it relates to the auditor's consideration of fraud in an audit. When auditors do not appropriately apply professional skepticism, they may not obtain sufficient appropriate evidence to support their opinions or may not identify or address situations in which the financial statements are materially misstated.

Observations from the PCAOB's oversight activities continue to raise concerns about whether auditors consistently and diligently apply professional skepticism. Certain circumstances can impede the appropriate application of professional skepticism and allow unconscious biases to prevail, including

incentives and pressures resulting from certain conditions inherent in the audit environment, scheduling and workload demands, or an inappropriate level of confidence or trust in management. Audit firms and individual auditors should be alert for these impediments and take appropriate measures to assure that professional skepticism is applied appropriately throughout all audits performed under PCAOB standards.

Firms' quality control systems can help engagement teams improve the application of professional skepticism in a number of ways, including setting a proper tone at the top that emphasizes the need for professional skepticism; implementing and maintaining appraisal, promotion, and compensation processes that enhance rather than discourage the application of professional skepticism; assigning personnel with the necessary competencies to engagement teams; establishing policies and procedures to assure appropriate audit documentation, especially in areas involving significant judgments; and appropriately monitoring the quality control system and taking necessary corrective actions to address deficiencies, such as, instances in which engagement teams do not apply professional skepticism.

The engagement partner is responsible for, among other things, setting an appropriate tone that emphasizes the need to maintain a questioning mind throughout the audit and to exercise professional skepticism in gathering and evaluating evidence, so that, for example, engagement team members have the confidence to challenge management representations. It is also important for the engagement partner and other senior engagement team members to be actively involved in planning, directing, and reviewing the work of other engagement team members so that matters requiring audit attention, such as unusual matters or inconsistencies in audit evidence, are identified and addressed appropriately.

It is the responsibility of each individual auditor to appropriately apply professional skepticism throughout the audit, including in identifying and assessing the risks of material misstatement, performing tests of controls and substantive procedures to respond to the risks, and evaluating the results of the audit. This involves, among other things, considering what can go wrong with the financial statements, performing audit procedures to obtain sufficient appropriate audit evidence rather than merely obtaining the most readily available evidence to corroborate management's assertions, and critically evaluating all audit evidence regardless of whether it corroborates or contradicts management's assertions.

The Office of the Chief Auditor is issuing this practice alert to remind auditors of the requirement to appropriately apply professional skepticism throughout their audits. The timing of this release is intended to facilitate firms' emphasis in upcoming calendar year-end audits, as well as in future audits, on

the importance of the appropriate use of professional skepticism. Due to the fundamental importance of the appropriate application of professional skepticism in performing an audit in accordance with PCAOB standards, the PCAOB also is continuing to explore whether additional actions might meaningfully enhance auditors' professional skepticism.

### **Professional Skepticism and Due Professional Care**

Professional skepticism, an attitude that includes a questioning mind and a critical assessment of audit evidence, is essential to the performance of effective audits under PCAOB standards. The audit is intended to provide investors with an opinion on whether the financial statements prepared by company management are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. If the audit is conducted without professional skepticism, the value of the audit is impaired.

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.<sup>1/</sup> This responsibility includes obtaining sufficient appropriate evidence to determine whether the financial statements are materially misstated rather than merely looking for evidence that supports management's assertions.<sup>2/</sup>

PCAOB standards require the auditor to exercise due professional care in planning and performing the audit and in preparing the audit report. Due professional care requires the auditor to exercise professional skepticism. PCAOB standards define professional skepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence. PCAOB standards require the auditor to exercise professional skepticism throughout the audit.<sup>3/</sup>

While professional skepticism is important in all aspects of the audit, it is particularly important in those areas of the audit that involve significant

<sup>1/</sup> Paragraph .02 of AU sec. 110, *Responsibilities and Functions of the Independent Auditor*.

<sup>2/</sup> See, e.g., paragraph 3 of Auditing Standard No. 8, *Audit Risk* and paragraph 3 of Auditing Standard No. 14, *Evaluating Audit Results*.

<sup>3/</sup> See paragraphs .01 and .07-.08 of AU sec. 230, *Due Professional Care in the Performance of Work*.



management judgments or transactions outside the normal course of business, such as nonrecurring reserves, financing transactions, and related party transactions that might be motivated solely, or in large measure, by an expected or desired accounting outcome. Effective auditing involves diligent pursuit of sufficient appropriate audit evidence, particularly if contrary evidence exists, and critical assessment of all the evidence obtained.

Professional skepticism is also important as it relates to the auditor's consideration of fraud in the audit.<sup>4/</sup> Company management has a unique ability to perpetrate fraud because it frequently is in a position to directly or indirectly manipulate accounting records and present fraudulent financial information.<sup>5/</sup> Company personnel who intentionally misstate the financial statements often seek to conceal the misstatement by attempting to deceive the auditor. Because of this incentive, applying professional skepticism is integral to planning and performing audit procedures to address fraud risks. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.<sup>6/</sup>

Examples of the application of professional skepticism in response to the assessed fraud risks are (a) modifying the planned audit procedures to obtain more reliable evidence regarding relevant assertions and (b) obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters, such as through third-party confirmation, use of a specialist engaged or employed by the auditor, or examination of documentation from independent sources.<sup>7/</sup>

PCAOB inspectors continue to observe instances in which the circumstances suggest that auditors did not appropriately apply professional skepticism in their audits.<sup>8/</sup> As examples, audit deficiencies like the following

<sup>4/</sup> See paragraph .13 of AU sec. 316, *Consideration of Fraud in a Financial Statement Audit*.

<sup>5/</sup> AU sec. 316.08.

<sup>6/</sup> See AU secs. 230.07-.09.

<sup>7/</sup> Paragraph 7 of Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement*.

<sup>8/</sup> The PCAOB is not alone in identifying concerns regarding professional skepticism in audits. Regulators in countries such as Australia, Canada, Germany, the Netherlands, Singapore, Switzerland, and the United

raise concerns that a lack of professional skepticism was at least a contributing factor:

- For certain hard-to-value Level 2 financial instruments, the engagement team did not obtain an understanding of the specific methods and/or assumptions underlying the fair value estimates that were obtained from pricing services or other third parties and used in the engagement team's testing related to these financial instruments. Further, the firm used the price closest to the issuer's recorded price in testing the fair value measurements, without evaluating the significance of differences between the other prices obtained and the issuer's prices.
- The issuer discontinued production of a significant product line during the prior year and introduced a new product line to replace it. There were no sales of the discontinued product line during the last nine months of the year under audit. The engagement team did not test, beyond inquiry, the significant assumptions management used to calculate its separate inventory reserve for this product line.
- The engagement team did not evaluate the effects on the financial statements of management's determination not to test a significant portion of its property and equipment for impairment, despite indicators that the carrying amount may not have been recoverable. These indicators in this situation included operating losses for the relevant segment for the last three years, substantial charges for

Kingdom have cited concerns about professional skepticism in public reports on their inspections. See, e.g., the Financial Reporting Council's *Audit Quality Inspections Annual Report 2011/12*, available at <http://www.frc.org.uk/Our-Work/Publications/AIU/Audit-Quality-Inspections-Annual-Report-2011-12.aspx>, the Canadian Public Accountability Board's, *Meeting the Challenge "A Call to Action" 2011 Public Report*, available at [http://www.cpab-ccrc.ca/en/content/2011Public Report EN.pdf](http://www.cpab-ccrc.ca/en/content/2011Public%20Report%20EN.pdf), the Australian Securities & Investments Commission's Report 242, *Audit inspection program public report for 2009 – 2010*, available at [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep242-published-29-June-2011.pdf/\\$file/rep242-published-29-June-2011.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep242-published-29-June-2011.pdf/$file/rep242-published-29-June-2011.pdf), and the Accounting and Corporate Regulatory Authority *Practice Monitoring Programme Sixth Public Report*, August 2012, available at <http://www.acra.gov.sg/NR/rdonlyres/E7E2A4BF-EC46-4AB2-877D-297D4E618042/0/PMPReport2012170712finalclean.pdf>.

the impairment of goodwill and other intangible assets during the year, a projected loss for the segment for the upcoming year, and reduced and delayed customer orders.

- After the date of the issuer's balance sheet, but before the release of the firm's opinion, the issuer reported that it anticipated that comparable store sales for the first quarter of the year would be significantly lower than those for the first quarter of the year under audit. The engagement team had performed sensitivity analyses as part of its assessment on the issuer's evaluation of its compliance with its debt covenants, the issuer's ability to continue as a going concern, and the possibility of the impairment of the issuer's long-lived assets. The engagement team did not consider the implications of the anticipated decline in sales on its sensitivity analyses and its conclusions with respect to compliance with debt covenants, the issuer's ability to continue as a going concern, and impairment of long-lived assets.

The PCAOB's enforcement activities also have identified instances in which auditors did not appropriately apply professional skepticism. For example, in one recent disciplinary order, the Board found, among other things, that certain of a firm's audit partners accepted a company's reliance on an exception to generally accepted accounting principles ("GAAP") requirements for reserving for expected future product returns even though doing so conflicted with the plain language of the exception and the firm's internal accounting literature. The partners were aware of, but did not appropriately consider, contradictory audit evidence indicating that the returns were not eligible for the exception. This illustration of a lack of professional skepticism reappeared in the firm's response when the issue was questioned by the firm's internal audit quality reviewers. Although certain of the partners involved determined that the company's reliance on the exception to GAAP did not support the company's accounting, they, along with other firm personnel, formulated another equally deficient rationale that supported the company's existing accounting result.<sup>9/</sup>

#### **Impediments to the Application of Professional Skepticism**

Although PCAOB standards require auditors to appropriately apply professional skepticism throughout the audit, observations from the PCAOB's

<sup>9/</sup> See *In the Matter of Ernst & Young LLP, Jeffrey S. Anderson, CPA, Ronald Butler, Jr., CPA, Thomas A. Christie, CPA, and Robert H. Thibault, CPA, Respondents*, PCAOB Release No. 105-2012-001, (Feb. 8, 2012).

oversight activities indicate that, as a practical matter, auditors are often challenged in meeting this fundamental audit requirement. In maintaining an attitude that includes a questioning mind and a critical assessment of audit evidence, it is important for auditors to be alert to unconscious human biases and other circumstances that can cause auditors to gather, evaluate, rationalize, and recall information in a way that is consistent with client preferences rather than the interests of external users.

Certain conditions inherent in the audit environment can create incentives and pressures that can serve to impede the appropriate application of professional skepticism and allow unconscious bias to prevail. For example, incentives and pressures to build or maintain a long-term audit engagement, avoid significant conflicts with management, provide an unqualified audit opinion prior to the issuer's filing deadline, achieve high client satisfaction ratings, keep audit costs low, or cross-sell other services can all serve to inhibit professional skepticism.

In addition, over time, auditors may sometimes develop an inappropriate level of trust or confidence in management, which may lead auditors to accede to inappropriate accounting. In some situations, auditors may feel pressure to avoid potential negative interactions with, or consequences to, individuals they know (that is, management) instead of representing the interests of the investors they are charged to protect.

Other circumstances also can impede the appropriate application of professional skepticism. For example, scheduling and workload demands can put pressure on partners and other engagement team members to complete their assignments too quickly, which might lead auditors to seek audit evidence that is easier to obtain rather than evidence that is more relevant and reliable, to obtain less evidence than is necessary, or to give undue weight to confirming evidence without adequately considering contrary evidence.

Although powerful incentives and pressures exist that can impede professional skepticism, the importance of professional skepticism to an effective audit cannot be overstated, particularly given the increasing judgment and complexity in financial reporting and issues posed by the current economic environment.<sup>10/</sup> Auditors and audit firms must remember that their overriding duty is to put the interests of investors first. Appropriate application of professional skepticism is key to fulfilling the auditor's duty to investors. In the words of the U.S. Supreme Court:

<sup>10/</sup> See Staff Practice Alert No. 9, *Assessing and Responding to Risk in the Current Economic Environment* (Dec. 6, 2011).

By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a public responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's creditors and stockholders, as well as to the investing public. This "public watchdog" function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust.<sup>11/</sup>

However, inadequate performance of audit procedures may be caused by factors other than the lack of skepticism, or in combination with a lack of skepticism. As discussed further below, firms should take appropriate steps to understand the various factors that influence audit quality, including those circumstances and pressures that can impede the application of professional skepticism.

#### **Promoting Professional Skepticism via an Appropriate System of Quality Control**

PCAOB standards require firms to establish a system of quality control to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.<sup>12/</sup> This includes designing and implementing policies and procedures that lead engagement teams to appropriately apply professional skepticism in their audits.

Firms' quality control systems can help engagement teams improve the application of professional skepticism in a number of ways, including the following:

- *"Tone-at-the-Top" Messaging.* The PCAOB's inspection findings have identified instances in which the firm's culture allows or tolerates audit approaches that do not consistently emphasize the need for professional skepticism. Consistent communication from firm leadership that professional skepticism is integral to performing a high quality audit, backed up by a culture that supports it, could improve the quality of work performed by audit partners and staff. On the other hand, messages from firm leadership that are

<sup>11/</sup> *U. S. v. Arthur Young & Co.*, 465 U.S. 805, 817-18 (1984).

<sup>12/</sup> See paragraph .03 of Quality Control ("QC") sec. 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

excessively focused on revenue or profit growth over achieving audit quality, can undermine the application of professional skepticism.

- *Performance Appraisal, Promotion, and Compensation Processes.* An audit firm's performance appraisal, promotion, and compensation processes can enhance or detract from the application of professional skepticism in its audit practice, depending on how they are designed and executed. For example, if a firm's promotion process emphasizes selling non-audit services or places an undue focus on reducing audit costs, or retaining and acquiring audit clients over achieving high audit quality, the firm's personnel may perceive those goals as being more important to their own compensation, job security, and advancement within the firm than the appropriate application of professional skepticism.
- *Professional Competence and Assigning Personnel to Engagement Teams.* A firm's quality control system depends heavily on the proficiency of its personnel,<sup>13/</sup> which includes their ability to exercise professional skepticism. To perform the audit with professional skepticism, it is important that personnel assigned to engagement teams have the necessary knowledge, skill, and ability required in the circumstances,<sup>14/</sup> which includes appropriate technical training and experience. Professional skepticism is interrelated with an auditor's training and experience, as auditors need an appropriate level of competence in order to appropriately apply professional skepticism throughout the audit. In addition, it is important for the firm's culture to continually reinforce the appropriate application of professional skepticism throughout the audit.
- *Documentation.* It is important for a firm's quality control system to establish policies and procedures that cover documenting the results of each engagement.<sup>15/</sup> Although documentation should support the basis for the auditor's conclusions concerning every

<sup>13/</sup> QC sec. 20.11.

<sup>14/</sup> See QC sec. 20.12.

<sup>15/</sup> See QC secs. 20.17-.18. Also, see generally Auditing Standard No. 3, *Audit Documentation*.

relevant financial statement assertion, areas that require greater judgment generally need more extensive documentation of the procedures performed, evidence obtained, and rationale for the conclusions reached. In addition to the documentation necessary to support the auditor's final conclusions, audit documentation must include information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions.<sup>16/</sup>

- **Monitoring.** Under PCAOB standards, a firm's quality control policies and procedures should include an element of monitoring to ensure that quality control policies and procedures are suitably designed and being effectively applied.<sup>17/</sup> If the firm identifies deficiencies, the firm should evaluate the reasons for the deficiencies and determine the necessary corrective actions or improvements to the quality control system.<sup>18/</sup> Accordingly, if a firm identifies deficiencies that include failures to appropriately apply professional skepticism as a contributing factor, the firm should take appropriate corrective actions.

### **Importance of Supervision to the Application of Professional Skepticism**

The supervisory activities performed by the engagement partner and other senior engagement team members are important to the application of professional skepticism.<sup>19/</sup> The engagement partner is responsible for the proper supervision of the work of engagement team members.<sup>20/</sup> Accordingly, the

<sup>16/</sup> See, e.g., paragraphs 7-8 of Auditing Standard No. 3.

<sup>17/</sup> See QC sec. 20.07 and paragraph .02 of QC sec. 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

<sup>18/</sup> See QC sec. 30.03.

<sup>19/</sup> Besides supervision by the engagement partner and other engagement team members, the engagement quality reviewer also plays an important role in assessing the application of professional skepticism by the engagement team. In particular, the engagement quality reviewer is required to perform specific procedures to evaluate the significant judgments made by the engagement team.

<sup>20/</sup> Paragraph 3 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.

engagement partner is responsible for setting an appropriate tone that emphasizes the need to maintain a questioning mind throughout the audit and to exercise professional skepticism in gathering and evaluating evidence, so that, for example, engagement team members have the confidence to challenge management representations.<sup>21/</sup>

It is also important for the engagement partner and other senior engagement team members to be actively involved in planning, directing, and reviewing the work of other engagement team members so that matters requiring audit attention are identified and addressed appropriately. In directing the work of others, senior engagement team members, including the engagement partner, may have knowledge and experience that may assist less experienced engagement team members in applying professional skepticism. For example, senior engagement team members might help more junior auditors identify matters that are unusual or inconsistent with other evidence. In addition, senior members of the engagement team might be better able to challenge the assertions of senior levels of management, when necessary.

### **Appropriate Application of Professional Skepticism**

Although a firm's quality control systems and the actions of the engagement partner and other senior engagement team members can contribute to an environment that supports professional skepticism, it is ultimately the responsibility of each individual auditor to appropriately apply professional skepticism throughout the audit, including the following areas among others:

- Identifying and assessing risks of material misstatement;
- Performing tests of controls and substantive procedures; and
- Evaluating audit results to form the opinion to be expressed in the auditor's report.

#### *Identifying and Assessing Risks of Material Misstatement*

By its nature, risk assessment involves looking at internal and external factors to determine what can go wrong with the financial statements, whether due to error or fraud. When properly applied, the risk assessment approach set forth in PCAOB standards should focus auditors' attention on those areas of the

<sup>21/</sup> See paragraph 53 of Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*.



financial statements that are higher risk and thus most susceptible to misstatement. This includes considering events and conditions that create incentives or pressures on management or create opportunities for management to manipulate the financial statements. The evidence obtained from the required risk assessment procedures should provide a reasonable basis for the auditor's risk assessments, which, in turn, should drive the auditor's tests of accounts and disclosures in the financial statements.

The risk assessment procedures required by PCAOB standards also should provide the auditor with a thorough understanding of the company and its environment as a basis for identifying unusual transactions or matters that warrant further investigation. They also provide a basis for the auditor to evaluate and challenge management's assertions.<sup>22/</sup> It is important to note that the auditor's understanding should be based on actual information obtained from the risk assessment procedures. It is not sufficient for auditors merely to rely on their perceived knowledge of the industry or information obtained from prior audits or other engagements for the company.

#### *Performing Tests of Controls and Substantive Procedures*

Appropriately applying professional skepticism is critical to obtaining sufficient appropriate audit evidence to determine whether the financial statements are free of material misstatement and, in an integrated audit, whether internal controls over financial reporting are operating effectively. Application of professional skepticism is not merely obtaining the most readily available evidence to corroborate management's assertion.

The need for auditors to appropriately apply professional skepticism is echoed throughout PCAOB standards. For example, PCAOB standards caution that representations from management are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.<sup>23/</sup> Also, the standards warn that inquiry alone does not provide sufficient appropriate evidence to support a conclusion about a relevant assertion.<sup>24/</sup>

<sup>22/</sup> For example, risk assessment procedures may provide the auditor a basis for challenging management's responses to the required inquiries of management in Auditing Standard No. 12.

<sup>23/</sup> See paragraph .02 of AU sec. 333, *Management Representations*.

<sup>24/</sup> Paragraph 39 of Auditing Standard No. 13.

In addition, PCAOB standards require auditors to design and perform audit procedures in a manner that addresses the assessed risks of material misstatement and to obtain more persuasive evidence the higher the assessment of risk.<sup>25/</sup> The auditor is required to apply professional skepticism, which includes a critical assessment of the audit evidence.<sup>26/</sup> Substantive procedures generally provide persuasive evidence when they are designed and performed to obtain evidence that is relevant and reliable.<sup>27/</sup> When discussing the characteristics of reliable audit evidence, PCAOB standards observe that generally, among other things, evidence obtained from a knowledgeable source independent of the company is more reliable than evidence obtained only from internal company sources and evidence obtained directly by the auditor is more reliable than evidence obtained indirectly.<sup>28/</sup>

Taken together, this means that in higher risk areas, the auditor's appropriate application of professional skepticism should result in procedures that are focused on obtaining evidence that is more relevant and reliable, such as evidence obtained directly and evidence obtained from independent, knowledgeable sources.<sup>29/</sup> Further, if audit evidence obtained from one source is inconsistent with that obtained from another, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.<sup>30/</sup>

The following are examples of audit procedures in PCAOB standards that reflect the need for professional skepticism:

<sup>25/</sup> See paragraphs 8-9 of Auditing Standard No. 13. For fraud risks and significant risks, the auditor also is required to perform procedures, including tests of details, that are specifically responsive to the assessed risks.

<sup>26/</sup> See AU sec. 230.07.

<sup>27/</sup> Paragraph 39 of Auditing Standard No. 13.

<sup>28/</sup> See paragraph 8 of Auditing Standard No. 15, *Audit Evidence*.

<sup>29/</sup> See paragraph 9.a. of Auditing Standard No. 13.

<sup>30/</sup> Paragraph 29 of Auditing Standard No. 15.

- Resolving inconsistencies in or doubts about the reliability of confirmations;<sup>31/</sup>
- Examining journal entries and other adjustments for evidence of possible material misstatement due to fraud;<sup>32/</sup>
- Reviewing accounting estimates for biases that could result in material misstatement due to fraud;<sup>33/</sup>
- Evaluating the business rationale for significant unusual transactions;<sup>34/</sup> and
- Evaluating whether there is substantial doubt about an entity's ability to continue as a going concern.<sup>35/</sup>

*Evaluating Audit Results to Form the Opinion to be Expressed in the Audit Report*

When professional skepticism is applied appropriately, the auditor does not presume that the financial statements are presented fairly in conformity with the applicable financial reporting framework. Instead, the auditor employs an attitude that includes a questioning mind in making critical assessments of the evidence obtained to determine whether the financial statements are materially misstated. PCAOB standards indicate that the auditor should take into account all relevant audit evidence, regardless of whether the evidence corroborates or contradicts the assertions in the financial statements.<sup>36/</sup> Examples of areas in the evaluation that reflect the need for the auditor to apply professional skepticism, include, but are not limited to, the following:

<sup>31/</sup> See, e.g., paragraphs .27 and .33 of AU sec. 330, *The Confirmation Process*.

<sup>32/</sup> See AU secs. 316.58-.62.

<sup>33/</sup> See AU secs. 316.63-.65.

<sup>34/</sup> See AU secs. 316.66-.67.

<sup>35/</sup> See AU sec. 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

<sup>36/</sup> See paragraph 3 of Auditing Standard No. 14.

- *Evaluating uncorrected misstatements.* This includes evaluating whether the uncorrected misstatements identified during the audit result in material misstatement of the financial statements, individually or in combination, considering both qualitative and quantitative factors.<sup>37/</sup>
- *Evaluating management bias.* This includes evaluating potential bias in accounting estimates, bias in the selection and application of accounting principles, the selective correction of misstatements identified during the audit, and identification by management of additional adjusting entries that offset misstatements accumulated by the auditor.<sup>38/</sup> When evaluating bias, it is important for auditors to consider the incentives and pressures on management to manipulate the financial statements.
- *Evaluating the presentation of the financial statements.* This includes evaluating whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework.<sup>39/</sup>

When evaluating misstatements, bias, or presentation and disclosures, it is important for auditors to appropriately apply professional skepticism and avoid dismissing matters as immaterial without adequate consideration.

## Conclusion

The Office of the Chief Auditor is issuing this practice alert to remind auditors of the requirement to appropriately apply professional skepticism throughout their audits, which includes an attitude of a questioning mind and a critical assessment of audit evidence. The timing of this release is intended to facilitate firms' emphasis in upcoming calendar year-end audits, as well as in future audits, on the importance of the appropriate use of professional skepticism. Due to the fundamental importance of the appropriate application of professional skepticism in performing an audit in accordance with PCAOB standards, the PCAOB also is continuing to explore whether additional actions might meaningfully enhance auditors' professional skepticism.

<sup>37/</sup> See paragraph 17 of Auditing Standard No. 14.

<sup>38/</sup> See paragraph 25 of Auditing Standard No. 14.

<sup>39/</sup> See paragraphs 30-31 of Auditing Standard No. 14.

Exhibit No.:  
Issues: *Iatan Construction Project*  
Witness: *Charles R. Hyneman*  
Sponsoring Party: *MoPSC Staff*  
Type of Exhibit: *Surrebuttal Testimony*  
File No.: *ER-2010-0355*  
Date Testimony Prepared: *January 5, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri  
January 2011

**\*\* Denotes Highly Confidential Information \*\***

Staff Exhibit No. KCP&L-226  
Date 1/18/11 Reporter LMB  
File No. ER-2010-0355

**NP**

Surrebuttal Testimony of  
Charles R. Hyneman

1           B.     No. The Staff's position is that KCPL has not identified or explained each cost  
2 overrun on the Iatan Project as it is required to do under the terms of the Regulatory Plan.  
3 Mr. Giles may state that KCPL has clearly identified and explained the cost overruns, by  
4 stating that the identification and explanation can be found somewhere in the Cost Control  
5 System that KCPL developed for the Iatan Construction Project, in addition KCPL developed  
6 for the Staff nineteen Quarterly Reports, and in the KCPL responses to the 2150 Staff data  
7 requests does not meet the terms of the Stipulation and Agreement of the Regulatory Plan.

8           Q.     Mr. Giles states at pages 9 through 11 that the Staff has chosen to focus its  
9 auditing activities on marginal costs like executive expenses, mileage charges, fees for its  
10 oversight team and travel expenses while essentially throwing its hands in the air and  
11 claiming that KCP&L has not explained approximately \$200 million in actual costs to date.  
12 Please comment.

13           A.     This statement demonstrates a clear lack of knowledge about how the Staff  
14 focused its auditing activities. Mr. Giles characterizes an expenditure of \$20 million (fees for  
15 its oversight team) as marginal. The Staff disagrees that \$20 million is marginal. With  
16 respect to the Staff's auditing activities related to KCPL's internal expenditures of excessive  
17 expenses and excessive mileage charges, the Staff has a responsibility to identify  
18 inappropriate officer expenses charged to the project. Early on in its audit the Staff focused  
19 on KCPL's internal control over costs in an effort to determine if KCPL was following its  
20 own internal procedures. To accomplish this audit objective and for other auditing-related  
21 reasons the Staff reviewed the expense reports of selected Iatan Project personnel. The Staff  
22 found numerous examples of charges inappropriately charged, excessive costs and a general

Surrebuttal Testimony of  
Charles R. Hyneman

1 disregard for the level of expenses charged by KCPL officers to the Iatan Project. This Staff  
2 finding forced the Staff to expand its review in this area.

3 The Staff did spend significant amount of time in this area, but the amount of time was  
4 strictly a function of the Staff's findings based on its review and KCPL's lack of concern  
5 about the amount and appropriateness of charges to the project. The amount of time the Staff  
6 was required to focus on this area was also increased by KCPL's lack of transparency in the  
7 provision of data on officer expenses. For example, Staff Data Request No. 556 in  
8 Case No. ER-2009-0089 shown below is one example where KCPL refused to provide  
9 requested data to the Staff. This is just one example where the Staff found inappropriate and  
10 excessive costs being charged to KCPL's ratepayers and KCPL's response when these  
11 charges are discovered it to not provide the data and claim that the charges were inadvertently  
12 included in cost of service:

13 Data Request No. 0556  
14 Company Name Kansas City Power & Light Company  
15 Case/Tracking No. ER-2009-0089  
16 Date Requested 2/26/2009  
17 Brief Description WHD Expense Report 9/28/07

18 Description: Reference WHD expense report approved on 9/28/07.  
19 1. Please provide the business purpose of WMD traveling from  
20 Chicago to Denver instead of KC to Denver (What was his business  
21 purpose of being in Chicago) 2. Please provide a copy of the receipts  
22 for the \$1,606.38 Dinner charged on 6/18/07 at Kevin Taylor  
23 Restaurant in Denver and provide the business purpose of charging this  
24 expense to KCPL's regulated customers. 3. Please provide a copy of the  
25 receipts for business meal with L. Cheatum re: personnel on 6/21/07.

26 Objection: KCPL objects to this data request as it calls for information  
27 which is irrelevant, immaterial, inadmissible and not reasonably  
28 calculated to lead to the discovery of admissible evidence. The costs  
29 mentioned in this data request were inadvertently included in KCPL's  
30 cost of service. KCPL is no longer seeking recovery in rates of any of  
31 the costs mentioned in the data request.

Surrebuttal Testimony of  
Charles R. Hyneman

1           The Staff would also note that based on KCPL's response to Staff Data Request  
2 Nos. 580 and 583, Mr. Giles has never attended any auditing classes, never attended any  
3 training classes on the auditing process in general. Never attended any training classes on  
4 auditing utility costs, and never participated in any actual audit. In addition, Mr. Giles holds  
5 no auditing or any other professional certification.

6           Q.     At page 2 of his rebuttal testimony Mr. Giles states that KCPL's actions on the  
7 Iatan Project has set new standards for transparency by a utility in a rate proceeding. Do you  
8 agree with this assessment?

9           A.     No, quite the contrary. In my seventeen years experience auditing Missouri  
10 utilities companies (including KCPL's three recent rate cases), I have never seen a lack of  
11 transparency in the provision of data to the Staff as I have experienced in audit of the Iatan  
12 Project. In my opinion, KCPL has not made a serious attempt at providing reasonable  
13 responses to many Staff data requests; it has failed to answer specific questions and has been  
14 evasive in its response in many instances. I must note that I have been deeply involved in  
15 KCPL's three previous rate cases and did not experience the lack of cooperation in the  
16 provision of data as I have in this construction audit.

17          Q.     To what does the Staff attribute this recent lack of cooperation in the provision  
18 of data to the Staff?

19          A.     I believe KCPL's new approach to answering Staff data requests is  
20 significantly influenced by its association with Schiff Hardin. Since KCPL hired Schiff, it has  
21 significantly increased the frequency in which it has asserted privileges and has asserted many  
22 privileges with a frequency never before seen by the Staff in recent memory. For example,  
23 KCPL initially redacted all information on Schiff Hardin invoices, including information that



Surrebuttal Testimony of  
Charles R. Hyneman

1 describes clearly project management duties and administrative tasks. KCPL has since ceased  
2 this practice of wholesale redactions, but only after being prompted to do so by the Staff.  
3 To this date the Staff has been unable to review thousands of documents that it believes is  
4 relevant to its audit. The Staff would not classify KCPL's behavior on this audit as  
5 transparent under any circumstances.

6 Q. Do you have an example of how KCPL could have been more cooperative in  
7 the provision of data to the Staff?

8 A. Yes. KCPL maintains a central depository Iatan Project documents in  
9 SharePoint. When the Staff asked for access to this central depository in Staff data request  
10 No 650 in Case No. EO-2010-0259, KCPL objected on the basis that this repository may  
11 contain documents that it considers to be protected by the attorney-client privilege and/or  
12 attorney work product doctrine. KCPL also characterized the Staff's request for access to this  
13 data base as overly broad and vague. KCPL also objected on the basis that SharePoint may  
14 contain documents that it does not believe is relevant to the Staff's audit. KCPL's proposal  
15 was to provide a list of documents in SharePoint and Staff can ask for the documents on that  
16 list. Access to this data base would have been a tremendous resource for the Staff's audit.  
17 While the Staff understands the need for the assertion of legitimate privileges in the provision  
18 of data, the Staff does not understand why KCPL could not have segregated documents it  
19 considered privilege in a locked section of the data base to prevent Staff access and provide  
20 access to the remainder of the data base.

21 Q. At page 11 of his rebuttal testimony Mr. Giles states that "In auditing the Iatan  
22 Unit 2 Project's costs over four years on the project, the charge repeatedly cited by Staff as  
23 the proof of this accusation is a single \$400 meal charge that it found over two years ago

Surrebuttal Testimony of  
Charles R. Hyneman

1 not provide this documentation to the Staff but requires the Staff to travel to its Kansas City,  
2 Missouri Headquarters building to review this basic budget information.

3 Case: ER-2009-0089  
4 Date of Response: 02/03/2009  
5 Information Provided By: Gerry Reynolds  
6 Requested by: Schallenberg Bob

7 Question No. : 0490 Please provide copies of all the documentation  
8 supporting the development, review, analysis and approval of the  
9 contingency and executive contingency included in the control budget  
10 estimate for environmental upgrades at Iatan I.

11 Response: The current Control Budget Estimate for Iatan 1 is \$484  
12 million. Due to their confidential nature, all of the documentation  
13 supporting the development, review, analysis and approval of the  
14 contingency and executive contingency included in the current control  
15 budget estimate for environmental upgrades at Iatan 1 are available by  
16 contacting Tim Rush 816-556 2344 or Lois Liechti 816-556-2612 to  
17 make arrangements to view these documents. Response provided by  
18 Iatan Construction Project, Project Controls. This information was  
19 provided for onsite viewing to the Commission Staff in early 2008 as  
20 part of its investigation in Case No. EM-2007-0374.

21 Seeking further clarification about what data would be provided in response to this  
22 Staff Data Request, KCPL indicated only three documents were available. However, KCPL  
23 claimed privilege on two of the documents in total and completely redacted all meaningful  
24 data from a third document (Memo from Ken Roberts and Eric Gould to Steve Easley  
25 October 18, 2006). It is completely unreasonable for KCPL to prevent the Staff from  
26 reviewing basic information in the development of the Control Budget Estimate. This is  
27 another example of a complete lack of transparency on the part of KCPL.

28 Q. At the top of page 11 of his rebuttal testimony Mr. Giles implies that the Staff  
29 auditors spent too much time reviewing expense reports and not enough time reviewing  
30 change orders. Please comment.

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     It is clear that this statement is speculation as there is no way Mr. Giles could  
2 know how much time the Staff devoted to its review of expense reports and how much time it  
3 devoted to review of change orders. More importantly, Mr. Giles never discussed the matter  
4 with Staff to attempt to determine these facts.

5           It is also unlikely Mr. Giles knows which Staff auditors did the review of the expense  
6 reports, and exactly how many were reviewed, what dates they were reviewed, and how much  
7 time it took to review each expense report. Despite being advised by the Staff the purpose of  
8 its expense report review, Mr. Giles continues to demonstrate a lack understanding in how to  
9 conduct an audit, including audit risk, development of audit scope and procedures. He is not  
10 an auditor, but professes to be an expert on auditing by his testimony.

11           The Staff has noted in previous rate cases and this construction audit that KCPL has  
12 had problems excessive and inappropriate costs of KCPL executives charged to ratepayers  
13 and a lack of internal controls over KCPL's executive expenses. The Staff has noted these  
14 problems but if KCPL believes the Staff has not done enough to support its finding of  
15 inappropriate costs charged to the Iatan Construction Projects, the Staff is willing to  
16 strengthen its efforts in this area for future audit reports.

17           Mr. Giles' comments criticizing Staff auditors in his rebuttal testimony are just  
18 another attempt by KCPL to obscure its failure to identify Iatan cost overruns above the  
19 definitive estimate. The Regulatory Plan is clear that KCPL is required to identify and  
20 explain any cost overrun over the definitive estimate.

21           As will be discussed in the surrebuttal testimony of Staff witness Keith Majors, once  
22 KCPL fails to provide documentation supporting the development of its Control Budget  
23 Estimate contingency amounts, it is impossible to determine from the budget variances, the

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City )  
Power & Light Company for Approval to Make )  
Certain Changes in its Charges for Electric Service )  
to Continue the Implementation of its Regulatory )  
Plan. )

**File No. ER-2010-0355**  
**Tariff No. JE-2010-0692**

In the Matter of the Application of KCP&L )  
Greater Missouri Operations Company for )  
Approval to Make Certain Changes in its Charges )  
for Electric Service. )

**File No. ER-2010-0356**  
**Tariff No. JE-2010-0693**

**STAFF'S CONSTRUCTION AUDIT AND PRUDENCE REVIEW OF IATAN 1  
ENVIRONMENTAL UPGRADES (AIR QUALITY CONTROL SYSTEM - AQCS)  
FOR COSTS REPORTED AS OF APRIL 30, 2010**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through Staff Counsel Office, and files *Staff's Construction Audit and Prudence Review Of Iatan 1 Environmental Upgrades (Air Quality Control System - AQCS) For Costs Reported As Of April 30, 2010* as directed by the Missouri Public Service Commission (Commission) in its July 7, 2010 *Order Regarding Construction and Prudence Audits*. In support thereof, the Staff states as follows:

1. The members of the Staff responsible for the *Staff Report* filed this date are Robert E. Schallenberg, Charles R. Hyneman, Keith A. Majors, David W. Elliott and undersigned counsel as indicated in said *Staff Report*.

2. The Staff has designated the entirety of this document to be Highly Confidential since much of the information included in this *Staff Report* is based on or is information Kansas City Power & Light Company, Inc. (KCPL) has designated to be Highly Confidential when KCPL provided the information to the Staff.

*Staff* Exhibit No. 204-HC  
Date 6-26-11 Reporter TU  
File No. ER-2010-0355

1 . In its response to this Staff Data Request, KCPL stated that an authorizing employee checks  
2 to make sure a KCPL employee had business at the site and that the mileage appears reasonable  
3 given KCPL policy, and that no other documentation exists. In response to Staff's request for  
4 home and business addresses of employees who charged mileage, KCPL said that "[i]t is unduly  
5 burdensome and will not result in material information to provide home and business address for  
6 each KCP&L employee at the time they requested mileage for travel to Iatan." Staff requested  
7 this data to test KCPL's cost controls over employee mileage charges to the Iatan work orders.

8 KCPL eventually provided the data requested by Staff. In a supplemental response to Staff  
9 Data Request No. 787, KCPL provided the report "MPSC0787S - HC\_Mileage\_Empl\_Info.xls"  
10 that included a list of all employees who charged mileage to the Iatan Project  
11 (Iatan 1 environmental upgrades and/or Iatan 2), the employee's primary work location, and  
12 his/her home address.

13 Staff compared this data with the data provided by KCPL in response to Staff  
14 Data Request No. 643 in report "Q0643\_Mileage Reimbursement Charged to Iatan Projects.xls"  
15 showing a complete list of employees who received mileage reimbursements that were charged  
16 to Iatan construction projects. A comparison of these two reports showed that KCPL reimbursed  
17 \$51,113 of mileage charges to employees whose primary work location is listed as Iatan. KCPL  
18 employees should not be reimbursed for regular commuting miles to and from their primary  
19 work location. Staff is proposing an adjustment to the Iatan 1 work order to remove this amount  
20 and the associated AFUDC.

21 In addition to these inappropriate employee mileage charges to the Iatan 1 AQCS work order,  
22 a review of a sample of employee expense reports showed that KCPL reimbursed its employees  
23 for excess mileage charges. Staff found that KCPL, beginning in January 2008, did make an  
24 attempt to calculate the correct reimbursable miles for these employees, but there was no  
25 indication that the mileage overcharges made prior to January 2008 were ever reimbursed by the  
26 appropriate employees and credited back to the construction work order.

27 After removing the mileage charges inappropriately provided to employees who were not  
28 eligible for reimbursement because their primary work location was Iatan, the pool of mileage  
29 charges remaining in the Iatan 1 work order as of May 31, 2009 was \$80,234. Staff made an  
30 additional adjustment of ten percent of this amount, or \$8,023, to reflect a reasonable  
31 approximation of actual overcharges that were made to the Iatan work order prior to



Exhibit No.: 118  
 Issues: Fuel Prices  
 Miscellaneous Adjustments  
 Witness: Charles R. Hyneman  
 Sponsoring Party: MoPSC Staff  
 Type of Exhibit: Direct Testimony  
 Case No: ER-2006-0314  
 Date Testimony Prepared: August 8, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**FILED**

**OF**

NOV 13 2006

**CHARLES R. HYNEMAN** Missouri Public Service Commission

**KANSAS CITY POWER AND LIGHT COMPANY**

**CASE NO. ER-2006-0314**

*Jefferson City, Missouri*  
*August 2006*

**NP**

**\*\*Denotes Highly Confidential Information\*\***

Staff Exhibit No. 118  
 Case No(s) ER-2006-0314  
 Date 10-16-06 Rptr KR

1 severance cost did not result in any payroll savings; but that it actually led to an increase in  
2 GPE's payroll costs that are charged to KCPL.

3 Q. In the Staff's opinion, was the replacement of the two corporate executives a  
4 result of poor employee performance?

5 A. No. Both employees started working at KCPL in low level management  
6 positions and were consistently promoted to higher levels of authority and responsibility. The  
7 Staff reviewed the personnel files of both former employees and noted that all performance  
8 reviews that were made available to the Staff were rated satisfactory or above. No evidence  
9 was provided by the Company to indicate that the employees were replaced due to  
10 performance problems. In addition, the Staff had a meeting with GPE's President and Chief  
11 Operating Officer, Mr. William Downey, to discuss this severance cost. Mr. Downey did not  
12 indicate that the individuals were replaced due to poor performance in their positions as  
13 executive officers of GPE.

14 **EXECUTIVE /DIRECTOR RETREAT COSTS**

15 Q. Please explain the Staff's Executive Retreat adjustment?

16 A. Great Plains Energy's officers and Board of Directors and their spouses  
17 attended a retreat in Sea Island Georgia in April 2005. In response to Data Request 322,  
18 KCPL described the retreat:

19 The Boards typically have five business meetings and one strategic  
20 planning meeting per year. In 2005 and 2006, the strategic planning  
21 meetings have been conducted off-site at so-called "retreats". The  
22 purposes of the retreats are: (a) to review various elements of the  
23 internal and external business environment with management and third-  
24 party experts; (b) to discuss, evaluate and provide direction to  
25 management on current and proposed strategic plans and other  
26 initiatives; (c) to provide opportunities for extended and informal  
27 discussions of matters outside of the time-constrained formal

1 presentations; and (d) to provide opportunities for extended discussions  
2 among directors and management. These retreats were conducted off-  
3 site to minimize the interruptions by other business matters and to  
4 focus attention on the purposes of the meetings.

5 Q. Does the Staff believe that it is reasonable for KCPL to charge its utility  
6 customers for travel, lodging, meals and other costs for Board of Director meetings that could  
7 be held in GPE's corporate headquarters building?

8 A. No. The Staff believes that these costs should not be charged to utility  
9 operations. The fact that the officer and director spouses also participated in the retreat  
10 indicates that the retreat was more than just a series of business meetings.

11 Q. Did KCPL state that it would not seek recovery of these costs in this case?

12 A. Yes. In response to Data Request 322, KCPL stated "these costs will not be  
13 included in the case when the numbers are updated to reflect actual for the test period."

14 **MISCELLANEOUS ADJUSTMENTS**

15 Q. Please explain the Staff's Local Meals Adjustment.

16 A. This adjustment removes 50% of the local business meals charged to KCPL's  
17 test year above-the line expense accounts by GPE and KCPL employees. The Staff's review  
18 of GPE expense accounts indicate that several business meals were charged to utility  
19 operations inappropriately.

20 Q. How did the Staff calculate a 50% disallowance factor?

21 A. Over the past several years the Internal Revenue Service has disallowed 50%  
22 of business meals from being tax deductible. This disallowance is based on the assumption  
23 that a substantial amount of claimed business meals are not strictly related to the conduct of  
24 business. Based on its review of executive and officer expense account, the Staff believes that



Direct Testimony of  
Charles R. Hyneman

1 a disallowance of 50% of the costs KCPL and GPE employees charged KCPL for local  
2 business meals is a conservative adjustment.

3 Q. Did the Staff make any adjustment to the cost of out-of-town meals, or meal  
4 costs incurred while traveling out of the Kansas City area?

5 A. No, with the exception of a small amount related to the executive/director  
6 meetings in Sea Island, Georgia, described above.

7 Q. Please explain adjustment S-81.8.

8 A. This adjustment includes an allowance for costs which the Staff has identified  
9 as inappropriate to include in KCPL's cost of service, but has not yet quantified the exact  
10 amount of such costs. These costs relate to charges which have been charged to KCPL  
11 through employee expense accounts and which are either excessive, or should not have been  
12 charged to KCPL. These costs also include costs related to lobbying activities and costs that  
13 were incorrectly charged to regulated operations.

14 Q. Please provide an example.

15 A. On August 3, 2006, KCPL responded to Data Request 454. In this data request  
16 the Staff asked about several questionable charges on a GPE executive's corporate expense  
17 reports. KCPL responded that several of the charges on the expense accounts were booked  
18 incorrectly to above-the-line accounts and should have been charged below the line. The data  
19 response also confirmed that KCPL is charging what the Staff considers a lobbying-related  
20 activity to cost of service, including costs related to attendance at National Association of  
21 Manufacturer's (NAM) meetings and Missouri Energy Development Association (MEDA)  
22 events. Based on this data request, the Staff needs to complete a more detailed review of GPE

Direct Testimony of  
Charles R. Hyneman

1 executive expense accounts. When this review is complete, the Staff will be able to true-up  
2 this adjustment during the true-up phase of the Staff's audit.

3 Q. Does this conclude your testimony?

4 A. Yes, it does.

DATA REQUEST- Set MPSC\_20060714

Case: ER-2006-0314

Date of Response: 08/03/2006

Information Provided By: Lori Wright

Requested by: Hyneman Chuck0

Question No. : 0454

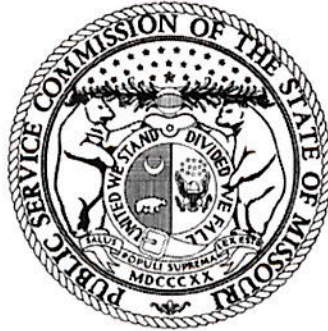
1. Reference the NAM board meeting on September 29-30, 2004, please provide the documentation for the costs and reason why costs were charged to KCPL. 2. Please provide a copy of lodging receipts to support the \$837.17 charge for the EEI conference on 10/24/04. 3. Why was the Jan 3, 2005 airfaire for MEDA meeting charged to CORPDP-GPES? Was this cost allocated to KCPL? 4. Please provide the receipts for the costs of the Millennium Broadway Hotel 3/29/05 meeting with analyst - lodging. 5. MEDA Board of Directors meeting Jefferson city 4/13/05 - mileage. Why was this cost charged to KCPL? 6. Why was the cost of Airfare to Pittsburg PA on 5/8/05 charged to GPES instead of KLT (SEL)? 7. Why was the Airfare to Pittsburg for the SE Mgt Committee travel on 8/16/05 charged to CORPDP-KCPL? 8. Why was the 7/13/05 - mileage to Big Cedar MEDA Board Meeting charged to KCPL?

Response: ~~HIGHLY CONFIDENTIAL~~

1. See attached file of supporting receipts. Costs were charged to CORPDP-KCPL and assigned 100% to KCPL because ~~Bill Downey's~~ representation on the NAM Board of Directors as a representative of KCPL.
2. See attached file of supporting receipts.
3. The cost for MEDA airfare was incorrectly charged to Account 920000, Project CORPDP-GPES. As such, a portion of the costs was allocated to KCPL. The costs should have been charged to Account 826400 (FERC 426), using Project CORPDP-KCPL. This later accounting distribution would have caused 100% of the cost to be charged to KCPL below the line.
4. See attached file of supporting receipts.
5. The cost for MEDA mileage was incorrectly charged to Account 921000, Project CORPDP-KCPL. The costs should have been charged to Account 826400 (FERC 426), using Project CORPDP-KCPL. This later accounting distribution would have caused 100% of the cost to be charged to KCPL below the line.
6. The cost for airfare to Pittsburg, PA was incorrectly charged to Account 921000, Project CORPDP-GPES. As such, a portion of the costs was allocated to KCPL. The costs should have been charged to Account 921000, Project CORPDP-KLT, This later accounting distribution would have caused 100% of the cost to be charged to SEL (KLT).
7. The cost for airfare to Pittsburg, PA was incorrectly charged to Account 921000, Project CORPDP-KCPL. As such, the costs were assigned to KCPL. The costs should have been charged to Account 921000, Project CORPDP-KLT, This later accounting distribution would have caused 100% of the cost to be charged to SEL (KLT).
8. The cost for MEDA mileage to Big Cedar was incorrectly charged to Account 921000, Project CORPDP-KCPL. The costs should have been charged to Account 826400 (FERC 426), using Project CORPDP-KCPL. This later accounting distribution would have caused 100% of the cost to be charged to KCPL below the line. Attachments: MPSC Q454.pdf

**MISSOURI PUBLIC SERVICE COMMISSION**

**STAFF REPORT**  
**COST OF SERVICE**



**Great Plains Energy, Incorporated**  
**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2009-0089**

**Test Year 2007**  
**Updated through September 30, 2008**  
**With True-up as of March 31, 2009**

*Jefferson City, Missouri*  
*February 11, 2009*

**\*\* Denotes Highly Confidential Information \*\***

Staff Data Request No. 13, KCPL's 2007 general ledger's USOA Account Number 931 lease expenses. The Company's response to Staff Data Request No. 13 indicates that KCPL's 2007 cost of service included a monthly leasehold expense of \$407,435 for the 1201 Walnut building and parking area for the first six months of 2007 and then the monthly leasehold expense decreased to \$321,175 on July 1, 2007. Staff annualized KCPL's leasehold expense by multiplying the monthly leasehold expense of \$321,175 over a 12-month period. This annualization resulted in a decrease in the level of this expense of \$514,103. (Staff adjustment E-180.1 adjusts KCPL's test year 2007 for leasehold expenses.)

*Staff Expert: Paul R. Harrison*

#### **4. Meals and Entertainment Expense**

In Case No. ER-2007-0291, Staff removed KCPL's test year charges to resource code 378, Meals and Entertainment expense. These charges consist of the cost of local meals (meals consumed in the Kansas City, Missouri area) that KCPL's employees determine to be "business meals" that should be charged to KCPL and thus to KCPL's regulated utility customers.

Staff made this adjustment for two primary reasons. The first is that there is a general presumption that KCPL's employees should pay for the meals they consume in the local area, as opposed to meals incurred during travel on official business. While there may be times when a KCPL employee may be required to attend a function and incur meal expense he/she would not normally incur, those occasions should be rare.

The second reason for Staff removing the cost of local business meals is that in the last two KCPL rate cases, Nos. ER-2006-0314 and ER-2007-0291, Staff noted several discrepancies and improper charges by KCPL's officers in costs charged to KCPL through its expense report process. These problems were also noted by KCPL's internal audit employees in the Great Plains Energy Officers and Directors Expense Review Audit Report. Staff had concerns about the local

business meal expenses in both of KCPL's previous rate cases and disallowed these expenses in KCPL's last case. This disallowance was necessary because of the discrepancies noted during its review of the expense reports and the problems identified by KCPL's internal audit employees.

During our review of officer expense reports for this case, Staff noted that KCPL continues to have problems with excessive charges for meals being made by its employees on their expense reports. Staff's general position is that meals consumed by KCPL in the Kansas City area should be a personal expense. KCPL is excessive charging local meals to cost of service and not even complying with its own expense report policies.

The KCPL internal audit employees conducted another review of GPE officer and director's expense reports in April 2008. During that review they noted that:

...the documentation of business expenses is generally not in compliance with nor as robust as the documentation requirements prescribed by the Policy and the IRS. The lack of clear and concise documentation created some difficulty in identifying the business purpose of the expense. We recommend that the individuals preparing the expense reports and those approving the expense reports ensure compliance with the documentation requirements of the Policy.

In conclusion, Staff has identified problems with the charges being made by KCPL officers and being included in KCPL's cost of service in their last two rate cases and these problems continue in this case. The Company's own internal auditors have identified that the documentation of business expenses is not in compliance with KCPL's own policies. (Staff adjustment E-124.1 and E-154.5 adjusts KCPL's test year 2007 Meals and Entertainment costs)

*Staff Expert: Paul R. Harrison*

## **5. Nuclear Decommissioning**

In its Report and Order in Case No. ER-2006-0314, the Commission ordered the following:

- 1) KCPL's annual Missouri retail jurisdictional decommissioning cost accrual shall be \$1,281,264, commencing January 2007

Also, since it does not appear that KCPL's wholesale customers contributed to the STB rate case recovery, Staff reallocated their credited amount to Missouri and Kansas regulated customers by using the appropriate Missouri-Kansas allocation percentage.

Similar to how the Staff is treating the excess amount of Off System Sales over the amount in rates, the Staff is also proposing to treat the STB reparation costs as a reduction to rate base. While it is more theoretically correct to reduce fuel related rate base components, for convenience and for accuracy in the tracking of these reparation recoveries, the Staff is reducing KCPL's Demand Side Management (DSM) regulatory asset deferral by Missouri's appropriate share of the STB reparation costs as of September 30, 2009.

*Staff Expert: Charles R. Hyneman*

### **23. Officer Expense Account Adjustment**

This adjustment reflects Staff's current estimate of potential costs charged to KCPL's 2007 books and records as a result of excessive and or inappropriate charges made by KCPL and GPE officers through their employee expense reports. Staff is concerned not only with the potential for excessive and inappropriate charges being included in KCPL's cost of service in this case, but with also the continued lack of internal controls on the officer expense report process and the general lack of concern on the part of Company management about costs charged to regulated operations through officer expense reports.

In a press release issued on September 5, 2008 announcing the filing of the Missouri rate case, Michael Chesser, GPE's CEO stated that:

We do not relish requesting a rate increase during these difficult economic times," said Chesser. "However, these requests are approximately \$23 million less than they would have been, as a direct result of operational savings realized from our acquisition of Aquila. We will continue to focus on keeping our costs as low as possible and providing ways for customers to have greater control over their electricity use and bills.

Based on its review of the Company's expense report process, Staff cannot agree that KCPL is continuing to focus on keeping costs as low as possible. Staff cannot see any concern about excessive or inappropriate charges in this area. Staff believes that the concern about costs in the expense report process has to be a priority of top management.

Tone at the top is a general term that refers to leadership behavior setting an example to the rest of the company employees. In the area of cost control, "tone at the top" is very important. Whatever tone management sets will have a trickle-down effect on employees of the company. If the tone set by officers of the company reflects strict adherence to established expense report policies and procedures, lower ranking employees will be more inclined to strictly adhere to those same policies. Employees pay close attention to the behavior and actions of their bosses, and they follow their lead. The only way for GPE and KCPL to correct the continued problems KCPL has with its expense report process is for the leadership of the Company to change the current tone at the top and focus on cost control and adherence to the Companies own policies and procedures.

On January 17, 2007 GPE's Audit Services Department (Audit Services) released a report entitled *Great Plains Energy Services Kansas City Power & Light Officers and Directors Expense Report Review*. In that report, Audit Services found that it was "difficult to determine the business purpose" of expenses included in some of expense reports reviewed. Audit Services concluded that "based on our testing, it appears that the controls in place are not working properly."

In April 2008 Audit Services released another report entitled *Great Plains Energy Officers and Directors Expense Report Review*. This report includes a *Summary Schedule of Prior Year Findings and Current Status of Prior Year Findings*. Audit Services noted that while



it appeared corrective actions was being taken, there were still large incidences of non-compliance. Audit Services found that the documentation of business expenses is generally not in compliance with nor as robust as the documentation requirements prescribed by GPE's own expense report policies and the requirements of the Internal Revenue Service. Audit Services concluded that the "lack of clear and concise documentation created some difficulty in identifying the business purpose of the expense."

Staff's review of KCPL employee expense reports confirms the findings of GPE's Audit Services Department, and finds additional discrepancies. For example, one KCPL officer is a board member of the National Association of Manufacturers (NAM). For the past several years this individual has been charging his trip expenses for NAM board meetings to KCPL customers. In one expense report, Staff noted lodging expenses of \$774 for the Ritz Carlton Hotel in Orlando, Florida and airfare of \$632 to Orlando for attendance at the NAM board meeting. These expenses were charged to project CORPDP-KCPL which is described in KCPL's accounting records as:

This project is used to capture costs to provide resource planning and business analysis services, strategic planning, assist in the development of fundamental short- and long-term business plans and actions which are consistent or complementary throughout the system; assess and adjust the decisions and direction of system companies in response to changes in the marketplace; provide consulting services related to cost reduction opportunities, strategic acquisitions and investments, and process enhancements to KCPL, but not specifically related to any operating unit or service location. Thus, all costs collected in this project will be billed to the various KCPL Business Units based on the basis of KCPL Headcount.

This same expense report also includes airfare to New York for a GPE Board of Director retreat. All of the expenses in the report were incurred in February and March 2007, but the expense report was not approved until three months later in June 2007.

An additional concern of Audit Services was that the expense reports of the Chairman and Chief Executive Officer (CEO) of GPE are approved by the President and Chief Operating Officer (COO) of GPE. This is a case of a subordinate approving the expense reports of his/her superior and is a bad internal control policy. In addition to being a bad internal control policy, the process violates GPE's own expense account policies that require that expense reports must be approved by an employee of equivalent or higher rank. To correct this issue, Staff recommends that the expense reports of both the CEO and COO of GPE be approved by the Audit Committee of GPE's Board of Directors.

Finally, Staff has a major concern with the charges for meals and lodging to KCPL by the officers of KCPL. During its audit, Staff noted on a particular officer's expense reports a meal charge for two individuals in the amount of \$400 and on another expense report a meal for two individuals in the amount of \$300. Staff views these amounts to be clearly excessive. In addition, Staff noted that another executive included a \$144 charge for wine on a KCPL expense report. Staff also views that charge inappropriate.

Because of the longstanding problems with KCPL's and GPE's officer expense reports and the serious concerns Staff has developed as a result of the small sample of officer expense reports Staff reviewed in this case, Staff has decided to make an adjustment in this filing of the estimated amount of improper expense account charges booked to KCPL's 2007 books and records and to expand its review of the KCPL and GPE officer expense reports. Staff expects to update this adjustment in its true-up revenue requirement filing in this case.

#### **24. Wolf Creek Nuclear Refueling Outage**

KCPL defers and amortizes over 18 months (the time period between refueling outages) the actual cost incurred during the refueling outage. Over the last three refuelings (2003, 2005

*Exhibit No.:*

*Issue: Transition Costs, Talent  
Assessment Program, SERP,  
STB Recoveries, Settlements,  
Refueling Outage, Expense  
Disallowance*

*Witness: Charles R. Hyneman*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Surrebuttal Testimony*

*Case No.: ER-2009-0089*

*Date Testimony Prepared: April 7, 2009*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SUREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**Great Plains Energy, Inc.  
KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2009-0089**

*Jefferson City, Missouri*

*April 7, 2009*

**\*\*Denotes Highly Confidential Information\*\***

**NP**

CRH-S-9

8/14

1           A.     In essence, on this issue Mr. Weisensee has created a new standard. This new  
2 KCPL standard is that it is appropriate to normalize costs if the normalization results in a  
3 higher cost of service. However, when it comes to this issue and as is the case in this  
4 adjustment, his standard is that it is not appropriate to normalize this cost because it will  
5 reduce cost of service.

6           At page 20, line 6 of his rebuttal testimony, Mr. Weisensee readily admits that this is  
7 KCPL's standard for normalizing costs. He states that no matter how large or unusual the  
8 costs in the test year are (in this case he admits the costs for the Wolf Creek refueling outage  
9 were above normal by \$2.9 million), they should be included in cost of service as a  
10 normalized level of recurring cost if the costs are, as Mr. Weisensee states "appropriate".

11 **"BUSINESS EXPENSE" DISALLOWANCES**

12           Q.     At page 21 of his rebuttal testimony Mr. Weisensee states that the Staff has  
13 brought to KCPL's attention costs that should not be included in cost of service. KCPL has  
14 also, subsequent to its rate filing determined that certain other costs should be disallowed.  
15 Despite the fact that KCPL states that these costs are not necessary for a utility in its provision  
16 of utility service, Mr. Weisensee states that all of the costs are appropriate business expenses.  
17 Please comment.

18           A.     As noted in the Staff's Cost of Service Report, the Staff made an adjustment  
19 that reflects its estimate of potential costs charged to KCPL's 2007 books and records as a  
20 result of excessive and or inappropriate charges made by KCPL and GPE officers through  
21 their officer expense reports. These costs were not only excessive and inappropriate from a  
22 regulated utility standpoint, but from a normal business expense standpoint as well.

1 In addition, these excessive and inappropriate charges have been occurring at KCPL at least  
2 since 2005, when the Staff first started reviewing officer expense reports.

3 Q. Is the Staff's concern with KCPL and GPE's officer expense report charges  
4 alleviated as a result of the proposed adjustment noted at page 21 of Mr. Weisensee's rebuttal  
5 testimony?

6 A. No. Staff is concerned not only with the potential for excessive and  
7 inappropriate charges being included in KCPL's cost of service in this case, but with also the  
8 continued lack of internal controls on the officer expense report process and the general lack  
9 of concern on the part of Company management about costs charged to regulated operations  
10 through officer expense reports.

11 In a press release issued on September 5, 2008 announcing the filing of the Missouri  
12 rate case, Michael Chesser, GPE's CEO stated GPE and KCPL will continue to focus on  
13 keeping costs as low as possible. In my experience auditing KCPL over these past three  
14 years, especially in the area of officer expense report expenses, I have not seen any focus on  
15 the part of KCPL's officers on keeping costs as low as possible. In fact, my experience in  
16 auditing KCPL in three successive rate cases leads me to conclude that there is no concern  
17 about the level of costs that KCPL will attempt to pass on to its Missouri ratepayers.

18 Q. Has the Staff accepted KCPL's \$3.6 million total company offer  
19 of disallowances?

20 A. No, not at this time. The Staff has had preliminary discussions with  
21 KCPL about changes in its officer expense report process in which significant deficiencies  
22 have been noted regarding certain costs being charged to regulated operations. As yet,

1 KCPL has been unwilling to commit to the Staff that it will make any specific changes to fix  
2 this problem.

3 In its direct filing the Staff indicated it will continue its audit of officer expense  
4 reports. However, KCPL has refused to provide any information to the Staff in this area as it  
5 has refused to respond to Staff data requests seeking this information.

6 KCPL is being very uncooperative with the Staff on this issue, and this lack of  
7 cooperation does not permit the Staff to verify whether or not KCPL is seeking recovery of a  
8 proper level of costs. Whenever the Staff asks a specific question about a particular officer's  
9 expense report, KCPL's simply refuses to provide the information and states the cost was  
10 incorrectly included in cost of service and will be removed. This is not an appropriate level of  
11 transparency.

12 Q. When KCPL objects to all of the data requests on the officer expense reports and  
13 simply responds that it is not seeking this cost in rates, is this answer sufficient?

14 A. No. A cost can be reflected in utility rates currently or in the future other than  
15 by direct recognition in the expense accounts and rate base. To ensure that the inappropriate  
16 and excessive officer expense report costs will not be passed on to its ratepayers, KCPL must  
17 provide answers to each of the following question for each of the data requests submitted by  
18 the Staff on this issue:

- 19 1. Did KCPL remove the capitalized portion of these costs from its plant in  
20 service and CWIP accounts?
- 21 2. Has KCPL taken any steps to prevent the activities underlying these costs  
22 from being a cash drain on its operations in the future? If "yes," what  
23 steps?
- 24 3. Are any of these costs included in the calculation of its "additional  
25 amortization" in this case? If "yes," will these costs be removed?

1                   4. Has KCPL charged the partners to its Iatan 1 and 2 projects, other Missouri  
2 regulated utilities, a portion of these costs? If so, will its partners, other  
3 Missouri regulated utilities) be reimbursed?

4                   5. Are any of these costs included in the common costs KCPL is proposing to  
5 transfer from Iatan 2 to Iatan 1? If "yes," will these costs be removed?

6                   Unless KCPL provides answers to the above questions in all of the Staff's current and  
7 future data requests on this issue and KCPL commits in writing that it will make significant  
8 changes to its officer expense report process and commits to specific changes, the Staff is  
9 unable to accept KCPL's proposed \$3.6 million adjustment.

10                  The Staff is in the process of pursuing the data request issues. If KCPL continues to  
11 refuse to cooperate with the Staff on this issue, the Staff will be forced to impute an  
12 adjustment based on estimations and projections and present this as a major issue in its true up  
13 hearings in this case. This is not how this adjustment should be addressed, however, due to  
14 KCPL's refusal to provide answers to Staff data requests or identify how it will fix significant  
15 and recurring officer expense report problems, the Staff is forced to address this issue in this  
16 manner. Because of the nature of the material that will have to be addressed in litigation, the  
17 Staff is not looking forward to this process and hopes that this issue can be resolved soon.

18                  Q.     Is the Staff attempting to dictate to KCPL what specific internal control  
19 procedures it should put in place to fix the problems with officer expense reports that both the  
20 Staff and KCPL have noted exist?

21                  A.     No.    The Staff is not willing to set internal control policies for  
22 KCPL, but is willing to assist KCPL in the development of new internal control procedures.  
23 It is also willing to provide an opinion as to the potential effectiveness and necessity of any  
24 proposed internal control designed to address the officer expense report problem. The officer  
25 expense report problem has been in existence for several years and GPE and KCPL have

Surrebuttal Testimony of  
Charles R. Hyneman

1 failed to correct it. The Staff has been very patient with KCPL but its patience is wearing  
2 thin. The Staff believes the time to fix the problem is now and it will do everything it can to  
3 encourage KCPL in this direction.

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes, it does.



**BEFORE THE PUBLIC SERVICE COMMISSION**

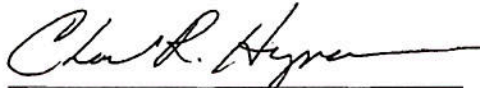
**OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City )  
Power and Light Company for Approval to ) Case No. ER-2009-0089  
Make Certain Changes in its Charges for )  
Electric Service To Continue the )  
Implementation of Its Regulatory Plan. )

**AFFIDAVIT OF CHARLES R. HYNEMAN**


STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 95 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Charles R. Hyneman

Subscribed and sworn to before me this 7<sup>th</sup> day of April, 2009.

NIKKI SENN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Osage County  
My Commission Expires: October 01, 2011  
Commission Number: 07287016

  
\_\_\_\_\_  
Notary Public

**ER-2016-0156**

**Hyneman Surrebuttal**

***CRH-S-10***

has been deemed

“Highly Confidential”

in its entirety

Report Date	Meal	Restaurant & Location	Amount	Account	Meal	Restaurant & Location	Amount	Account	Meal	Restaurant & Location	Amount	Account
On Report, No Receipt												
July 14, 2014	Lunch	Bar Louie - KC, MO	\$34.64	921000	Lunch	Propos Biarcliff - KC, MO	\$258.53	426403	Lunch	Webster House Restaurant - KC, MO	\$161.01	921000
July 14, 2014	Lunch	Capital Grille - KC, MO	\$658.71	921000	Lunch	Denver, CO	\$575.32	921000	Lunch	BRGR Kitchen & Bar - KC, MO	\$53.59	921000
September 12, 2014	Lunch	Collection	\$185.89	921000	Lunch	BRGR Kitchen & Bar - KC, MO	\$55.84	921000	Dinner	Capital Grille - KC, MO	\$238.42	426402
September 12, 2014	Dinner	Capital Grille - KC, MO	\$317.82	426500	Lunch	Bristol #162 - KC, MO	\$38.30	921000	Dinner			
November 5, 2014	Dinner	Hereford House, Zona Rosa - KC, MO	\$1,333.86	426402	Dinner	ChSPEAKE NRGY - Oklahoma City, OK	\$85.00	921000	Breakfast	Picnic Bar - KC, MO	\$4.77	921000
November 5, 2014	Snack	CPK Kosk - Chicago, IL	\$5.77	921000	Dinner	McDonald's - Levee, KS	\$7.36	426402	Lunch	McDonald's - KC, MO	\$7.49	921000
November 5, 2014	Lunch	McDonald's - KC, MO	\$7.49	921000	Lunch	McDonald's - KC, MO	\$7.49	921000	Lunch	Whataburger - Oklahoma City, OK	\$6.32	921000
November 5, 2014	Lunch	Boatstagen - Chicago, IL	\$91.66	417100	Lunch	McDonald's - KC, MO	\$27.28	921000	Lunch	12th & Baltimore - KC, MO	\$6.45	921000
November 5, 2014	Dinner	Wendy's - KC, MO	\$7.39	921000	Dinner	Majestic Restaurant - KC, MO	\$41.18	921000	Breakfast	President Hilton Hotel - KC, MO	\$20.65	426402
November 5, 2014	Alcoholic Drinks	The Original Mothers - Chicago, IL	\$60.72	232105	Alcoholic Drinks	Shenannigan's House of Beer - Chicago, IL	\$19.33	232105				
Receipt not on Report												
November 5, 2014	Alcoholic Drinks	Toby Keith's	\$48.05	921000	Dinner	Westside Local - KC, MO	\$104.28		Dinner	Urban Table	\$144.22	
October 15, 2014	Dinner	Propos Biarcliff - KC, MO	\$610.97	921000	Dinner	Next Door Pizza & Pub - Lees Summit	\$53.59	426500	Breakfast	Casac Cup - KC, MO	\$30.38	921000
October 15, 2014	Lunch	Gather Dining Room - Boston, MA	\$32.82	921000	Dinner	Del Frisco's - Boston, MA	\$59.20	921000	Dinner	Sullivan's - Leawood, KS	\$395.93	426500
October 15, 2014	Snack	Dunkin' Donuts - Boston, MA	\$4.46	921000	Dinner	1111 & The Roof - JC, MO	\$28.25	426500	Dinner	1111 & The Roof - JC, MO	\$7.50	426500
October 15, 2014	Dinner	Majestic Restaurant - KC, MO	\$301.09	921000	Lunch	Legal Harborside - Boston, MA	\$220.03	921000	Room Service	Hyatt Boston Harbor - Boston, MA	\$15.84	921000
October 15, 2014	Room Service	Hyatt Boston Harbor - Boston, MA	\$14.85	921000								
On Report, No Receipt												
October 15, 2014	Lunch	TKR, LLC	\$57.05	921000	Dinner	801 Chop House - KC, MO	\$487.83	426500	Drinks	Aramark/Kaufmann Stadium - KC, MO	\$24.00	426500
October 15, 2014	Breakfast	Market Place - Las Vegas, NV	\$14.25	921000	Breakfast	Starbucks - Tampa, FL	\$5.62	921000	Drinks	QuickTrip - Oak Grove, MO	\$4.37	921000
October 15, 2014	Breakfast	McDonald's - Oak Grove, MO	\$4.85	921000	Lunch	McDonald's - Boonville, MO	\$7.13	921000	Lunch	McDonald's - Boonville, MO	\$7.13	921000
October 15, 2014	Dinner	MGM Grand/CraftSteak - Las Vegas, NV	\$915.62	921000	Lunch	Aria/Jean Philippe Palissarie - Las Vegas, NV	\$19.19	921000	Breakfast	Starbucks - Sedalia, MO	\$5.68	426402
October 15, 2014	Dinner	Milio's Prime Steakhouse - Tampa, FL	\$591.67	426500	Alcoholic Drinks	Aria Refreshment Center	\$7.57	426500				
October 15, 2014	Dinner	Propos Biarcliff - KC, MO	\$540.19	921000	Dinner	Hereford House, Zona Rosa - KC, MO	\$156.31	921000	Breakfast	Blue Bird Bistro - KC, MO	\$36.47	921000
October 15, 2014	Dinner	Nick & Jake's on Main - KC, MO	\$44.52	426403	Breakfast	Meatfam - Washington, DC - Funeral	\$8.80	426500	Drinks	Cibo Express Gromet Market - Washington, DC - FI	\$3.07	426500
October 15, 2014	Snack	Picnic Marche - KC, MO - for Funeral	\$6.11	426500	Lunch	BRGR Kitchen & Bar - KC, MO	\$59.76	426500	Dinner	Founding Farmers - Washington, DC - Funeral	\$62.20	426500
October 15, 2014	Dinner	Founding Farmers - Washington, DC - Funeral	\$64.90	426500	Room Service	Westin - Arlington, VA - Funeral	\$2.00	921000	Drinks	Starbucks - Arlington, VA - Funeral	\$7.53	921000
On Report, No Receipt												
October 15, 2014	Dinner	The Mix - KC, MO	\$63.44	921000								
December 23, 2014	Dinner	Propos Biarcliff - KC, MO	\$1,185.45	426500	Dinner	The Capital Grille - KC, MO	\$336.85	921000	Drinks	QuickTrip - Grandview, MO	\$1.72	426500
December 23, 2014	Drinks	Parera Bread - Blue Springs, MO	\$2.39	426500	Dinner	Sullivan's - Leawood, KS	\$610.85	426402	Drinks	Mr. D's Lounge - Osage Beach, MO	\$3.64	921000
December 23, 2014	Lunch	The Jacobson - KC, MO	\$90.00	921000								
On Report, No Receipt												
December 23, 2014	Lunch	McDonald's - Osage Beach, MO	\$7.30	921000								
Receipt not on Report												
December 23, 2014	Breakfast	12th & Baltimore - KC, MO	\$17.82	921000	Drinks	Krispy Kreme - OP, KS	\$2.05	921000	Dinner	H. Toad's - Camden on the Lake, MO	\$35.00	426102
January 15, 2015	Breakfast	Krispy Kreme - OP, KS	\$74.76	921000								
January 15, 2015	Dinner	Farallon - San Francisco, CA	\$1,441.48	426500								
On Report, No Receipt												
January 15, 2015	Lunch	12th & Baltimore - KC, MO	\$20.82	921000	Lunch	Starbucks - KC, MO	\$12.53	921000				
January 8, 2015	Dinner	Jack In The Box - San Francisco, CA	\$19.03	921000	Lunch	In-N-Out Burger - San Francisco, CA	\$7.40	921000	Dinner	In-N-Out Burger - San Francisco, CA	\$14.14	921000
January 8, 2015	Room Service	Cypress - Cupertino, CA	\$7.61	921000	Breakfast	12th & Baltimore - KC, MO	\$36.06	921000	Dinner	Heinold's First & Last - Oakland, CA	\$341.00	921000
January 8, 2015	Snack	Oakland Tribune News - Oakland, CA	\$12.09	921000								
On Report, No Receipt												
January 8, 2015	Lunch	Starbucks - KC, MO	\$6.68	921000	Snack	Brioche Doree - KC, MO	\$3.75	921000	Lunch	KC, MO	\$15.00	921000
January 28, 2015	Dinner	Calif Napoli - KC, MO	\$2,347.59	426500	Dinner	The Ritz-Carlton Cigar Club Dinner - STL, MO	\$211.61	426500				
On Report, No Receipt												
January 28, 2015	Lunch	Jason's Deli - KC, MO	\$24.01	921000	Drinks	United Airlines	\$7.99	921000				
February 6, 2015	Lunch	BRGR Kitchen & Bar - KC, MO	\$61.45	921000	Dinner	Webster House Restaurant - KC, MO	\$81.87	921000	Dinner	The Capital Grille - KC, MO	\$258.40	426402
February 6, 2015	Lunch	Alois Brasserie - KC, MO	\$57.99	921000	Dinner	Sullivan's - Leawood, KS	\$55.16	426402				
March 13, 2015	Dinner	Occidental Grill & Seafood - Washington, DC	\$421.73	921000	Dinner	Mitch's Seafood - San Diego, CA	\$30.68	921000				
On Report, No Receipt												
March 13, 2015	Dinner	Tom Ham's Lighthouse - San Diego, CA	\$165.32	921000	Drinks	Cups & Company - Washington, DC	\$3.65	921000	Snack	Starbucks - San Diego, CA	\$5.80	921000
March 13, 2015	Lunch	Starbucks - San Diego, CA	\$5.80	921000	Lunch	Travel meal w/Cara Hoover	\$7.86	921000				
May 29, 2015	Dinner	Johnny's Tavern - KC, MO	\$117.50	921000	Breakfast	Alois - KC, MO	\$7.35	921000	Lunch	BRGR Kitchen & Bar - KC, MO	\$40.27	921000
May 29, 2015	Lunch	BRGR Kitchen & Bar - KC, MO	\$50.69	921000	Breakfast	Roasterie Brookside - KC, MO	\$4.19	921000	Dinner	Sullivan's - Leawood, KS	\$771.16	426500
May 29, 2015	Lunch	Cozy's La Jolla - La Jolla, CA	\$27.13	921000	Lunch	12th & Baltimore - KC, MO	\$27.38	921000	Breakfast	Starbucks - San Diego, CA	\$15.80	921000
May 29, 2015	Breakfast	Starbucks - San Diego, CA	\$12.70	921000	Drinks	Kaldi's Coffee - KC, MO	\$3.92	921000	Dinner	801 Chophouse - KC, MO	\$1,645.86	921000
May 29, 2015	Dinner	The Marine Room - San Diego, CA	\$609.76	921000	Lunch	Mitch's Seafood - San Diego, CA	\$52.98	921000				
On Report, No Receipt												
May 29, 2015	Dinner	BRGR Kitchen & Bar - KC, MO	\$50.13	921000	Dinner	The Capital Grille - KC, MO	\$289.99	921000	Lunch	Mitch's Seafood - San Diego, CA	\$52.98	921000