

Exhibit No.:
Issue: Economic Development Rider
Witness: Joe G. Fangman
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
and KCP&L Greater Missouri
Operations Company
Case Nos.: ER-2018-0145 and ER-2018-0146
Date Testimony Prepared: July 27, 2018

MISSOURI PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY

OF

JOE G. FANGMAN

ON BEHALF OF

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

Kansas City, Missouri
July 2018

KCP&L Exhibit No. 121
Date 9-25-18 Reporter TM
File No. ER-2018-0145+0146

REBUTTAL TESTIMONY

OF

JOE G. FANGMAN

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

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

2 A: My name is Joe G. Fangman. My business address is 1200 Main, Kansas City, Missouri
3 64105.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Senior Manager
6 Economic Development.

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

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

10 **Q: What are your responsibilities?**

11 A: I manage our Economic Development department. This group partners with communities
12 to expand and grow industrial and commercial businesses. This expansion and growth
13 brings jobs and capital investment to the communities we serve.

14 **Q: Please describe your education, experience, and employment history.**

15 A: In 1987, I earned a Bachelor’s degree in Electrical Engineering from Kansas State
16 University. In 1991, I earned a Master’s of Business Administration degree from
17 Rockhurst University. In 1992, I was awarded a Professional Engineer’s License in the
18 State of Missouri.

1 In 1987, I started work with St. Joseph Light & Power Company (“SJLP”) as a
2 Planning Engineer. Then moved to a customer relations role with SJLP and was promoted
3 to Industrial Power Engineer in 1989. In 1994, I was promoted to Key Account
4 representative within SJLP. With the sale of SJLP to UtiliCorp United Inc. (UtiliCorp
5 United Inc. was later renamed Aquila, Inc.) in 2000, I started my position as a Principal
6 Account Executive. In 2004, I was promoted to Manager External Affairs, and in 2007 to
7 Manager Transmission Services. Later in 2007, I was promoted to Director of Economic
8 Development and Customer Relations. When Great Plains Energy purchased Aquila, Inc.
9 in 2008, I took the position of Senior Energy Consultant. In 2012, was promoted to
10 Manager Customer Solutions, and have managed our energy consultants, business center,
11 and products and services groups. Currently I am Senior Manager of Economic
12 Development.

13 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
14 **Commission (“MPSC”)?**

15 A: Yes, I testified in Case No. HC-2010-0235 and Case No. HC-2012-0259.

16 **Q: What is the purpose of your testimony?**

17 A: The purpose of my testimony is to address concerns raised by Staff (found at pp. 58-64 in
18 Staff’s Cost of Service Report) regarding the Company’s use of the Economic
19 Development Rider (“EDR”).

20 **I. OVERVIEW OF EDR PROCESS**

21 **Q: Please describe the EDR process used by the Company.**

22 A: A flow chart of the Economic Development Rider Process is attached as Schedule JGF-1.

1 This rider is available to industrial and commercial facilities which are not in the
2 business of selling or providing goods or services directly to the general public. Service
3 under this rider is only available in conjunction with local, regional and state governmental
4 economic development activities. Customers must have a new or expanded load, or a
5 portion of an existing load for which exit from the Company's system is eminent. The load
6 must meet peak demand and load factor or capital investment and added job requirements.

7 The EDR is not available for customers shifting load within the Company's
8 Missouri territory, unless the customer's search and consideration for moving includes
9 viable electric supply options in other electric utility service territories.

10 This flow chart provides a visual representation of the process and decision making
11 followed when working with a prospective customer or expanding existing customer. This
12 is meant as a guideline but it may be impacted by outside factors that may modify the
13 timing of the process. These factors may be outside of the control of the Company and/or
14 the customer and may include changes in the timing of the decision making by the customer
15 due to other corporate or market influences, changes in building construction design or
16 completion, schedule, timing of completion of needed electric infrastructure, weather, etc.

17 **Q: How long has the EDR tariff been in place?**

18 A: The current EDR tariff became effective on October 19, 2013. There was a prior EDR
19 tariff dating back to the mid-1990's.

20 **Q: Has the EDR been effectively used for its intended purpose?**

21 A: Yes. The intended purpose of the EDR is to encourage growth and development within
22 the Company's service territory by partnering with the State, county, city and other local

1 agencies in providing financial stimulus for businesses to locate, expand or remain in
2 communities within the Company's service territory.

3 The EDR has been instrumental in encouraging commercial and industrial
4 expansions and job growth in our service territories and the State of Missouri for many
5 years. From 2012 to 2017 alone 41 companies utilized the Company's EDR creating or
6 retaining over 9,277 jobs and \$2.3 billion in direct capital investment in communities in
7 our Missouri service territory.

8 The EDR has proven to be a "win win win" for new and existing customers, the
9 economy in our local communities, and the Company. Not only is the EDR directly
10 assisting those companies that qualify, the new load is providing a contribution above the
11 short term marginal costs, thus providing a contribution to recovery of fixed costs. Fixed
12 costs are spread over a larger base reducing, or slowing increases in, customer rate
13 responsibility for existing customers. Any EDR impacts between general rate cases are
14 borne by the Company and its shareholders.

15 The availability of the EDR also demonstrates the Company's commitment to
16 assisting communities in their efforts to attract new jobs and investment that benefits the
17 local economy and the State. The availability of the EDR results in bringing jobs and
18 investment to the Company's service territory in Missouri that might have chosen to locate
19 somewhere else.

1 **Q: Recently the Missouri Legislature passed Senate Bill 564 (“SB 564”) with an economic**
2 **development provision. How does that provision compare with the current Company**
3 **EDR?**

4 **A:** The Company’s current EDR is consistent with the State economic development policy
5 and specifically is very similar to recently passed language in SB 564. In fact, SB 564
6 utilizes similar criteria of size, load factor, and state and community incentives, yet
7 potentially provides greater rate discounts. Both the EDR and SB 564 enhance capacity
8 utilization of our existing facilities through the addition of high load factor growth, benefits
9 local communities and the state with jobs and capital investment growth, and is expected
10 to provide benefits well beyond the duration of the EDR incentive.

11 **II. REVIEW OF STAFF ASSERTIONS**

12 **Q: Have you reviewed the testimony by Staff concerning their review of the EDR?**

13 **A:** Yes

14 **Q: Do you agree with the Staff approach and the results of that review?**

15 **A:** No, and the following testimony will elaborate on the updates and differences. As you will
16 see later in this testimony we are submitting supplemental data request responses to fill
17 gaps in information needed by Staff, attached process documentation to describe the EDR
18 process, attached files showing results of our review of existing EDRs and documentation
19 materials to show customer compliance of the EDR criteria.

20 **Q: Do you agree with Staff’s removal of certain accounts from the EDR because they are**
21 **in the SGS class?**

22 **A:** Upon review, it was determined the account’s Rate Class was incorrect given the
23 Customer’s demand (KW). ** [REDACTED] **

1 account rate class should have been LGS based on the level of demand (KW). Though they
2 may have been classified as SGS at the very start of the operation, this account was part of
3 a facility with demand well over 200 KW which had qualified for the EDR. The customer
4 has been notified of the change in rate class on the account. After our review and with this
5 documentation, this customer is in compliance with the EDR criteria.

6 **Q: Staff excluded the EDR discount associated with KCP&L Account ** [REDACTED] ****
7 **because Staff was not able to determine which contract is applicable.**

8 **A: This account ** [REDACTED] ** is applicable to ** [REDACTED]**
9 **[REDACTED] **** After our review and with this
10 documentation, this customer is in compliance with the EDR criteria.

11 **Q: Staff excluded the EDR discount associated with KCP&L Accounts ** [REDACTED] ****
12 **and ** [REDACTED] ** because Staff was not able to determine which contract is**
13 **applicable.**

14 **A: Accounts ** [REDACTED] ** and ** [REDACTED] ** are associated with ** [REDACTED]**
15 **[REDACTED] **** This was addressed in the Company's
16 response to Staff data request Q0122.1 in this case. The account numbers were
17 inadvertently left off the contract document. The documents were provided in the
18 Company's response to the data request. After our review and with this documentation,
19 this customer is in compliance with the EDR criteria.

1 Q: Staff excluded EDR discounts associated with KCP&L accounts ** [REDACTED] ** and
2 ** [REDACTED] ** because KCP&L did not provide billing information for these
3 account numbers.

4 A: Data Request 0122.1, which included these accounts, asked for the following: *Please*
5 *provide a copy of the EDR contract, approval forms, and supporting documentation for*
6 *each of the following customers.* We did not provide billing information for all the accounts
7 requested in the Data Request. We realized the oversight and we are providing a
8 supplemental response to the data request including the missing billing data for ** [REDACTED]
9 [REDACTED] **. After
10 our review and with this documentation, this customer is in compliance with the EDR
11 criteria.

12 Q: Is Staff's proposed treatment of the Ford account correct?

13 A: No. The delay in implementing the Ford EDR was in part due to miscommunication with
14 the customer. Some delays are normal with economic development projects such as this.
15 This project took several years from the initial conversation with Ford in which they
16 discussed a potential new production line. After incentives were offered the customer
17 reviewed the alternative locations and chose Kansas City in a public announcement. After
18 taking nearly a year to complete design and construction, the permanent meter was set.
19 Even after the permanent meter was set, it took the customer more than six months to
20 complete installation of equipment and test facilities and processes before production could
21 begin.

1 **Q: Why do delays occur when implementing an EDR?**

2 A: New and existing customer attraction and growth does not follow a set pattern or timeline.
3 Growth customers evaluate the best locations to build and grow. Their decision process
4 can take years for the financials to work out and be the right time for them to grow. We
5 normally ask for the EDR application early in the process to assure it is a factor in their
6 decision making and assure we are not eliminated from consideration early in the process.
7 It is then a process of elimination as the potential locations are narrowed. Once a site is
8 chosen further design and build activities can take additional months and sometimes years
9 to complete. Even after a permanent meter is set for a new customer, it can take a
10 significant amount of time for the customer to install equipment, test, fine tune processes
11 and eventually start production.

12 **Q: Staff excluded EDR discounts associated with ** [REDACTED]**
13 **[REDACTED] ** questioning the government economic incentives associated with this**
14 **customer and making other allegations (no affidavit, etc.). Do you agree with this**
15 **exclusion?**

16 A: This was a serious effort by ** [REDACTED] ** to move to another location outside the
17 Company's service territory. Local economic development agencies were involved in the
18 effort to keep this customer located locally. The Economic Development Corporation-
19 Kansas City originally offered a Chapter 100 Bond for financing of equipment and
20 furnishings associated with the relocation to ** [REDACTED]

21 **[REDACTED] ** Per an email dated**
22 **July 13, 2018, State Street's site selection consultant, John Lenio, John Lenio | Executive**
23 **Vice President, CBRE | Advisory & Transaction Services Location Incentives:**

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** [REDACTED] **

While economic development incentives of high value are certainly attractive to prospects/businesses, an incentive that shows the City/State's willingness to provide a shorter approval process for a project has the value of demonstrating the City/State's intent to maintaining them as a corporate citizen within the community.

We have a letter on ** [REDACTED] ** letterhead, and we accepted this letter to meet the tariff requirement. What the letter does not state (which was an oversight) was to have the company name the former EPA building in Kansas City, KS as the alternative site. After our review and with this documentation, this customer is in compliance with the EDR criteria.

Q: Staff is concerned that EDR discounts associated with KCP&L Accounts ** [REDACTED] ** and ** [REDACTED] ** may not properly reflect the exclusion of existing load.

A: Prior to this facility, ** [REDACTED] ** was not a KCP&L customer, so the company did not have any prior load to shift. The concern in this question stems from the fact that the Energy Information Section of the KCP&L Economic Development Rider Application was filled out improperly by the customer. The customer initially leased 119,820 square feet of a speculative building that was 341,760 square feet in total. There were initial plans for an expansion to take up the entire building, but that never happened. Thus, although the

1 actual load was somewhat different from what was stated on the application, it still meets
2 the EDR criteria. After our review and with this documentation, this customer is in
3 compliance with the EDR criteria.

4 **Q: Has KCP&L performed a thorough review of existing EDRs?**

5 A: Yes. The review covered the period of October 2016 to November 2017. There were two
6 EDR customers within this review that require additional explanation. ** [REDACTED]

7 [REDACTED] ** was found to be out of compliance because its load
8 factor was less than 55%. This customer ceased receiving discounts as of January 2017.

9 ** [REDACTED]

10 [REDACTED] ** was awarded assistance from the Full Employment Council, the local Work
11 Force Investment Board serving Metropolitan Kansas City, to help recruit needed
12 workforce as well as applying for an exemption of state of Missouri sales tax for electricity
13 used in the manufacturing process. Ultimately, the customer determined that the resources
14 of the Full Employment Council would not meet their needs and severed their relationship.
15 However, the customer did receive the exemption of Missouri sales tax for electricity,
16 which we accepted to qualify them for the EDR. The remaining customers in the study
17 are in compliance, either by meeting the EDR criteria or through exemptions based on
18 capital investment over \$5,000,000.

1 Q: Staff excluded discounts associated with GMO Accounts ****[REDACTED]**** and
2 ****[REDACTED]****, ****[REDACTED]**** because Staff alleges there is no evidence of any
3 governmental economic development incentive or properly executed affidavit. Do
4 you agree with Staff's position?

5 A: No. We have a letter from, the CFO of ****[REDACTED]**** documenting their recent
6 acquisitions outside of the KCP&L service area that were also considered as viable options.
7 We considered this adequate to meet the retention criteria. We do not have an affidavit,
8 but are pursuing with the client to obtain it now to complete the record. Currently the
9 customer is receiving an exemption of state sales tax on the electricity used in the
10 manufacturing process. After our review and with this documentation, this customer is in
11 compliance with the EDR criteria.

12 Q: Staff excluded discounts associated with GMO Account ****[REDACTED]****, ****[REDACTED]****,
13 ****[REDACTED]**** because Staff alleges the governmental economic incentive is of specious value.
14 Do you agree with Staff's position?

15 A: No. The City of Lee's Summit, MO has a code of ordinance that applies to electric
16 franchise exemption on manufacturing companies of a certain Standard Industrial
17 Classification Codes. Sec. 28-90 states that the license fee shall be the sum equal to seven
18 (7) percent of the gross receipts derived from the sale of electrical energy within the present
19 or future boundaries of the City during the period of domestic and commercial consumption
20 and not for resale not including any revenue from sale of service to the city or any revenue
21 from sales to industrial consumers.

22 Per an email dated August 8, 2017, from Conrad Lamb, Finance Director, City of
23 Lee's Summit, *any industry operating in Lee's Summit presently having an exemption*

1 *under Section 28-90 shall continue to benefit from such exemption, even though their SIC*
2 *code may not be included herein, so long as they continue to operate in the same location*
3 *and under the same corporate name and ownership.*

4 This expansion project was competitive in nature with other facilities within the
5 company. This franchise fee exemption incentive is only available in very few
6 municipalities in Missouri, including only Lee's Summit and Maryville in the GMO
7 Service Territory, making it a valuable differentiator which may provide significant cost
8 savings to the company each month. After our review and with this documentation, this
9 customer is in compliance with the EDR criteria.

10 **Q: Why is the government incentives requirement an important qualification to offer an**
11 **EDR?**

12 A: Government incentives indicate a community's desire for the customer to join their
13 community. KCP&L wants to be aligned with our communities and support their efforts
14 to grow jobs and capital investment. The government incentives provision is meant to
15 insure alignment. We do not intend to match incentives with our communities but rather
16 assure the new customer or growth of an existing customer is welcomed by the State and
17 our community partners.

18 We work side by side with the State and our community partners to attract and grow
19 communities. When the State and communities offer incentives, it fulfills the intent that
20 we are aligned together to incent the growth.

1 **III. RECOMMENDATIONS**

2 **Q: Based on your review of the Staff assertions, is there any disallowance that should**
3 **considered?**

4 A: No, except as noted earlier in my testimony, all the customers should be on the EDR.

5 **Q Based on your review of the Staff assertions, does the EDR process need any change**
6 **to ensure the program operates as intended?**

7 A: No. The Company's EDR plays a proven, valuable role in the successful economic
8 development initiative of our state, regional and local economic development partners in
9 the Company's service territory. Our local and state partners rely on the Company to be a
10 part of the attraction or retention economic development team with the end goal of creating
11 wealth, jobs, capital investment and thus a thriving economy and enhanced quality of life.
12 From the Company's standpoint, participation in these state or local economic
13 development initiatives has a return on investment that includes new customers (both the
14 new companies and relocating employees who may also be our customers), overall
15 increased demand/load and a better load curve which results in more efficient operating
16 costs for the Company.

17 The Company's current EDR process is recognized as being easy to understand by
18 prospective or existing customers and their representatives. The current criteria set forth
19 can be easily explained and followed to remain in compliance. Any additional layers of
20 compliance that are perceived as unnecessary or burdensome will decrease the perceived
21 value of the EDR and will negatively impact the overall incentive package proposed by the
22 state or local economic development organization which may result in fewer successes.

1 For the period of 2012 to 2017, KCP&L played a measurable role in the
2 attraction/expansion or retention of 41 companies that qualified for the Economic
3 Development Rider. Based on the EDR Applications, this resulted in 9,277 new or retained
4 jobs, \$2,316,516,072 in projected capital investment and 133,589 KW in new or retained
5 load for KCP&L. It should be noted, that these figures represent only the EDR qualifying
6 customers that have been successfully attracted or retained to the KCP&L service territory.
7 Typically, this growth has a multiplying effect in the community bringing in additional
8 jobs and capital investment to support the new/expanded industry and jobs.

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

10 A: Yes, it does.

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

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)

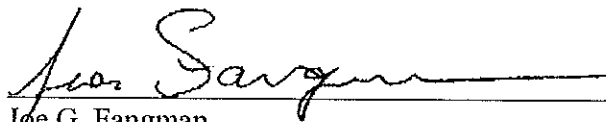
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)

AFFIDAVIT OF JOE G. FANGMAN

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

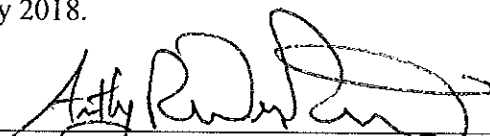
Joe G. Fangman, being first duly sworn on his oath, states:

1. My name is Joe G. Fangman. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager Economic Development.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of _____ () pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief



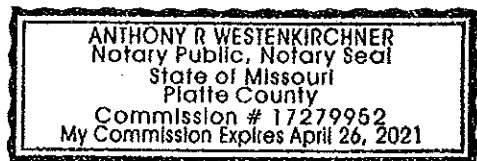
Joe G. Fangman

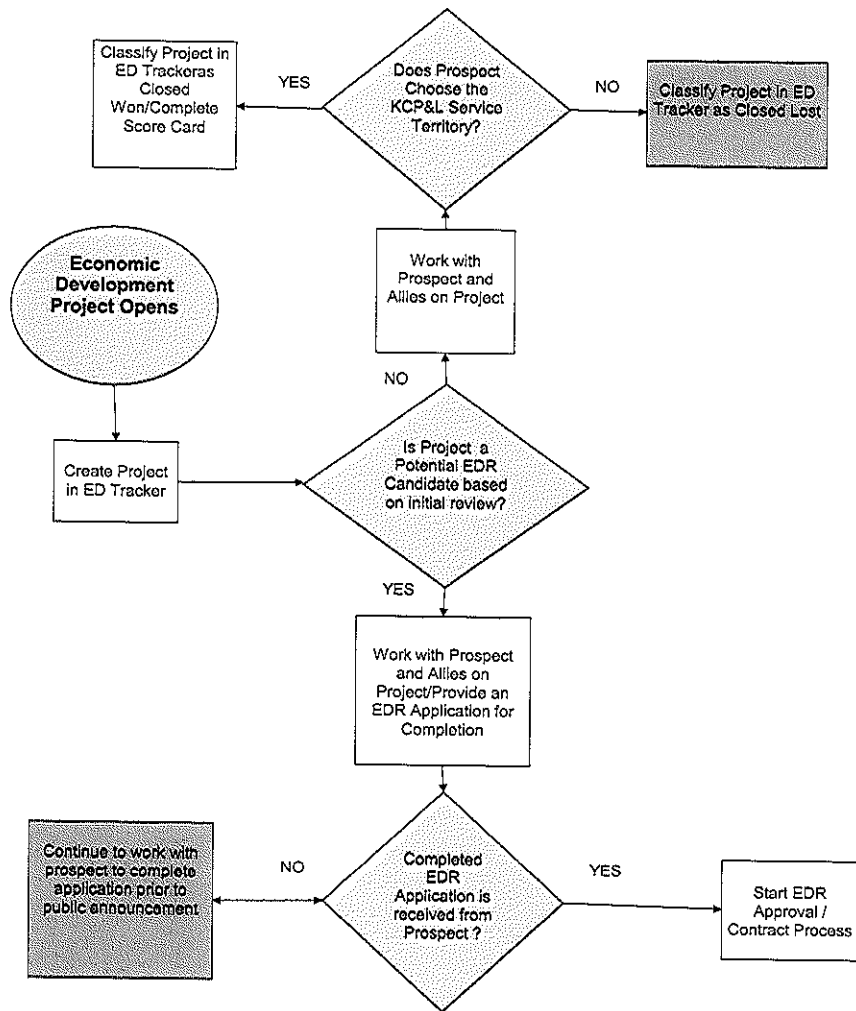
Subscribed and sworn before me this _____ day of July 2018.



Notary Public

My commission expires: 4/26/2021

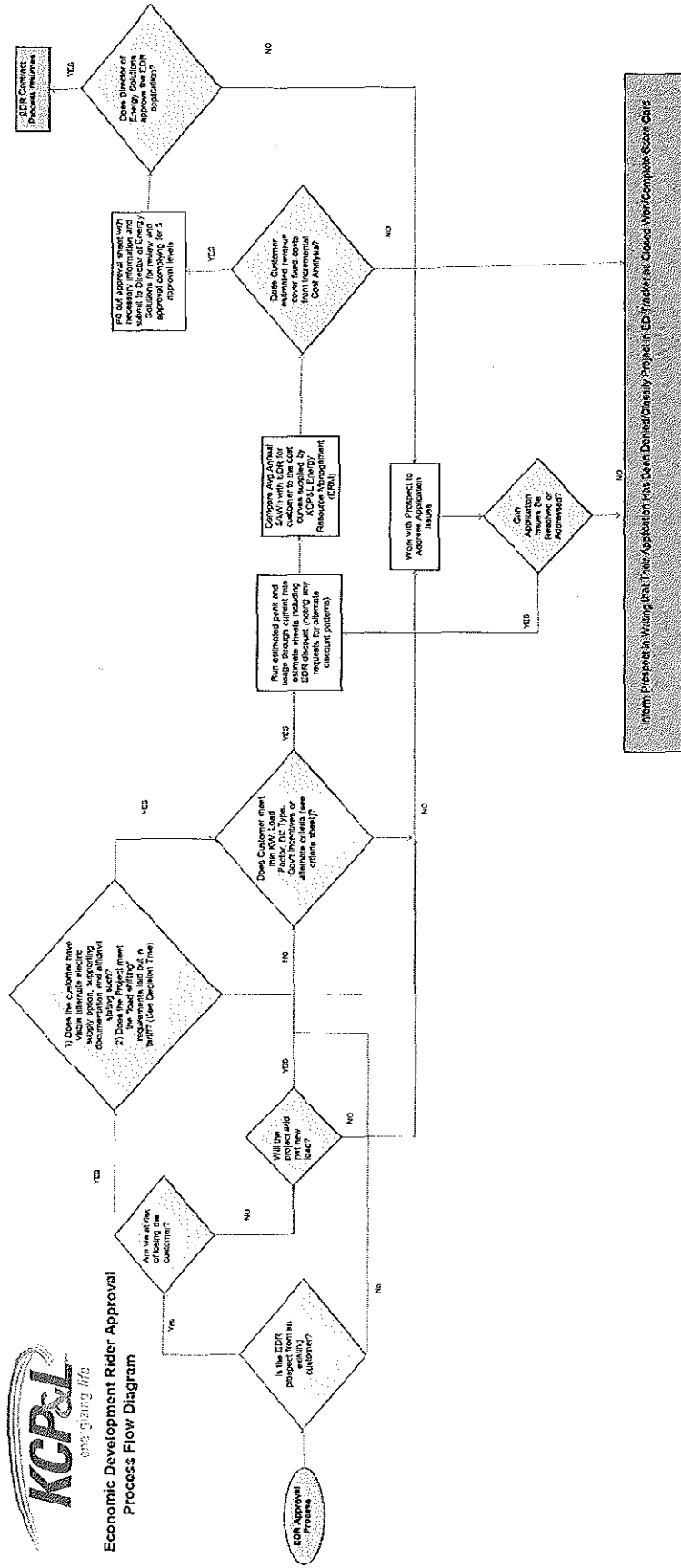


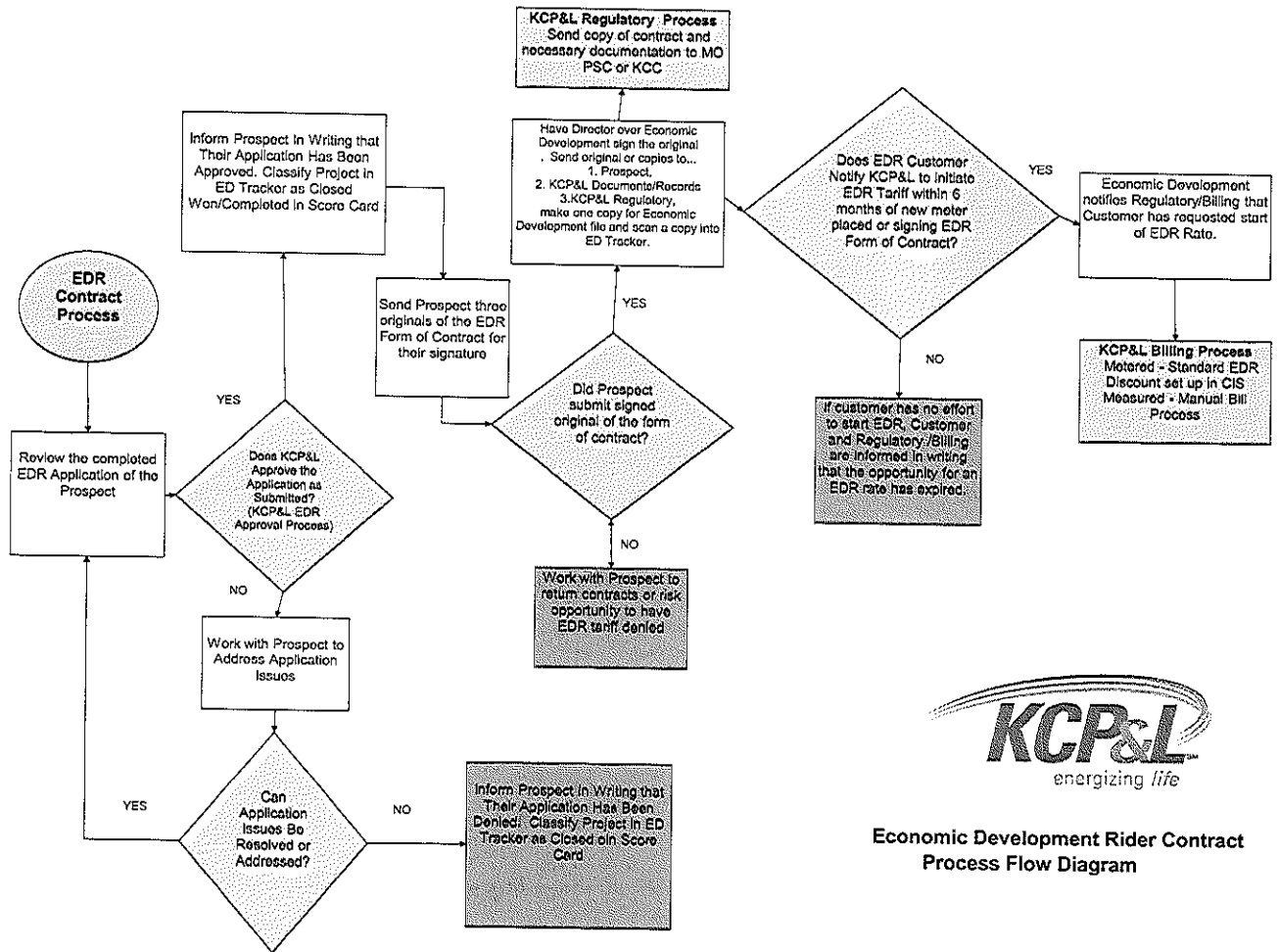


**Economic Development
Process Flow Diagram**



Economic Development Rider Approval Process Flow Diagram





Economic Development Rider Contract Process Flow Diagram



Economic Development Rider Annual Review Process Flow Diagram

