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Case Nos.: ER-2018-0145 and ER-2018-0146
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MISSOURI PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

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

Kansas City, Missouri
July 2018

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REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

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

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

2 A: My name is Ronald A. Klote. 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 Director –
6 Regulatory Affairs.

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

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

10 **Q: Are you the same Ronald A. Klote who filed Direct Testimony in in both ER-2018-**
11 **0145 and ER-2018-0146?**

12 A: Yes, I am.

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

14 A: I will offer Rebuttal Testimony concerning issues addressed in the Missouri Public
15 Service Commission ("MPSC" or the "Commission") Staff's Cost of Service Report. I
16 will also address issues raised in the Direct Testimony of Office of the Public Counsel
17 ("OPC") witnesses John Robinett, Amanda Conner and John Riley. In addition, I will
18 address the Direct Testimony of Midwest Energy Consumers' Group ("MECG") witness
19 Michael Brosch. The issues I will be addressing are as follows:

1 ▪ Plant In Service – Capitalized Equity Compensation

2 ▪ Transmission Revenue Annualization

3 ▪ Transmission Expense Annualization

4 ▪ Payroll and Related Benefits

5 ▪ Severance

6 ▪ Additional Amortization – GMO

7 ▪ Tax Cuts and Jobs Act of 2017 – Stub Period

8 **PLANT IN SERVICE – CAPITALIZED EQUITY COMPENSATION**

9 **Q: Did Staff remove capitalized long term, and portions of short-term, compensation**
10 **from KCP&L and GMO plant?**

11 A: Yes. On pages 97 and 98 of Staff's Cost of Service Report, Staff witness Keith Majors
12 describes an adjustment to remove a portion of both capitalized short-term incentive
13 compensation and capitalized long-term incentive compensation.

14 **Q: Does the Company agree with Staff's adjustment to remove from rate base a**
15 **portion of the capitalized short-term incentive compensation and long-term**
16 **incentive compensation?**

17 A: Yes. The Company is in agreement with these adjustments and will include the
18 adjustment amounts in its revenue requirement calculated at the true-up portion of this
19 rate case.

1 **Q: Has the Company made any changes in how it records long-term equity**
2 **compensation in its accounting records?**
3 A: Yes. In August of 2017, the Company ceased capitalizing long-term equity
4 compensation. As such, on a going forward basis long-term equity compensation will no
5 longer be recorded to plant-in-service accounts.
6 **Q: Was the ceasing of capitalization completed for both KCP&L-MO and GMO**
7 **jurisdictions?**
8 A: Yes it was.
9 **TRANSMISSION REVENUE ANNUALIZATION**
10 **Q: How did Staff annualize transmission revenue in this rate case proceeding for both**
11 **KCP&L-MO and GMO jurisdictions?**
12 A: On pages 48 and 49 of Staff's Cost of Service Report, Staff identifies that it used the 12
13 months ending December 31, 2017, as the basis for their transmission revenue
14 annualization adjustment.
15 **Q: Did this approach adequately include the impact of the Southwest Power Pool**
16 **("SPP") balanced portfolio adjustment that began to be recorded on the Company's**
17 **books in November of 2017.**
18 A: No it did not. An explanation of the SPP balanced portfolio adjustment is included in the
19 Rebuttal Testimony of Company witness Don Frerking. Since the SPP balanced portfolio
20 adjustment began to be recorded in November 2017, Staff's transmission annualization
21 adjustment does not adequately account for a full year's impact. In fact, by including the
22 12 months ending December 2017, Staff's annualization only includes 2 months of the
23 SPP balanced portfolio adjustment impact.

1 **Q: Please explain how the Company intends to annualize transmission revenues for**
2 **both KCP&L-MO and GMO jurisdictions in the true-up phase of this rate case**
3 **proceeding?**
4 A: In order to capture the impact of the SPP balanced portfolio adjustment change, the
5 Company will annualize transmission revenues based upon actual revenues for January
6 through June 2018 which will encompass a period in which all the months in the
7 annualization calculation include the SPP balanced portfolio adjustment.
8 **TRANSMISSION EXPENSE ANNUALIZATION**
9 **Q: How did Staff annualize transmission expense in this rate case proceeding for both**
10 **KCP&L-MO and GMO jurisdictions?**
11 A: On page 135 of Staff's Cost of Service Report, Staff identifies that it used the 12 months
12 ending December 31, 2017, as the basis for their transmission expense annualization
13 adjustment.
14 **Q: Did this approach adequately include the impact of the SPP balanced portfolio**
15 **adjustment that began to be recorded on the Company's books in November of**
16 **2017.**
17 A: Similar to the transmission revenue annualization described above, the 12 months ending
18 December 2017, did not adequately include the impact of the SPP balanced portfolio
19 adjustment. An explanation of the SPP balanced portfolio adjustment is included in the
20 Rebuttal Testimony of Company witness Don Frerking. Since the SPP balanced portfolio
21 adjustment began to be recorded in November 2017, Staff's transmission expense
22 annualization adjustment does not adequately account for a full years impact. In fact, by

1 including the 12 months ending December 2017, Staff's annualization only includes 2
2 months of the SPP balanced portfolio impact.

3 **Q: Please explain how the Company intends to annualize transmission expense for both**
4 **KCP&L-MO and GMO jurisdictions in the true-up phase of this rate case**
5 **proceeding?**

6 A: In order to capture the impact of the SPP balanced portfolio adjustment change and
7 reflect the significant increasing trend the Company has experienced for numerous years
8 associated with transmission expense, the Company will annualize transmission expenses
9 based upon actual transmission expenses for January through June 2018, which will
10 encompass a period in which all the months in the annualization calculation include the
11 SPP balanced portfolio adjustment impact.

12 **PAYROLL AND RELATED BENEFITS**

13 **Q: What was Staff's position regarding the payroll and payroll-related benefits**
14 **adjustments included in their revenue requirement calculation?**

15 **A:** For the most part Staff was in agreement and followed the methodology used by the
16 Company in its calculation of payroll and payroll-related benefits adjustments. Yet, there
17 are a couple of differences for which the Company takes exception. First, Staff used
18 inconsistent methodology to calculate union vs. non-union overtime for KCP&L
19 employees. Second, Staff did not apply an escalation factor to prior years in the Wolf
20 Creek 3-year overtime average.

21 **Q: What is the Company's position regarding the KCP&L overtime calculation?**

22 **A:** The Company and Staff have both used a 3-year average calculation to determine
23 ongoing overtime costs in the past several rate cases. In this Case, Staff has deviated

1 from this practice and has used a 5-year average for non-union employees and 3-year
2 average for union employees. It is inconsistent to apply different time periods for union
3 vs. non-union. The nature of using a 3-year average is meant to capture any fluctuations
4 over time. The Company believes a 3-year average has adequately addressed fluctuations
5 over time and is consistent with past overtime calculations used for the payroll
6 adjustment.

7 **Q: Did the Staff apply an escalation factor within the KCP&L overtime calculation?**

8 **A:** Yes, by using the hourly rate from the most current time period the Staff has in effect
9 applied an escalation factor to bring prior years dollars to current levels.

10 **Q: Does the Company agree with this methodology?**

11 A: Yes. When prior year overtime dollars are included in an average then some type of
12 adjustment is needed to bring those dollars to current year values.

13 **Q: Second, what is the Company's position regarding the Wolf Creek overtime**
14 **calculation?**

15 **A:** While the Company agrees with Staff's use of a 3-year average for Wolf Creek overtime,
16 the prior years must be adjusted appropriately in order to bring those dollars to current
17 values. Much like the Staff did in the KCP&L overtime calculation.

18 **Q: What is the Company's conclusion with regard to these differences in methodology?**

19 **A:** The Commission should adopt the Company's methodology with regards to overtime
20 (including KCP&L and Wolf Creek overtime).

1 **Q: If changes are made to the payroll annualization calculation, what impact does it**
2 **have on other adjustments?**

3 A: If Staff's payroll annualization adjustment is changed then the corresponding changes
4 should be reflected in both the payroll taxes and 401k annualization adjustment
5 calculations included in this rate case proceeding.

6 <u>**SEVERANCE**</u>

7 **Q: What was proposed by OPC witness Amanda Conner regarding Severance expense**
8 **recorded by the Company?**

9 A: OPC witness Conner alleges that the Company charged $6,269,491 to cost of service to
10 be recovered for severance costs in this rate case proceeding, and OPC proposes an
11 adjustment to exclude this amount from the Company's cost of service.

12 **Q: Does the Company agree with this adjustment?**

13 A: No.

14 **Q: Why not?**

15 A: The amount included in OPC Conner's Direct Testimony associated with the amounts
16 included in the Company's cost of service for severance expense is not correct. The
17 majority of the severance costs provided in Data Request No. 1205 that witness Conner is
18 using for her calculations includes severance payments associated with transition costs
19 related to the Westar merger that were tracked separately on the books and records of the
20 holding company and not the KCP&L-MO or GMO jurisdictional books and records.
21 Therefore, these severance costs are not included in the regulated revenue requirement.
22 For example, the Company offered the VEEP ("Voluntary Employee Exit Program")
23 during 2017 for which nearly 100 employees elected to participate. These costs were

1 charged to operating unit 40130 which resides on our holding company's books, not the
2 regulated jurisdictional books and records of KCP&L or GMO. These costs were tracked
3 separately as the VEEP program was part of the transition costs associated with the
4 Westar merger. The amount of merger transition costs, which was included in a
5 Stipulation and Agreement in the Westar merger case to which OPC is a signatory, is
6 included in the cost of service in this case and is discussed in the Rebuttal Testimony of
7 Company witness Darrin Ives. The remaining severance payments were recorded to
8 operating units that are allocated between the jurisdictions. So, by removing the VEEP
9 payments from the total in DR 1205, and then applying allocation factors to the rest of
10 the payments, the impact to GMO and KCP&L's Missouri jurisdiction is a far less than
11 the $6.2M claimed by OPC witness Conner. In fact, the total KCP&L O&M amount for
12 the 2017 severance payments is approximately $328,000, and the impact to KCP&L
13 Missouri jurisdiction is approximately $175,000. Correspondingly, the GMO
14 jurisdictional O&M amount for the 2017 severance payments is approximately $147,000.

15 **Q: Do you agree with OPC witness Conner's assessment that severance costs should be**
16 **removed from the Company's cost of service?**

17 A: No. The Company has included severance payments in cost of service because severance
18 payments are a necessary and recurring annual business expense and part of total
19 operating expense occasioned by the employment of individual employees.

20 **Q: What is OPC's main arguments for the elimination of severance payments in cost of**
21 **service?**

22 A: OPC claims that severance payments are often recovered through regulatory lag in excess
23 of the payment because salaries are generally recovered through rates until they are

1 changed in the next utility rate case. Secondly, OPC states that severance agreements
2 benefit the utility and not the customer and are typically signed with the severed
3 employees which contain language to protect the utility from potential litigation. OPC
4 claims that for these reasons, severance payments should not be allowed recovery in this
5 rate case.

6 **Q: Does the Company agree with OPC's position?**

7 A: No. Severance payments are part of the annual recurring operating expense of the
8 Company and should be included in the Company's cost of service.

9

10 **Q: What is the Company's position regarding OPC arguments concerning regulatory**
11 **lag?**

12 A: Payroll costs, like other costs, are dynamic and change the instant a level is set in cost of
13 service. As such, payroll just like severance, has instances of both positive and negative
14 regulatory lag. The Commission should look at the whole picture of payroll and payroll-
15 related costs in determining whether to allow or disallow certain costs. Payroll costs
16 suffer from negative regulatory lag the first instance that a payroll rate increase occurs
17 which establishes a level of payroll that is not recovered through base rates. Secondly,
18 payroll costs are usually established in rate cases using only filled positions at a point in
19 time. At any given point in time there are budgeted positions that are vacant within any
20 company. The first day that an open position is filled, negative regulatory lag begins to
21 occur until the newly filled position is included in rates. The reverse can happen as well,
22 filled positions included in rates can become vacant and positive regulatory lag then
23 exists. Yet, in looking at the total cost structure of KCP&L and GMO, and looking at
24 their inability over the past several years to be able to earn their Commission-authorized

1 rates of return, it is clear that the earnings eroding effects of regulatory lag have exceeded
2 the earnings-positive effect of regulatory lag. KCP&L and GMO have suffered negative
3 regulatory lag in many cost areas and have had difficulty earning their authorized return
4 on equity. As such, identifying positive regulatory lag in a minimal cost area such as
5 severance costs should not be used by this Commission as a reason to disallow those
6 costs.

7 **Q: What is the Company's response in regard to the reason why severance agreements**
8 **are entered into?**

9 A: The Company does not disagree with OPC's position as to why severance agreements are
10 entered into and cause an operating cost to be incurred by the Company. But, the
11 severance agreements are put in place to minimize the potential liability that future costs
12 could be incurred. This relatively minimal cost incurred as compared to total payroll costs
13 in order to avoid potential future costs that could possibly be significant to the Company
14 further supports inclusion of severance costs in cost of service.

15 **Q: Did Staff make an adjustment for severance costs in their cost of service filing?**

16 A: No they did not.

17 **Q: Should the Commission allow severance cost in this cost of service?**

18 A: Yes. The severance cost requested to be included in the cost of service in this case is a
19 reasonable amount when considering total payroll and payroll-related benefits costs. In
20 addition, regulatory lag exists both positively and negatively for payroll and payroll-
21 related costs and should not be viewed in a vacuum when considering the recoverability
22 of severance costs.

1 **Q: What is the Company's recommendation on this issue?**

2 A: The Company recommends that the Commission include regulated O&M severance

3 payments in revenue requirement as proposed by the Company because they are normal

4 ongoing operating costs.

5 **ADDITIONAL AMORTIZATION - GMO**

6 **Q: In GMO's last rate case ER-2016-0156, what was included as part of the Stipulation**

7 **and Agreement associated with depreciation expense?**

8 A: The *Non-Unanimous Stipulation and Agreement* in Case No. ER-2016-0156 included a

9 section on depreciation expense which included the following:

> 10 In addition to the attached schedule, GMO shall be allowed to collect an
> 11 annual amortization amount equal to $7.2 million. This additional
> 12 amortization shall be booked and accounted for on an annual basis until
> 13 GMO's next general electric rate case. In GMO's next filed rate case the
> 14 Commission will determine the distribution of the additional amortization.
> 15 The balance will be used to cover any deficiencies in reserves across
> 16 production, transmission and distribution accounts. Any undistributed
> 17 balance will be used as an offset to future rate base. This amortization is
> 18 for purpose of settlement of this case only and does not constitute an
> 19 agreement as to the methodology or a precedent for any future rate case.

20 This agreement provided for an additional amount of amortization to be recorded as part

21 of GMO's accumulated depreciation reserve and to be used to cover accumulated

22 depreciation deficiencies throughout GMO's functional reserve categories.

23 **Q: Why was this agreement necessary?**

24 A: In short, in its last rate case, GMO conducted a depreciation study that was included as

25 part of the rate case filing which proposed new depreciation rates which were in excess of

26 GMO's current depreciation rates at the time. These depreciation rates had been in effect

27 and not updated for a number of years. Staff witness Derick Miles, in that case,

28 expressed some concerns with certain areas of the study and proposed using current

1 depreciation rates and not making a change. Yet, in Surrebuttal Testimony on page 5

2 Staff witness Miles did offer up the following:

3 Q: Is Staff aware of other methods GMO could utilize to make up any
4 imbalance in the depreciation reserves?

5 A: Yes. Staff is currently reviewing the option that an additional annual
6 amortization amount be collected in lieu of adopting GMO's proposed
7 depreciation rates. This additional annual amount would be in addition to
8 Staff's proposed adoption of current Commission ordered rates.

9 As such, the proposal of additional amortization expense included in the revenue

10 requirement calculation was contemplated and ultimately included in the *Stipulation and*

11 *Agreement* in the rate case.

12 **Q: What is GMO's position regarding depreciation expense in this rate case**

13 **proceeding?**

14 A: Due to the short time period from when rates became effective in the last case and the

15 filing of this case, the Company proposed in this rate case proceeding to keep

16 depreciation rates the same as were approved in the last case. This included maintaining

17 the $7.2 million in additional amortization for GMO. With the filing of the Company's

18 next rate case, the Company will complete a depreciation study for both KCP&L-MO and

19 GMO. This depreciation study will incorporate the treatment of the additional

20 amortization.

21 **Q: What are the positions of Staff and OPC regarding this issue?**

22 A: Both Staff and OPC in their direct filed cases propose to eliminate the $7.2 million

23 additional amortization that was included in GMO's last rate case.

24 **Q: Does the Company believe this is the time to end the additional amortization agreed**

25 **to in the last general rate case?**

26 A: No.

1 **Q: Why not?**

2 A: First, the Company feels strongly that this is not the time to change depreciation rates
3 agreed to in GMO's most recent rate case proceeding. Due to the short time frame from
4 when rates went into effect in the last GMO case and when this rate case was filed, no
5 depreciation study was completed. In addition, it does not appear that the other parties to
6 this case completed a depreciation study either. Thus, this is not the appropriate time to
7 change depreciation and amortization rates that were agreed to in the last case. One of
8 the benefits of this unidentified additional amortization is that it can be assigned to
9 production, transmission or distribution functions. This additional amount in the next
10 rate case could be assigned to the functional plant category that is most underdepreciated.
11 In fact, in this case, OPC witness Robinett suggests the assignment of this additional
12 amortization to the production plant accounts.

13 Second, in the last GMO rate case Staff provided testimony stating that additional
14 amortization is a possible method to make up imbalances in depreciation reserves and
15 subsequently agreed to this approach in a Stipulation and Agreement. To my knowledge
16 Staff has not provided a new depreciation study to support why the additional
17 amortization is not still needed. Without a study it is very difficult to determine if the
18 imbalances that supported the additional amortization in GMO's last rate case still exists.
19 But in light of the short time period between rates effective date in the last case and the
20 filing of this case, it would appear that this is not the appropriate time to stop the
21 additional amortization that was approved by the Commission in the last GMO rate case.

22 Finally, the language in the Stipulation and Agreement from the last GMO rate
23 case clearly states that there is no precedent set in future rate cases. Both Staff and OPC

1 have taken that to mean that it is time to end the amortization. But, the Company urges
2 this Commission to review the facts surrounding the depreciation positions in the last
3 GMO rate case and determine if it is reasonable to assume that within just the short
4 window that this amortization has been effective it is likely that circumstances have
5 changed substantially enough to warrant the ending of this amortization. Additionally, as
6 no party to this case has provided a depreciation study to support the ceasing of the
7 additional amortization, there is no evidence in this proceeding to support discontinuing
8 recording this additional amortization. Such an action could have the unintended
9 consequence of creating even further imbalances in the future than were identified in the
10 depreciation study in the prior case. GMO has committed to filing a Depreciation Study
11 in the next case in which all aspects of plant will be examined.

12 **Q: What does the Company recommend this Commission do in regards to the**
13 **additional amortization included in Case No. ER-2016-0156?**

14 A: The Company requests this Commission to continue the additional amortization amount
15 of $7.2 million annually that was approved by the Commission in GMO's last rate case.
16 This is not the appropriate time to change the depreciation and amortization components
17 that were so recently approved by the Commission, and there is no evidence in the record
18 in this case supporting such a change.

19 **TAX CUTS AND JOBS ACT OF 2017 – STUB PERIOD**

20 **Q: What did the Company include in their Direct Testimony regarding the Tax Cuts**
21 **and Jobs Act of 2017 ("TCJA")?**

22 A: The Company in its direct filed case included the impact of the TCJA in its revenue
23 requirement calculation. This included two major components. First, the federal tax rate

1 change from 35% to 21% was reflected which reduced the amount of income tax expense
2 included in the Company's cost of service. Second, the Company included an estimated
3 amount of excess deferred income taxes amortization which further reduced the
4 Company's cost of service. The excess deferred income taxes are discussed more fully in
5 the Rebuttal Testimony of Company witness Melissa Hardesty. By reflecting both the
6 federal tax rate change and the amortization of the excess deferred income taxes the
7 Company has fully reflected the impact of the TCJA in its revenue requirement
8 calculation. The impact of these changes to the revenue requirement calculation
9 amounted to a $38.4 million reduction in KCP&L-MO and a $29.1 million reduction for
10 GMO. The Company is planning to true-up these amounts in the true up filing in this
11 case to have an accurate reflection of the excess deferred income taxes.

12 In addition, in the Direct Testimony of Company Witness Darrin Ives, he stated
13 the following:

14 KCP&L believes that its customers should benefit from the
15 reduction in corporate federal income tax rates. The Company
16 expects to work with the parties to this case and fully reflect the
17 impacts of this new law in rates set in this rate case proceeding. In
18 early January 2018, KCP&L provided assurance that customers
19 would experience the full benefits of this new tax law. The impact
20 of this tax change will take several months to resolve, but, in
21 determing how the tax reduction will impact rates, KCP&L is
22 requesting that the Commission review and update all costs
23 necessary to serve KCP&L customers.

24 As discussed above, the impacts of the TCJA have been reflected in the revenue
25 requirement calculation and expect to be fully trued-up at June 30, 2018. Yet, the TCJA
26 went into effect on January 1, 2018. With Mr. Ives discussion above the Company is
27 committed to providing to customers the benefits of the TCJA beginning on January 1,

1 2018 and running through the effective date of rates in these rate cases (the "Stub
2 Period").

3 **Q: Since the Stub period is not part of the revenue requirement calculation what does**
4 **the Company believe are the key factors in determining this amount?**

5 A: The Company believes there are three key factors that need to be considered when
6 determining the impact of the Stub period on customers rates. These three factors are as
7 follows:

8 Step 1: What base data should be used to calculate the TCJA
9 impacts on amounts being collected in current rates?

10 Step 2: What amount should be used to offset the amount in Step 1
11 to account for any underearnings during 2018 which is the
12 period in which the Stub period impacts?

13 Step 3: How should this amount be returned to customers?

14 **Q: Regarding Step 1 described above what is the Company's proposal on how to**
15 **calculate the TCJA Stub period amount in this rate case?**

16 A: The Company proposes to calculate the federal tax rate change for the Stub period using
17 revenue requirement models developed in the last rate case for both KCP&L-MO and
18 GMO. In the last KCP&L-MO rate case (ER-2016-0285), final accounting schedules
19 were provided that support the revenue requirement Ordered in that case of $32.5 million.
20 In the last GMO rate case (ER-2016-0156), the case was settled with only a $3 million
21 change in base rates. Final accounting schedules were created on behalf of GMO to
22 support this settled position. The Company proposes to use these final revenue
23 requirement models to calculate tax expense at the 35% rate and new TCJA federal rate
24 of 21%. The difference between these two rates when applied to the revenue requirement
25 calculations provide the impact of the federal tax rate change. These calculations were

1 supplied to Staff in Data Request 304 and calculated the TCJA impacts for KCP&L-MO
2 at $33.0 million and GMO at $26.4 million using a 9.5% ROE.
3 In addition, to the federal tax rate change, the Company is proposing to include
4 the amortization of any excess deferred amortizations that have actually occurred on the
5 books of KCP&L-MO and GMO from January 1, 2018 through June 30, 2018. Actual
6 amortization amounts associated with excess deferred amortization that have been
7 recorded will be added to the federal tax rate changes described above to provide the total
8 Step 1 base amount to be eligible to be returned to customers.

9 **Q: Has KCP&L used this approach to calculate Stub period amounts in any other**
10 **jurisdictions in which they operate?**

11 A: Yes. KCP&L's Kansas jurisdiction was Ordered by the Kansas Corporation Commission
12 to track and accumulate in a deferred revenue account the change in their cost of service
13 that has occurred due to the impacts of the TCJA federal rate change. The Company has
14 used the revenue requirement model from its last Kansas case to calculate the amount of
15 the TCJA impact and has deferred this amount. This calculation is identical to the federal
16 tax rate change approach discussed above in Step 1. Associated excess deferred income
17 taxes were not a part of the Ordered deferred amounts in the KCP&L-KS jurisdiction.

18 **Q: What is the Company's proposal to calculate in Step 2 an offset associated with the**
19 **Stub period in this rate case proceeding?**

20 A: The Company is requesting the Commission review all costs before determining the
21 amount of Stub period TCJA benefits to return to customers. For Step 2, the Company is
22 requesting the current revenue requirement calculation which will be trued-up through
23 June 30, 2018 be used to examine any underearnings position of the Company during

1 2018. The value of using the revenue requirement that is trued-up through June 30, 2018
2 is it provides a good midpoint approximation of the current earnings position of the
3 Company during 2018. Any underearnings position of the Company should be used to
4 offset the amount of tax benefits calculated in Step 1 above. The net amount of Step 1
5 and Step 2 should be used as the amount to be returned to customers.

6 Q: **Will the Company need to make any adjustments to the ultimate true-up revenue**
7 **requirement calculation ordered to ensure that is comparable to the revenues being**
8 **collected during the 2018 Stub period?**

9 A: Yes. For instance, the Company requested in this case an ROE of 9.85%. It will be
10 important that when examining for underearning situation that the Company will reduce
11 the revenue requirement used to offset the Stub period calculation down to 9.5% because
12 that is the ROE that the Company had the ability to earn during 2018. Using 9.85%
13 would not be appropriate for this analysis. In addition, if the Commission were to accept
14 Staff and OPC's proposed cessation of the $7.2 million amortization discussed earlier in
15 my testimony, then the revenue requirement used to analyze the offset for the Stub period
16 would need to be adjusted to ensure that the $7.2 million amortization was included in the
17 calculation since this entry is being booked during 2018 and impacts the Company's
18 earnings.

19 Q: **When will the Company have a calculation for steps 1 and 2 described above?**

20 A: At the Company's Direct True-up filing, the Company will include its calculation of the
21 Stub period amount that should be returned to customers. It will include the federal tax
22 rate change impact currently embedded in base rates which was described and provided
23 in step 1 above. It will include the actual excess deferred amortization from January 1

1 thru June 30, 2018 described in step 1 which will be available at the true-up of this case.
2 In addition, it will include an offset to step 1 as described in step 2 above based on the
3 Company's true-up revenue requirement position. If the Company's true-up revenue
4 requirement amount is adjusted throughout the remainder of this case, the actual revenue
5 requirement ordered, after appropriate consistency adjustments are made, will provide the
6 final revenue requirement amount to be used as the basis for the step 2 calculation. This
7 calculation will be made available at the true-up filing in this rate case.

8 **Q: How does the Company propose to return the TCJA stub period amount to**
9 **customers in step 3?**

10 A: The Company is proposing to return this to TCJA stub period amount calculated as a
11 result of steps 1 and 2 described above as a one-time bill credit to customers. This bill
12 credit will be provided to customers as soon as practical at the conclusion of this rate
13 case. Please see the rebuttal testimony of Company witness Brad Lutz for a discussion
14 on how this bill credit will be distributed between and within the customer classes.

15 **Q: Did Staff address the TCJA stub period in their cost of service report?**

16 A: The only part of the TCJA Stub period that I noted Staff addressed in their Cost of
17 Service Report related to the amortization of excess deferred income taxes. Staff
18 recommended that KCP&L-MO and GMO defer the amortization of excess deferred
19 taxes for the period January 1, 2018 to the effective date of rates into a regulatory liability
20 for consideration in a subsequent rate case. Company witness Melissa Hardesty
21 addresses this treatment of excess deferred income taxes in her Rebuttal Testimony.

1 **Q: What was the proposal of OPC witness John Riley concerning the TCJA treatment**
2 **during the stub period?**
3 A: OPC witness Riley states that the Commission should order both KCP&L-MO and GMO
4 to establish a regulatory liability account for the excess income tax collected from
5 January 1, 2018 through the effective date of new rates. Then he proposes to offset
6 regulatory assets with the accumulated regulatory liability.
7 **Q: What is the Company's response to OPC witness Riley's proposal?**
8 A: The Company's proposal above addresses OPC Riley's issue. The Company believes
9 that a stub period amount should be calculated using the approach described in step 1 and
10 2 above and then provide this amount as a one-time bill credit. There is no need to offset
11 regulatory assets with the amount. A one-time bill credit will immediately return the
12 excess income taxes collected to customers.
13 **Q: What was the proposal of MECG witness Michael Brosch in his Direct Testimony**
14 **regarding the TCJA-stub period?**
15 A: MECG witness Brosch proposes in his Direct Testimony the following to calculate the
16 TCJA Stub period amount:

17 I recommend that an annual level of Tax act expense savings be quantified
18 for KCPL and for GMO, based upon each utility's Commission-approved
19 test year income statement and resulting amounts of Net Taxable Income
20 at currently effective rate levels (before any rate change). These
21 calculations would be finalized at the completion of the pending rate case,
22 when any disputed issues involving test year adjusted revenues, expenses,
23 taxable income and excess ADIT amortizations have been resolved by the
24 Commission.

25 He then goes on to reference responses to MECG 1-1 which provides a summary
26 schedule of the revenue requirement impacts of the TCJA on the Company's filed
27 revenue requirement in this case which amounted to $38.4 million and $29.1 million.

1 **Q: Does the Company agree with this proposal?**

2 A: No. The Company does not agree with the proposal that MECG witness Brosch has
3 provided. What witness Brosch has provided in his testimony is the revenue requirement
4 impact of rate base, revenue and expense changes that will support new rates that will be
5 implemented in December 2018 and continue into the future. These are not the revenue
6 and expense levels that are the basis for the rates that are currently being charged to
7 customers during 2018 which is the time period the Stub period is focused on. For
8 instance, in witness Brosch's approach the Stub period would be based on calculations
9 supporting an ROE of 9.85% if the Commission approves the Company's request in this
10 case. Rates that are being collected during the Stub period were built on authorized
11 ROE's of 9.5%. Furthermore, the revenue levels underlying the revenue requirement
12 requested in this current case have been annualized to support revenue levels that will be
13 effective when rates are implemented in this rate case. Using these revenue levels as a
14 basis for calculating the amount of TCJA impacted revenue levels simply should not be
15 done and will overstate the impact of 2018 Stub period.

16 **Q: What does the Company request of this Commission regarding the treatment of the**
17 **TCJA stub period in this rate case proceeding?**

18 A: The Company is requesting in this rate case in regards to the TCJA Stub period
19 calculation beginning January 1, 2018 going through the effective date of rates that the
20 Commission review all cost changes that have impacted the Company during 2018 and
21 use the process outlined in steps 1 and 2 above to provide the Stub period net benefit
22 amount to be returned to customers. As discussed in Darrin Ives rebuttal testimony, there
23 are no distinguishing characteristics of the TCJA that make this change from amounts

1 used to set rates in the last case any more extraordinary than consistently rising
2 transmission expenses from SPP or property taxes assessed by governmental entities –
3 which this Commission has consistently ruled are not extraordinary changes eligible for
4 deferral treatment. No more preference should be given by this Commission for a change
5 reducing costs incurred by the Company over changes increasing costs incurred by the
6 Company that this Commission has consistently ruled not to be extraordinary. After
7 calculating the TCJA impacts embedded in base rates supported by KCP&L-MO and
8 GMO's previous rate cases, including the actual amortization of excess deferred income
9 taxes and offsetting these amounts with any current underearnings during 2018, the TCJA
10 Stub period benefits not currently reflected in rates can be returned to customers. The
11 Company recommends to this Commission that the benefits identified in true-up
12 testimony be returned to customers through a one-time bill credit as soon as practical
13 after this rate case proceeding has concluded.

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

15 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 RONALD A. KLOTE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

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.

Ronald A. Klote
Ronald A. Klote

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

Anthony R Westenkirchner
Notary Public

My commission expires: 4/26/2021

ANTHONY R WESTENKIRCHNER
Notary Public, Notary Seal
State of Missouri
Platte County
Commission # 17279952
My Commission Expires April 26, 2021