

MIEC Ex 852 (NP)

Exhibit No.:	Transmission Costs and FAC
Issues:	James R. Dauphinais
Witness:	Surrebuttal Testimony
Type of Exhibit:	Missouri Industrial Energy Consumers
Sponsoring Party:	ER-2016-0285
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 Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION  
 OF THE STATE OF MISSOURI

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 )  
**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-2016-0285

Surrebuttal Testimony and Schedule of

**James R. Dauphinais**

On behalf of

**Missouri Industrial Energy Consumers**

**NON-PROPRIETARY**  
**\*\*Denotes Highly Confidential Information\*\***

January 27, 2017



Project 10277

MIEC Exhibit No. 852NP

Date 2.22.17 Reporter mm

File No. ER-2016-0285

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1 related to KCPL's position that: (i) certain North American Electric Reliability  
2 Corporation ("NERC"), Federal Energy Regulatory Commission ("FERC") and  
3 Southwest Power Pool ("SPP") administration charges and (ii) wholesale transmission  
4 charges incurred by KCPL are volatile. This goes to the question of whether these  
5 expenses are extraordinary such that KCPL should be granted its proposed  
6 transmission tracker.

7 The second argument is related to KCPL's assertion that forecasted  
8 transmission expenses are "known." This is relevant to the question of whether KCPL  
9 should be permitted to include forecasted transmission expenses and revenues in its  
10 base rates and the base factor of its Fuel Adjustment Clause ("FAC").

11 The fact that I do not address any other particular issues or am silent with  
12 respect to any portion of Mr. Rush's rebuttal testimony or the rebuttal testimony of  
13 another witness in this proceeding should not be interpreted as an approval of any  
14 position taken by KCPL, Staff or any other party.

15 **Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

16 **A** For the reasons presented in my direct testimony, I continue to recommend that the  
17 Commission deny KCPL's proposal to include in its proposed FAC: (i) certain NERC,  
18 FERC and SPP administration charges and (ii) all of its wholesale transmission  
19 expenses and revenues. None of KCPL's NERC, FERC or SPP administration  
20 charges and, as I identified in my direct testimony, only 20.1% of its wholesale  
21 transmission expenses should be includable in its FAC. Only 20.1% of its wholesale  
22 transmission expenses and none of its NERC, FERC and SPP administration charges  
23 are associated with the transportation of fuel or purchased power. Section 386.266.1,  
24 RSMo (Supp. 2011) only permits the inclusion of the cost of transportation for fuel

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1 and purchased power in a FAC -- not the cost of transportation of power that is not  
2 purchased power. Furthermore, KCPL has not reasonably demonstrated NERC,  
3 FERC and SPP administration charges are costs it incurs to transport power, never  
4 mind to transport purchased power.

5 In addition, I continue to recommend the Commission deny KCPL's request  
6 for a transmission tracker for its wholesale transmission expenses as the Company  
7 has not reasonably demonstrated that they are extraordinary expenses that justify  
8 such a tracker.

9 Finally, I continue to recommend that the Commission deny KCPL's proposed  
10 use of forecasted transmission expenses and forecasted transmission revenues in  
11 setting base rates and the base factor for KCPL's FAC. The escalations included in  
12 these forecasted amounts are not known as claimed by Mr. Rush. In addition, the  
13 use of forecasted amounts for these select expenses and revenues breaks the  
14 synchronicity of the test year by allowing the Company to go beyond recovery of the  
15 test year and true-up period for them, thus breaking the relationship with the  
16 remainder of the Company's expenses, revenues, and rate base in the test year  
17 period (as adjusted for the true-up period).

1 Q IN YOUR DIRECT AND REBUTTAL TESTIMONIES, YOU CITED THE  
2 COMMISSION PRECEDENT IN CASE NO. ER-2014-0370 WITH RESPECT TO THE  
3 COMPANY'S PROPOSED INCLUSION OF ALL OF ITS TRANSMISSION  
4 EXPENSES IN THE COMPANY'S FAC OR IN ALTERNATIVE TO ALLOW THE  
5 COMPANY THE USE OF A TRANSMISSION TRACKER. DOES EITHER THE  
6 COMPANY'S DIRECT OR REBUTTAL TESTIMONIES IN THIS PROCEEDING  
7 PROVIDE ANY EVIDENCE CONTRARY TO THE FACTS THAT UNDERLY THE  
8 COMMISSION'S DECISION IN THAT PREVIOUS PROCEEDING TO REJECT  
9 THESE PROPOSALS?

10 A No. The Company's direct and rebuttal testimonies include assertions (e.g., that its  
11 wholesale transmission expenses are volatile), but do not provide any actual  
12 evidence that the relevant facts as the Commission found them in the previous  
13 proceeding have changed (e.g., that the Company's wholesale transmission  
14 expenses are not volatile). For example, in his rebuttal testimony in this proceeding,  
15 Mr. Rush has asserted that the inclusion of wholesale transmission expenses, along  
16 with NERC, FERC and SPP Administrative expenses, in the Company's FAC is  
17 necessary because these expenses are both volatile and not controlled by the  
18 Company (Rush Rebuttal at 18). However, that assertion is not supported by any  
19 evidence in his rebuttal testimony. It was the Company's burden to provide evidence  
20 of changes in the facts since its last proceeding where it requested this same relief. It  
21 has failed to meet that burden.

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1 Q IN HIS REBUTTAL TESTIMONY, MR. RUSH ASSERTS THAT THE COMPANY'S  
2 FORECASTED TRANSMISSION EXPENSES ARE "KNOWN" (RUSH REBUTTAL  
3 AT 9). DOES MR. RUSH PROVIDE EVIDENCE TO SUPPORT THIS ASSERTION?

4 A No, he does not. Forecasted expenses and revenues are not known and  
5 measureable. They have to be incurred, measureable and quantified; projections do  
6 not meet that test. In addition, just as Mr. Rush cannot prove with certainty that these  
7 transmission expenses and transmission revenues will continue to rise, he cannot  
8 prove with certainty that these transmission expenses and revenues will not decrease  
9 in future years. Furthermore, use of forecasted transmission revenues and expenses  
10 while using test year amounts for all other expenses and revenues as well as test  
11 year rate base amounts will break the synchronism between transmission expenses  
12 and revenues and the remainder of the Company's expenses and revenues as well  
13 as rate base.

14 Q PLEASE EXPLAIN HOW ALLOWING THE USE OF FORECASTED  
15 TRANSMISSION EXPENSES AND FORECASTED TRANSMISSION REVENUES IN  
16 KCPL'S BASE RATES AND BASE FACTOR FOR ITS FAC WILL BREAK THE  
17 SYNCHRONISM BETWEEN THEM AND THE REMAINDER OF THE COMPANY'S  
18 EXPENSES, REVENUES AND RATE BASE.

19 A By using only forecasted values for transmission expenses and transmission  
20 revenues, consideration is not given to whether using forecasted values for the  
21 Companies' remaining expenses and revenues (and the Company's rate base) might  
22 offset the difference between the test year level of transmission expenses and  
23 revenues and forecasted level of test year transmission expenses and revenues.  
24 This could lead to the Company over recovering its overall costs. This is why, unless

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1 it is absolutely necessary, all of the Company's expenses, revenues and rate base  
2 should be kept in synchronism at their test year amounts (as they are all adjusted by  
3 the true-up period).

4 **Q WOULD SETTING THE COMPANY'S BASE RATES AND FAC BASE FACTOR  
5 RESOLVE THIS ISSUE?**

6 A No, it would not. As I have noted, forecasted expenses and revenues are not known  
7 and measurable. As a result, the synchronism issue cannot be fixed by using  
8 forecasted values for all expenses and revenues. It can only be addressed by using  
9 for all expenses and revenues known and measurable values in the test year as  
10 adjusted by the true-up period.

11 **Q DOES THE COMPANY'S PROPOSAL FOR AN ASYMMETRICAL TRACKER FOR  
12 THE TREATMENT OF TRANSMISSION EXPENSES AND REVENUES NOT  
13 INCLUDED IN THE FAC ASSURE THAT THE COMPANY WILL NOT OVER  
14 RECOVER ITS COSTS?**

15 A No, it does not. An asymmetrical tracker will prevent the Company from over  
16 recovering the transmission expenses and transmission revenues associated with the  
17 tracker in isolation; however, it could cause the Company to over recover its overall  
18 costs as the tracker would not consider how the Company's other expenses and  
19 revenues have changed from their base rate amounts. That is why it is imperative  
20 that the Commission continue to deny the use of forecasted expenses and trackers  
21 when not absolutely necessary. The use of forecasted amounts for select expenses  
22 and revenues breaks the synchronism of the test year (as adjusted by the true-up  
23 period) by allowing the Company to recover forecasted amounts for select expenses

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1 and revenues while simultaneously recovering only known and measureable  
2 expenses within the test year.

3 **Q IS MR. RUSH'S STATEMENT THAT THE COMPANY HAS NOT EARNED ITS**  
4 **AUTHORIZED RETURN ON INVESTMENT AT ANY TIME IN RECENT HISTORY**  
5 **(RUSH REBUTTAL AT 9) ACCURATE?**

6 A No, it is not. In response to MEEG Data Request 9.1, the Company provided its Q3  
7 2016 Surveillance Report (Attached as Schedule JRD-1). The surveillance report  
8 provided the Company's net operating income as well as its return on rate base for  
9 the 12 months ended September 30, 2016. Over this period, the company earned a  
10 return on rate base of **\*\*\_\_\_\_\_\*\*** despite only being authorized to earn a return of  
11 7.48%. This equates to approximately **\*\*\_\_\_\_\_\*\*** of earnings above its authorized  
12 net operating income.

13 **Q WHY IS THE SEPTEMBER 30, 2016 SURVEILLANCE REPORT SIGNIFICANT TO**  
14 **THE COMPANY'S REQUEST FOR A TRANSMISSION EXPENSE TRACKER IN**  
15 **THIS RATE CASE?**

16 A The surveillance report is the first report that includes a full year of operations  
17 subsequent to the Company's last rate case. During that time frame, we are able to  
18 determine that KCPL was able to earn over its authorized return on investment  
19 despite having **\*\*\_\_\_\_\_\*\*** of transmission expenses. It was able to do so with  
20 only the transmission expenses associated with its true purchased power and  
21 off-system sales allowed in its FAC and with no transmission tracker. In addition, it  
22 should be noted that KCPL earnings of **\*\*\_\_\_\_\_\*\*** in excess of its authorized net  
23 operating income equates into an additional **\*\*\_\_\_\_\_\*\*** of revenues after taking

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1           into account income taxes. These additional revenues could be used to offset  
2           increases in KCPL's transmission expenses net of transmission revenues in the  
3           future, if KCPL continues to maintain these earnings since the Company only pays  
4           income taxes on the difference between its overall revenues and expenses.

5    **Q       DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6    **A       Yes, it does.**

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**Schedule JRD-1 is  
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