

Exhibit No.:
Issues: Transmission Costs and FAC
Witness: James R. Dauphinais
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Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2016-0285
Date Testimony Prepared: January 27, 2017

**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**

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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

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Surrebuttal Testimony of James R. Dauphinais

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A James R. Dauphinais. My business address is 16690 Swingley Ridge Road,
3 Suite 140, Chesterfield, MO 63017.

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation and a Managing Principal of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 **Q ARE YOU THE SAME JAMES R. DAUPHINAIS WHO HAS PREVIOUSLY FILED
8 TESTIMONY IN THIS PROCEEDING?**

9 A Yes. On December 14, 2016, I filed direct testimony and on December 30, 2016, I
10 filed rebuttal testimony on behalf of the Missouri Industrial Energy Consumers
11 (“MIEC”).

12 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

13 A I respond to certain arguments made in the rebuttal testimony of Kansas City Power
14 and Light Company (“KCPL” or “Company”) witness Tim Rush. The first argument is

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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.

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 MCEG 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

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
High Confidential
in its Entirety**