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Issue: OPC's Post-Test Year and Post-True-up Adjustments; MECG TCJA Proposal; Capital Structure (GMO) – Goodwill; Rate Case Expense; Merger Transition Costs; Rate History; Data Security and Privacy
Witness: Darrin R. Ives
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

DARRIN R. IVES

ON BEHALF OF

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

Kansas City, Missouri
July 2018

KCPL Exhibit No. 137
Date 9-25-18 Reporter TT
File No. ER-2018-0145+0146

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

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

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

2 A: My name is Darrin R. Ives. 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") and serve as Vice
6 President – Regulatory Affairs for KCP&L and KCP&L Greater Missouri Operations
7 Company ("GMO").

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

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

10 **Q: Are you the same Darrin R. Ives who filed Direct Testimony in both ER-2018-0145**
11 **and ER-2018-0146?**

12 A: Yes, I am.

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

14 A: My testimony addresses a number of issues raised in the direct testimony of Staff, OPC
15 and MECG, specifically: (1) Post-test year and post-true-up adjustments proposed by
16 OPC, (2) MECG Tax Cuts and Jobs Act ("TCJA") proposal, (3) Capital Structure (GMO)
17 – Goodwill, (4) recommendations regarding rate case expense by Staff, (5) merger
18 transition cost testimony of Staff, (6) rate history testimony offered by MECG and (7)
19 data security and privacy recommendations made by OPC.

1 I would note that the Company has attempted to address all issues raised by other
2 parties in their direct testimony which the Company contests, but the Company's
3 inadvertent failure to address an issue raised by any party does not constitute agreement
4 by the Company.

5 **1. Post-Test Year and Post-True-Up Adjustments Proposed by OPC**

6 **Q: Has OPC proposed adjustments to revenue requirement based on events after the**
7 **test year and true-up period adopted by the Commission for purposes of this case?**

8 A: Yes. The test year adopted by the Commission for this case is the twelve-month period
9 ending June 30, 2017 with a true-up period through June 30, 2018.[1]

10 OPC's proposals regarding certain generating units of KCP&L and GMO are
11 based on assumptions that these plants will be retired by year-end 2018, although it is
12 undisputed that none of these generating units were retired prior to June 30, 2018 and that
13 they all remain in-service for the purpose of providing service to customers.

14 Additionally, OPC's proposal to allocate a portion of the One CIS project to
15 Westar assumes that Westar actually made use of the system prior to the end of the true-
16 up period when that is not the case.

17 **Q: Does the Company agree with the out-of-period adjustments proposed by OPC?**

18 A: No. The out-of-period adjustments proposed by OPC are neither known nor measurable.
19 Moreover, adoption of the out-of-period adjustments proposed by OPC would distort the
20 rate base-expense-revenue relationship that the Commission has consistently and recently
21 found essential to proper ratemaking. The OPC's out-of-period adjustments are also

[1] Order Granting Motion to Consolidate and Order Setting Procedural Schedule, ER-2018-0145,0146, p. 3 (March 13,2018).

1 inconsistent with past practices of the Commission which has consistently declined to
2 adopt out-of-period adjustments which were not known and measurable.[2]

3 *a. OPC's Proposed Post-Test Year and Post-True-Up Period Plant Retirement*
4 *Adjustments*
5

6 **Q: Please summarize the announcements KCP&L and GMO have made to retire**
7 **generating plants.**

8 A: KCP&L has announced plans to retire two generating units (Montrose 2 and Montrose 3)
9 by December 31, 2018. GMO has announced plans to retire three generating units
10 (Sibley 1[3], Sibley 2, and Sibley 3) by December 31, 2018 and one generating unit (Lake
11 Road 4/6) by December 31, 2019. The Company has made the commitment that there
12 will be no involuntary severance as a result of closing the Sibley, Montrose and Lake
13 Road plants.

14 **Q: Please provide an overview of the OPC proposals related to depreciation and O&M**
15 **expenses for plants with announced retirement dates.**

16 A: OPC recommends that the depreciation expense associated with KCP&L's Montrose
17 units 2, 3, and Montrose common plant, and GMO's Sibley units 1, 2, 3, and Sibley
18 common plant not be included in the respective utility's cost of service used for setting
19 rates, as each of these units has an announced retirement date by end of 2018. For
20 GMO's Lake Road unit 4/6, OPC recommends including depreciation expense in the
21 revenue requirements for this case at currently ordered rates but placing a tracker on
22 depreciation that can be credited to customers once the unit is not providing either

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[2] As but one example, the Commission denied inclusion of terminal net salvage costs in depreciation rates based on its finding that the actual terminal net salvage costs are unknown, cannot be measured and are therefore speculative. Case No. ER-2016-0285, Report and Order, p. 38.
[3] GMO retired the non-boiler components of Sibley Unit 1 in June 2017 for operational reasons.

1 capacity or energy. Lastly, OPC recommends that all operations and maintenance
2 expenses for the Company's Montrose and Sibley facilities not be included in cost of
3 service for setting rates in these cases.

4 **Q: How do KCP&L and GMO respond to the OPC proposal to exclude depreciation**
5 **and O&M expenses?**

6 A: KCP&L and GMO submit that the depreciation and O&M should be included in the rate
7 case consistent with the use of an historical test year with true-up period for determining
8 revenue requirements. While the companies have announced plans to retire the identified
9 generating units, whether the units will actually be retired in 2018 (Montrose units 2 and
10 3; Sibley units 1 through 3; and common) and 2019 (Lake Road unit 4/6) can necessarily
11 only be known for certain when each retirement has actually happened. Moreover, it is
12 possible that these units will not be retired within the planned time frames for operational
13 reasons that are not presently foreseen. Therefore, since these events may or may not
14 occur at some future date that is outside of the historical test year and true-up period, the
15 effect on revenue requirements for this case is not known.

16 In addition to the fact that the dates of these unit retirements are presently
17 unknown, the effect of such retirements on revenue requirements is not measurable. OPC
18 has not specified or attempted to quantify the O&M levels it proposes to exclude in
19 connection with these units. Given the Company's merger commitment approved by the
20 Commission in Case No. ER-2018-0012 not to involuntarily sever employees due to
21 retirement of these units (Merger Condition 8), it is clear that some O&M costs related to
22 these units may continue to exist, even if all of the units are retired on schedule.
23 Additionally, if the units are retired, there will be other costs associated with these units

1 after retirement at a minimum for site maintenance and security and for a period of time
2 for either dismantlement or retirement in place required activities. OPC's proposal fails
3 to recognize these factors and, as such, the revenue requirement impact of the possible
4 retirement of the identified units at some time well after the test year and the conclusion
5 of the true-up period is not only not known but also is not measurable.

6 Because the retirement of the identified generating units is neither known nor
7 measurable, OPC's proposal to include them in revenue requirement in this case is
8 unreasonable, improper, inconsistent with substantial Commission precedent, and should
9 be rejected by the Commission in this case.

10 In addition to being neither known nor measurable, the OPC's proposal regarding
11 the planned unit retirements represent out of period adjustments that inappropriately
12 distort the matching of rate base-expense-revenue associated with the use of a test year
13 and true-up period that is essential to proper ratemaking.

14 The OPC proposal is inconsistent with recent Commission precedent (Case No.
15 ER-2014-0370) which was affirmed by the courts on appeal.[4] The Commission in its
16 Order for Case. No. ER-2014-0370 articulated the rationale for using an historical test
17 year with a true-up period as the basis for ratemaking:

18 "The test year is a central component in the ratemaking process. Rates are
19 usually established based upon a historical test year which focuses on four
20 factors: (1) the rate of return the utility has an opportunity to earn; (2) the
21 rate base upon which a return may be earned; (3) the depreciation costs of
22 plant and equipment; and (4) allowable operating expenses. From these
23 four factors is calculated the "revenue requirement," which, in the context
24 of rate setting, is the amount of revenue ratepayers must generate to pay
25 the costs of producing the utility service they receive while yielding a
26 reasonable rate of return to the investors. A historical test year is used

[4] Kan. City Power & Light Co. v. Mo. Pub. Serv. Comm'n, 509 S.W. 3d. 757 (Mo. App. 2016).

1 because the past expenses of a utility can be used as a basis for
2 determining what rate is reasonable to be charged in the future."

3 "The parties agreed to, and the Commission adopted, a test year of twelve
4 months ending on March 31, 2014, updated through December 31, 2014.
5 The Commission also established the true-up period to run through May
6 31, 2015, to reflect any significant and material impacts on KCPL's
7 revenue requirement. The use of a true-up audit and hearing in ratemaking
8 is a compromise between the use of a historical test year and the use of a
9 projected or future test year. It involves adjustment of the historical test
10 year figures for known and measurable subsequent or future changes.
11 However, the true-up is generally limited to only those accounts
12 necessarily affected by some significant known and measurable change,
13 such as a new labor contract, a new tax rate, or the completion of a new
14 capital asset. The true-up is a device employed to reduce regulatory lag,
15 which is "the lapse of time between a change in revenue requirement and
16 the reflection of that change in rates." (Report and Order, Case No. ER-
17 2014-0370, pp. 5-6, (footnotes omitted))

18 **Q: What is KCP&L/GMO position regarding the OPC proposal to defer depreciation**
19 **expense if plants retire?**

20 A: This OPC proposal is also inconsistent with the recent Commission and judicial
21 precedent regarding out of period adjustments cited above, and the Company therefore
22 opposes it. In Case No. ER-2014-0370, as an alternative to including forecasted
23 transmission expense and property taxes in rates, KCP&L proposed to track and defer
24 differences between the rate case allowance and actual expense levels for those items in
25 the future so that the deferred amounts could be assessed for rate recovery in a future rate
26 case. In rejecting those KCP&L proposals, the Commission stated:

27 In Missouri, rates are usually established based upon a historical test year where
28 the company's expenses and the rate base necessary to produce the revenue
29 requirement are synchronized. The deferral of costs from a prior period results in
30 costs associated with the production of revenues in one period being charged
31 against the revenues in a different period, which violates the "matching principle"
32 required by Generally Accepted Accounting Principles (GAAP) and the Uniform
33 System of Accounts approved by the Commission. The matching principle is a
34 fundamental concept of accrual basis accounting, which provides that in
35 measuring net income for an accounting period, the costs incurred in that period
36 should be matched against the revenue generated in the same period. Such

1 matching creates consistency in income statements and balance sheets by
2 preventing distortions of financial statements which present an unfair
3 representation of the financial position of the business. One type of deferral
4 accounting, a "tracker", has the effect of either increasing or decreasing a utility's
5 earnings for a prior period by increasing or decreasing revenues in future periods,
6 which violates the matching principle. (Report & Order, Case No. ER-2014-
7 0370, p. 50)
8
9 While KCP&L's proposal in Case No. ER-2014-0370 was addressing potentially
10 increasing costs between rate cases, this Commission must apply the same principles
11 when addressing the potential for decreasing costs between rate cases.

12 **Q: Are you familiar with other examples in which the Commission has declined to go**
13 **beyond the true-up period to make out-of-period adjustments?**

14 A. Yes. In KCP&L's 2006 rate case, Case No. ER-2006-0314, the Commission rejected
15 KCP&L's proposal to include 113 employees who were hired but not yet in place
16 because the 113 employees were being employed beyond the end of the true-up period.
17 (September 30, 2006) In rejecting the Company's request to include the 113 employees
18 in the cost of service, the Commission stated:

19 Staff says that it gave fair warning to KCPL that only employees actually
20 employed and on the KCPL payroll as of September 30, 2006 would be placed
21 into cost of service. Further, Staff states that including these 113 employees, who
22 were not actually working for KCPL as of September 30, 2006, would violate the
23 "matching principle". That principle is an attempt to match cost of capital, rate
24 base, revenues and expenses as of a certain date; setting rates when these
25 variables are not matched could result in a company either over-earning or under-
26 earning, and thereby the Commission would not be setting just and reasonable
27 rates if it did not use the matching principle. OPC concurs in Staff's proposal.
28
29 The Commission finds that the competent and substantial evidence supports
30 Staff's position, and finds this issue in favor of Staff. The Commission agrees
31 with Staff that it is important to match revenues and expenses as of a date certain.
32 As Staff points out, should the Commission accept KCPL's 113 employees in cost
33 of service, then the Commission would also need to insert additional revenue
34 from customer growth occurring after the known and measurable date of June 30.
35 . .

1 If the Commission does not take a snapshot of a company's revenues and expenses as of the known and measurable date, the true-up date, or any date, for that matter, then what? KCPL's employee count, as well as a host of other revenues and expenses, has no doubt changed since the true-up hearing; the Commission will get yet another snapshot of those changes when KCPL files its next rate case. To set just and reasonable rates, the Commission simply must match revenues and expenses as of a certain date. (Report & Order, Case No. ER-2006-0314, pp. 71-72 (footnote omitted).

10 **Q: Are you aware of other examples where the Commission has rejected attempts to**

11 **make out-of-period adjustments beyond the true-up period?**

12 A. Yes. In AmerenUE's 2007 rate case, Case No. ER-2007-0002, the Commission rejected

13 UE's request to use forecasted off-system sales that were beyond the test period, stating:

14 In Missouri, rates are set using a historical test year. The Commission examines the utility's revenues and expenses for that test year and uses that information to set rates to be charged in the future. The Commission does not use a forward-looking test year based on budgets and projections to set those rates. If it did, AmerenUE would no doubt appreciate an opportunity to base its rates on what it believes will be higher fuel costs in the coming years. Since the Commission uses historical expenses and revenues to set rates, it would be fundamentally unfair to reach forward to grab a single budget item to reduce AmerenUE's cost of service, while ignoring other anticipated costs that might increase that cost of service.. (Report & Order, Case No. ER-2007-0002, p. 32)

25 Similarly, in a 1987 earnings complaint case (Case No. EC–87–114) filed by Staff

26 against Union Electric Company, the Commission rejected Union Electric's proposed

27 out-of-period wage increase adjustment that was scheduled to occur beyond the test year

28 on the ground that the Commission "will not accept isolated adjustments beyond the test

29 year without persuasive justification." (See Report & Order, Case No. EC-87-114, p.

30 19)

1 **Q: Please summarize the OPC recommendation to deny recovery of the estimated**
2 **unrecovered original cost of the plants with announced retirement dates.**
3 A: OPC recommends that the Commission deny recovery of the estimated unrecovered
4 original cost for any of the units with announced retirement dates.
5 **Q: What is the Company's position regarding OPC's proposal to deny recovery of the**
6 **estimated unrecovered original cost of the units with announced retirement dates?**
7 A: This OPC proposal is inappropriate, unwarranted, detrimental to customers and should be
8 rejected by the Commission.
9 As discussed above, the planned unit retirements are necessarily not known and
10 measurable as they have not occurred. As such, any discussion of estimated unrecovered
11 original cost of the units is premature in this proceeding. In addition, these planned unit
12 retirements have been identified and supported through the integrated resource planning
13 ("IRP") process by Commission rule because they result in least cost revenue
14 requirements for customers on a twenty-year net present value ("NPV") basis. The NPV
15 revenue requirement calculation methodology assumes that return of capital for each unit
16 will be fully compensated, but not over-compensated, to the Company, consistent with
17 historical determinations by the Commission that investments in the units have been
18 prudent and reasonable and thus recoverable from customers in rates.
19 Acceptance by the Commission of a proposal such as advanced by OPC will
20 serve as a disincentive for the Company (and other utilities) to take actions in the long-
21 term best interest of customers. In addition to being inconsistent with the theory
22 underlying the Commission's IRP rules, this OPC proposal is inappropriate and will be
23 detrimental to customers because it will deter the timely retirement of generating units

1 beyond the time when it is warranted economically resulting in higher long-term revenue
2 requirements to be borne by customers.
3 OPC's proposal also amounts to a repudiation of the fact that any net plant
4 balance remaining when a particular unit is actually retired is comprised of investments
5 that have been included in rates and therefore have been deemed prudent by the
6 Commission. Any decision to retire a generating unit will be subject to review for
7 prudence and rate setting purposes in the next rate case following that unit's retirement.
8 Until that time, OPC's proposal is premature. Additionally, the amounts for which OPC
9 recommends denial of recovery are not the appropriate values to consider as they are
10 based on the Company's PowerPlan system, and the Company has made it clear for many
11 years that this system simplistically allocates net plant balances. The appropriate
12 approach to determining net plant balances is through the completion of a depreciation
13 study. No depreciation study has been prepared and included in the record in this rate
14 case. In the next general rate case for KCP&L/GMO after the retirement of the identified
15 generating units, the Company will prepare and file depreciation studies and that will be
16 the appropriate time for the Commission to assess the treatment of net plant balances
17 remaining for any units retired since the previous rate case.
18 It also needs to be recognized that depreciation rates are not perfect and thus full
19 recovery of asset costs at the time an asset is retired is highly unlikely. Depreciation rates
20 are based on information available at the time a depreciation study is performed, and
21 those rates are based on a variety of parameters such as asset life, remaining asset life,
22 cost of removal, gross salvage, etc. Because these parameters and the resulting
23 depreciation rates are subject to change over the life of the asset, it is highly unlikely that

1 full recovery of the asset cost will occur at the time of retirement. Thus, the net plant
2 balances remaining after the retirement are the result of imperfect depreciation rates
3 resulting in interim recovery during the assets operating life that does not exactly match
4 full recovery of the prudent and reasonable investments made over the operating life of
5 the asset. It would be unreasonable to disallow recovery of such remaining net plant
6 balances. OPC's recommendation to deny recovery of the net plant balances remaining
7 after retirement presumes perfect rate making that does not reflect reality. There is no
8 realistic opportunity for the utility to perfectly match recovery to the operation time of a
9 generating asset or other facility that serves customers. If the decision to make the
10 investment is deemed prudent at the time it is first included in rates, and the decision to
11 retire an asset is in the best interest of customers, then there is no reason that the utility
12 should not be allowed to recover the return on and of the investment made to serve its
13 customers.

14 ***b. OPC's Proposed Post-Test Year and Post-True-Up One CIS Adjustment***

15 Q: **Please summarize OPC's proposal to allocate a portion of the cost of KCP&L and**
16 **GMO's One CIS project to Westar.**

17 A: OPC witness Robinett recommends that that the Commission allocate a portion of the
18 cost of KCP&L and GMO's One CIS project to Westar because "[T]he ONE CIS is a
19 major factor of the savings that the merger with Westar as it will allow Westar to be
20 integrated into the system without having to foot the bill for an entirely separate system at
21 some point in the future."[5]

[5] Robinett Direct, p. 17.

1 **Q: Has OPC quantified its proposed allocation of One CIS costs to Westar or provided**
2 **a specific description of the allocation methodology OPC proposes?**

3 A: No. Mr. Robinett testified that, "[A]t this time OPC still has pending discovery related to
4 this issue. OPC will be better positioned at rebuttal to provide an allocation method and
5 cost estimates for KCPL MO and GMO jurisdictions to be included in the cost of service
6 for these cases."[6]

7 **Q: What is the Company's response to OPC's proposal to allocate a portion of One CIS**
8 **costs to Westar in this rate case?**

9 A: The Company opposes this OPC proposal because: (1) it reflects an event -- roll-out of
10 One CIS to Westar – which is not known at this time; (2) the impact of that event – roll-
11 out of One CIS to Westar – on KCP&L and GMO's revenue requirement is not
12 measurable; and (3) adoption of OPC's proposal would distort the rate base-expense-
13 revenue relationship resulting from the use of test year and true-up period that the
14 Commission has determined is essential to proper ratemaking. As a result, the
15 Commission should reject OPC's proposal to allocate a portion of One CIS costs to
16 Westar in these rate cases.

17 **Q: Why is the roll-out of One CIS to Westar not known at this time?**

18 A: As described by Company witness Archibald in more detail in his rebuttal testimony[7], it
19 is not presently known when One CIS will be rolled out to Westar. Until One CIS is
20 actually rolled out to Westar, that event cannot be known with sufficient certainty to be
21 reflected in revenue requirements.

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[6] Robinett Direct, p. 17.
[7] See Archibald Rebuttal, pp. 2-3.

1 **Q: Why is the impact of the roll-out of One CIS to Westar on the revenue requirements**
2 **of KCP&L and GMO not measurable?**
3 A: As described by Company witness Archibald in more detail in his rebuttal testimony[8] ,
4 due diligence in connection with a project to roll-out One CIS to Westar has only recently
5 begun and there is neither a target roll-out date nor a budget for that project at this time.
6 Moreover, as also described in more detail by Mr. Archibald, the One CIS project costs
7 included in revenue requirement in this case do not include costs for rolling out One CIS
8 to Westar.[9] Without that basic information, and the actual use of the One CIS system to
9 provide service to Westar customers, it is inappropriate to consider allocating any One
10 CIS costs to Westar.
11 **Q: Why would adoption of OPC's proposal to allocate a portion of One CIS costs to**
12 **Westar distort the rate base-expense-revenue relationship resulting from the test**
13 **year and true-up adopted by the Commission for purposes of these rate cases?**
14 A: Consistent with my earlier discussion regarding OPC's proposed treatment of generating
15 unit retirements that have not yet occurred, OPC's proposal to allocate One CIS costs to
16 Westar assumes that the One CIS system has already been rolled out to use in serving
17 Westar customers when that is not the case.
18 The test year for these cases is the twelve months ending June 30, 2017 and the
19 true-up period ends on June 30, 2018. The One CIS system is not being used to serve
20 Westar customers now, and was not being used to serve Westar customers at any time
21 during the test year or true-up period adopted by the Commission. It is therefore
22 inappropriate to allocate any portion of One CIS costs to Westar at this time as doing so

[8] See Archibald Rebuttal, pp. 2-3.
[9] See Archibald Rebuttal, pp. 2-3.

1 would distort the rate base-expense-revenue relationship resulting from the use of test
2 year and true-up period that the Commission has found essential to proper ratemaking.
3 Because it is neither known nor measurable and because its adoption would
4 distort an otherwise appropriate rate base-expense-revenue relationship resulting from the
5 test year and true-up ordered by the Commission for this case, OPC's proposal to allocate
6 a portion of One CIS costs to Westar should be rejected by the Commission.

7 **2. MECG TCJA proposal**

8 **Q: Witness Brosch, at p. 30 of his Direct Testimony states that the TCJA is an**
9 **extraordinary change resulting from congressional action. How do you respond?**

10 A: Like other annual payments for transmission fees and property taxes that can vary from
11 year to year, the payment of income taxes is a normal expense incurred by the Company.
12 As discussed above in my testimony, the Commission has found that KCP&L's
13 transmission and property tax costs are normal, ordinary and recurring operating costs
14 and not extraordinary.[10] Similarly, the Commission should find that the income taxes
15 paid by the Company are also not extraordinary.

16 **Q: MECG argues that the TCJA tax rate reduction is a windfall of tax expense savings**
17 **and should not be netted against other increasing utility costs and should be**
18 **quantified in isolation from other utility costs. What is your response?**

19 A: As discussed above, the payment of income taxes is not an extraordinary event. The use
20 of the term "windfall" by MECG does not mean that the tax law changes are an
21 extraordinary event. The Commission has required in the past that costs be extraordinary
22 in nature to be eligible for deferral, with the materiality of the amount to be deferred as a

[10] See Report and Order, ER-2014-0370, p. 51, 55 (September 15, 2015).

1 secondary consideration.[11] While the level of taxes is materially decreasing, the payment
2 of taxes is certainly not extraordinary. It is an ordinary expense and there is no basis for
3 viewing it separate from other costs.

4 While the Company agrees the impact of the TCJA should be evaluated from
5 January 1, 2018, the effective date of the TCJA; as a change in federal tax rates is no
6 more extraordinary than a change in property tax rates, the Commission should not find
7 the impact of the TCJA to be extraordinary. Therefore, any consideration of the impact
8 of the TCJA from January 1, 2018, to the effective date of rates from this case must be
9 evaluated with the consideration of all other relevant factors impacting the Company's
10 cost to serve its customers during the same period.

11 **3. Capital Structure (GMO) - Goodwill**

12 Q: **What is the Company's position regarding the Goodwill adjustment to GMO's**
13 **capital structure that MECG witness Michael Gorman included in his Direct**
14 **Testimony?**

15 A: The Company accepts witness Gorman's Goodwill adjustment to GMO's capital
16 structure in the amount of $168.97 million. This was the Goodwill recorded at the time
17 of the acquisition of Aquila by Great Plains Energy. For more discussion on this issue
18 please see the rebuttal testimony of Company witness Robert Hevert. This Goodwill
19 adjustment to GMO's capital structure will be reflected in the Company's true-up
20 revenue requirement calculation in this rate case.

21 Q: **What was Staff's position regarding GMO's capital structure that was filed as part**
22 **of their Cost of Service Report?**

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[11] See Rebuttal Testimony of Mark L. Oligschlaeger, EU-2014-0077, p. 13, ll. 19-21.

1 A: Staff witness Jeffrey Smith filed in Appendix 2 Staff's recommendation concerning
2 Capital Structure which proposed making a similar Goodwill adjustment in order to more
3 closely resemble a 50/50 capital structure which aligned GMO with other companies in
4 the proxy. The goodwill adjustment that Staff made using March 31, 2018 GMO legal
5 entity stand-alone financial statements was $351.6 million which ultimately resulted in an
6 equity component of capital structure equaling 48.15%.

7 **Q: Does the Company agree with Staff's approach regarding their capital structure**
8 **proposal?**

9 A: No it does not. The correct Goodwill adjustment that should be made is $168.97 million.
10 This was the amount of Goodwill that was booked in regard to the acquisition of Aquila,
11 and is the amount of Goodwill that is reported in Great Plains Energy's consolidated
12 financial statements.[12] The increased amount of Goodwill that is booked on GMO's legal
13 entity stand-alone financial statements includes a special one-time non-cash accounting
14 only entry, required solely when preparing GMO legal entity special purpose stand-alone
15 financial statements, that should not be considered when determining the appropriate
16 capital structure to use for ratemaking purposes.

17 **Q: Please explain why this one-time entry was recorded for the GMO legal entity**
18 **special purpose stand-alone financial statements?**

19 A: In 2013 GMO issued Series A, B and C Senior Notes in a debt financing. In order for
20 this transaction to be completed, GMO was required to prepare GMO legal entity stand-
21 alone financial statements for that special purpose only. As part of this process, an
22 analysis of the value of tax attributes (such as net operating loss tax benefits) was

[12] See Schedule DRI-1.

1 completed by the Company on a stand-alone basis for the GMO legal entity (i.e., not just
2 GMO's regulated operations), which is not how these tax attributes have been used and
3 will be used on the consolidated Great Plains Energy tax returns in the future. This
4 analysis resulted in a valuation allowance entry recorded on the GMO legal entity special
5 purpose stand-alone financial statements due to the fact that GMO as a stand-alone legal
6 entity would not be able to utilize all of the net operating loss tax benefits that were
7 generated by its nonregulated operations recorded on the books of the GMO legal entity.
8 Thus, the valuation allowance adjustment for the GMO legal entity special purpose stand-
9 alone financial statements was generated by the net operating losses associated with the
10 past nonregulated operations of Aquila, Inc.

11 **Q: When calculating the capital structure in this case, did the Company consider**
12 **operations recorded on the special GMO Parent business unit?**

13 A: No. The special GMO Parent business unit books contain the transactions of the
14 historical nonregulated ventures of Aquila, Inc. In particular, the net operating losses
15 associated with these nonregulated ventures which gave rise to this one time stand-alone
16 accounting entry that is not included in the consolidated financial statements should be
17 excluded. In fact, none of the non-regulated transactions included on the Parent business
18 unit should be considered as part of this rate case including this one-time non-cash,
19 accounting only incremental Goodwill entry that was recorded in 2013. The only entity
20 that should be considered to compute the capital structure in this rate case proceeding is
21 the GMO regulated entity.

1 **Q: What is the amount of Goodwill that resides on the GMO regulated business unit?**

2 A: The amount of Goodwill on the GMO regulated business unit is $168.97 million. This is
3 the precise amount of the Goodwill associated with the Aquila, Inc. acquisition as can be
4 seen in Schedule DRI-1 which is an excerpt from the December 31, 2009, Annual Report
5 on Form 10-K filed with the SEC, the first Annual Report filed with the SEC after
6 purchase accounting for the acquisition of Aquila, Inc. was finalized. This is the amount
7 that MECG witness Gorman used to adjust GMO's capital structure, which the Company
8 is accepting and will reflect in its true-up revenue requirement calculation in this case.

9 **Q: After making this Goodwill adjustment, what is the capital structure that the**
10 **Company is supporting in this rate case?**

11 A: For more discussion on the capital structure in this rate case, see the rebuttal testimony of
12 Company witness Robert Hevert. The capital structure that witness Hevert is sponsoring
13 and proposing to be included in the true-up in this case is as follows:

KCP&L Greater Missouri Operations
Capital Structure June 30, 2018
($ in 000's)

CAPITAL COMPONENT		AMOUNT		Goodwill Adj	Adjusted	PERCENT
Long-Term Debt (Note 1)	**	[redacted]	**		$1,079,114	48.25%
Common Equity	**	[redacted]	**	($168,970)	$1,157,324	51.75%
Total Capitalization	**	[redacted]	**	($168,970)	$2,236,438	100.00%

Note 1: Excludes unamortizaed debt expenses and discounts. Includes current maturities of long-term debt

14

1 **Q: What is the Company requesting of this Commission regarding GMO's capital**
2 **structure in this case?**
3 A: The Company requests the Commission order that a Goodwill adjustment of $168.97
4 million be used to calculate GMO's utility-specific capital structure in this case. In
5 addition, the Company requests that the Commission use the appropriate GMO regulated
6 business unit to calculate the capital structure in this case. The appropriate capital
7 structure to order in this case is reflected in the preceding table. This appropriately
8 reflects not including the historical non-regulated ventures of Aquila, Inc. recorded on the
9 special GMO Parent business unit.

10 **4. Rate Case Expense**

11 **Q: Please provide an overview of the testimony supplied by Staff witness Keith Majors**
12 **related to the recovery of rate case expense.**
13 A: Staff recommends full recovery of rate case expense incurred to comply with statutory
14 requirements, namely, the expenses for GMO's depreciation study and the cost of
15 customer notices informing customers of the rate cases and local public hearings. Staff
16 recommends assigning the remaining rate case expense to both ratepayers and
17 shareholders based upon a 50/50 split. This allocation is consistent with the
18 Commission's recent guidance concerning rate case expense in the Spire Missouri Inc.
19 ("Spire Missouri") rate cases, Case Nos. GR-2017-0215 and GR-2017-0216.

1 **Q: Please provide an overview of the testimony supplied by OPC witness Amanda**
2 **Conner related to the recovery of rate case expense.**
3 A: Ms. Conner argues that rate case expense should be shared between customers and
4 shareholders and the customer portion should be normalized instead of being amortized
5 over four years.
6 **Q: What is the Company's position regarding the treatment of rate case expense in this**
7 **proceeding?**
8 A: The cost of processing a rate case is a normal and essential cost of business of any public
9 utility. As the Commission acknowledged in its Order in the investigatory docket on rate
10 case expense treatment (Case No. AW-2011-0330), the Commission's "current rules and
11 practice" at that time were such that "regulated utilities generally recover all costs they
12 incur in presenting a rate case before the Commission." More precisely, regulated
13 utilities have generally, until recently in Missouri, recovered in rates reasonable and
14 prudently incurred expenses that they incur in presenting rate cases to the Commission
15 for resolution. Often, the reasonable and prudently incurred rate case expenses have been
16 converted to an annualized level to be recovered over a number of years and included in
17 base rates without a tracker mechanism recognizing that rate cases are not filed annually.
18 The Company believes that this approach to rate case expense should be utilized in this
19 case.

1 **Q: Are Staff and OPC recommending a departure from the Commission's historical**
2 **approach of allowing the recovery of reasonable and prudently incurred rate case**
3 **expenses in rates?**

4 A: Yes, although – as discussed below – the Commission has departed from that historical
5 approach on occasion in recent years. By using the methodologies summarized above,
6 the Staff and OPC may recommend a substantial disallowance in the Company's rate
7 case expenses if in this case the Commission were to order an amount which is less than
8 what the Company's actual rate case expense without any evidence (or even so much as
9 an allegation) of imprudence by the Company.

10 **Q: Please summarize the Spire methodology.**

11 A: In the most recent Spire Missouri rate cases, the Commission ordered a 50/50 split of rate
12 case expenses on page 52 of its Report and Order in that case:

13 "Therefore, it is just and reasonable that the shareholders and the
14 ratepayers who both benefited from the rate case, share in the rate case
15 expense. The Commission finds that in order to set just and reasonable
16 rates under the specific facts in this case, the Commission will require
17 Spire Missouri shareholders to cover half of the rate case expense and the
18 ratepayers to cover half with the exception of the cost of customer notices
19 and the depreciation study."

20 **Q: If the Spire Missouri methodology is not approved in this case, does Staff offer an**
21 **alternative recommendation?**

22 A: Yes. Alternatively, Staff recommends rate case expense sharing based on the ratio of
23 Staff's recommended rate increase to KCP&L's and GMO's requested rate increase.
24 This sharing methodology was ordered by the Commission in both recent KCP&L cases,
25 Case Nos. ER-2014-0370 and ER-2016-0285. This ratio would be updated throughout
26 the remainder of the case and will ultimately be based on the ratio of the Commission

1 approved rate increases to KCP&L's and GMO's requested rate increases, if the
2 Commission orders this option.

3 Q: **Do you agree with the three reasons presented by Staff as the basis for a**
4 **disallowance of a portion of the reasonable and prudently incurred rate case**
5 **expenses in this case?**

6 A: No. As the Staff Report points out, customers benefit from a rate case process that
7 determines the just and reasonable rates that are to be paid for safe, adequate, and reliable
8 service. While the rate case process is intended to give the Company a meaningful
9 opportunity to earn a reasonable return on shareholders' investments in plant dedicated to
10 the public use, customers are the primary beneficiary of the Company's ability to
11 continue providing safe, adequate and reliable service. Under the current regulatory
12 system, the only manner in which these objectives may be accomplished is the rate case
13 process mandated by law. Rate case expenses are no different from other costs of service
14 (i.e. generation, transmission and delivery costs) because while customers primarily
15 benefit from the Company's continued provision of safe, adequate and reliable service,
16 shareholders also have an interest in the Company's continued operation. Simply put,
17 periodic rate increases are necessary and provide a benefit to the customer by keeping the
18 public utility financially healthy and in a position to provide the customers with safe and
19 adequate service at just and reasonable rates. The customer is the primary beneficiary
20 when a utility is able to fulfill its statutory obligation to provide safe, adequate and
21 reliable service. This fundamental objective can only be accomplished if the Company is
22 able to attract investment by providing a reasonable return to its shareholders. As has
23 been addressed throughout this case, rate cases and the regulatory mechanisms approved

1 in rate cases are necessary and essential if the Company is to be in a position to
2 adequately attract capital and have a reasonable opportunity to earn its authorized rate of
3 return. It would make no sense to automatically disallow – in the absence of any
4 evidence or allegation of imprudence – any of the other costs which benefit both the
5 shareholder and the customer. For example, shareholders benefit from the construction
6 of new power plants because the construction generally increases the shareholders'
7 earnings levels, while customers benefit from the additional capacity used to serve them.
8 Following the logic of Staff and OPC, a portion of those power plant costs would be
9 disallowed since both the shareholders and customers benefit from those costs. Such a
10 regulatory practice with power plant costs would quickly drive the public utility into dire
11 financial straits, and adversely impact its ability to provide safe and adequate service to
12 its customers. Finally, under long-standing regulatory precedent, shareholders are
13 expected to have a reasonable opportunity to earn returns authorized by the Commission.
14 An arbitrary disallowance of rate case expenses (i.e., charging shareholders for the
15 regulatory costs to in fact establish rates that are to provide them that reasonable
16 opportunity) is indeed an ironic and perverse start in providing the shareholders the
17 opportunity that they are supposed to be afforded.
18 **Q: The Staff Report asserts at p. 119 that "Generally, utility management has a high**
19 **degree of control over rate case expense." Do you agree with this statement?**
20 A: I agree that management has some discretion in how it presents its rate case, but it is also
21 important to remember that the burden of proof is on the Company in this rate case. It is
22 also true that much of the rate case expenses are driven by the number and activity level
23 of parties to the case and by the quantity and complexity of the issues that are raised by

1 those parties. The complexity and number of issues raised by other parties often drives
2 the need to utilize outside consultants and outside counsel. While we endeavor to settle
3 many, or all, of the issues raised by the parties before the hearing, the Company needs to
4 be prepared to litigate the issues raised by other parties in the event a settlement is not
5 possible. These cases also typically involve massive amounts of discovery that are issued
6 by Staff, OPC and numerous intervenors.

7 **Q: Are there Commission regulations that contribute to the level of rate case expense**
8 **that are beyond the control of a utility?**

9 A: Yes. For example, a utility, like KCP&L is required to file a rate case with the effective
10 date of new rates no later than four years in order to continue to utilize an FAC. In
11 addition, 4 CSR 20.090(9) requires a line loss study be conducted no less than every four
12 years to be used in a general rate proceeding necessary to continue a FAC. The
13 Commission has promulgated regulations that require the Company to periodically
14 perform depreciation studies, and explain the Company's rate requests in detail. While
15 the Company believes these may be appropriate regulations, it is clear that such
16 requirements add to the cost of processing rate cases.

17 **Q: Do you believe that the proposed allocation creates an incentive, and eliminates a**
18 **disincentive, on the utility's part to control rate case expense to reasonable levels?**

19 A: No. An arbitrary disallowance of 50% of rate case expenses or an arbitrary disallowance
20 using a formula of dividing the revenue requirement ordered versus the amount requested
21 and multiplying this by the reasonable and prudently-incurred rate case expense does not
22 create an incentive to control rate case expenses. This approach merely makes it more
23 difficult for the Company to earn its authorized rate of return. It is fully appropriate and

1 reasonable for the Commission to review rate case expenses as to reasonableness and
2 prudence. The Commission has disallowed rate case expense costs in the past on grounds
3 of imprudence, and this serves as ample incentive for the Company to make certain that
4 its rate case expenses are reasonable. However, an arbitrary disallowance of a portion of
5 all rate case expenses that is not supported by evidence, or even an allegation, of
6 imprudence is not reasonable.

7 **Q: Does the approach advocated by Staff and OPC raise other concerns?**

8 A: Yes. A fundamental problem with an arbitrary disallowance of rate case expense
9 unsupported by evidence of imprudence is that it effectively restricts the Company's
10 ability to direct the presentation of its case, and to choose its legal and regulatory strategy
11 before the Commission in rate case litigation that is required to obtain adequate rate
12 levels. The approach advocated by Staff and OPC differs from past instances in which
13 the Commission recognized a public utility's right to make these decisions as long as its
14 costs are prudently incurred: "The Commission is hesitant to disallow expenses incurred
15 by MGE in prosecuting its rate case. The company is entitled to present its case as it sees
16 fit and the Commission will not lightly intrude into the Company's decision about how
17 best to present its case."[13]

18 **Q: Does KCP&L have an incentive to control its rate case expenses?**

19 A: Yes. We strive to balance cost control measures with providing the best level of service
20 possible. Rate case expense is a normal part of doing business within a regulated system.
21 Attached as Schedule DRI-2 is a flowchart which depicts the process the Company
22 utilizes to manage rate case expense. This process helps ensure the monitoring and

[13] Report and Order, *Re Missouri Gas Energy*, Case No. GR-2004-0209, p. 75.

1 control of those costs. Like other expenses necessary to provide service to customers, the
2 Company strives to be as efficient as possible in the presentation of its case while
3 attempting to clearly explain its position on the issues to the Commission. The Company
4 would fully expect that its rate case expenditures will be carefully and thoroughly
5 reviewed by the Staff and other parties to determine their reasonableness and prudence,
6 unless of course they are allowed to blindly apply the arbitrary ER-2016-0285 and ER-
7 2014-0370 formulas in lieu of performing such work. In addition, the Company has not
8 historically recovered its rate case expenses on a dollar for dollar basis under the
9 traditional method of handling rate case expenses. Often, the rate case expenses are
10 amortized or normalized over a greater number of years than the period between rate
11 cases. As a result, the normalizations/amortizations have sometimes been prematurely
12 terminated before all prudently incurred rate case expenses have been fully recovered.
13 The Company has an incentive to be efficient in the presentation of its rate cases as well
14 as with the purchase of other services necessary to provide safe and adequate electric
15 service to our customers.

16 Q: **The Staff Report analogizes rate case expenses to discretionary expenses such as**
17 **charitable contributions and lobbying expenses. Do you agree with these analogies?**

18 A: No, unlike charitable contributions and lobbying expenses, rate case expenses are not
19 discretionary. If the Company's cost of service has increased, it is necessary for the
20 Company to file a rate case in order to adjust the rates to reflect its ongoing cost of
21 service. In fact, KCP&L is required by Commission regulation to periodically file rate
22 cases if it is to continue to utilize the FAC. The same is required by Commission rule if a
23 utility makes use of a demand side investment mechanism. While the Company could

1 have arguably reduced (or eliminated) its charitable contributions and lobbying expenses,
2 the Company is required to file a rate case under the Commission's regulations to
3 maintain its ability to use the FAC and demand side investment mechanisms.

4 **Q: If the Commission doesn't order the traditional method of rate case expense**
5 **recovery in this case, should it alternatively order the Spire Methodology?**

6 A: Yes, despite the Company's reservations regarding both proposed methodologies, the
7 Spire Methodology is the more appropriate alternative of the two.

8 **5. Merger Transition Costs**

9 **Q: Please provide an overview of the testimony supplied by Staff witness Keith Majors**
10 **related to merger transition costs.**

11 A: Consistent with the Stipulation and Agreement filed on March 8, 2018 ("March 8 S&A")
12 and approved by the Commission in Case No. EM-2018-0012, Staff witness Majors
13 recommends inclusion of a 10-year amortization of merger transition costs in the cost of
14 service for KCP&L, in the amount of $972,559, and GMO, in the amount of $720,921.

15 **Q: Please explain the Company's initial position regarding transition costs.**

16 A: In the Company's direct filings, Adjustment CS-95 included a 4-year amortization of
17 KCP&L's and GMO's allocated share of actual and forecasted transition costs through
18 June 2018.

19 **Q: Is this still the Company's position?**

20 A: No. After the direct filing of this case, the Company entered into, and the Commission
21 approved, the March 8 S&A in Case No. EM-2018-0012 which included specific
22 conditions related to merger transition costs and Staff witness Majors' recommendation

1 regarding merger transition costs is consistent with those conditions. Therefore, the
2 Company agrees with Mr. Major's position related to merger transition costs.

3 **Q: Why is rate recovery of transition costs of $972,559 (KCP&L) and $720,921 (GMO)**
4 **reasonable?**

5 A: The Company has included merger savings as a reduction to revenue requirement of
6 approximately $3 million (KCP&L-MO) and approximately $6 million (GMO).[14] The
7 benefits provided to customers by reducing revenue requirement for merger savings of
8 this magnitude substantially exceed the amount of transition costs to be included in rates
9 that were incurred to produce those merger savings. As such, it is reasonable to include
10 transition costs at these levels in rates.

11 **6. Rate History and Cost Competitiveness**

12 **Q: Please provide an overview of the testimony supplied by witness Greg R. Meyer on**
13 **behalf of the Missouri Energy Consumers Group ("MECG").**

14 A: Mr. Meyer's testimony reviews rates for KCP&L and GMO by presenting various
15 historical information. For KCP&L, Mr. Meyer presents rate case history showing seven
16 rate increases since January 1, 2007. Additionally, he presents a comparison of
17 KCP&L's and GMO's total retail average rates with national averages using EEI's
18 Typical Bills and Average Rates Report.

[14] The difference between the merger savings adjustments for KCP&L and GMO is driven by the timing of each company's prior rate case. KCP&L's December 31, 2016 true-up period in its most recent case (Case No. ER-2016-0285) enabled KCP&L to reflect a greater level of merger savings in that case than the July 31, 2016 true-up period in GMO's most recent case (Case No. ER-2016-0156). Because a greater level of merger savings had already been reflected in KCP&L's rates, the merger savings adjustment for KCP&L in this case is lower than the merger savings adjustment for GMO. Although KCP&L and GMO achieved merger savings in advance of the closing of the merger, the substantial majority of those savings could not have been sustained without approval and closing of the merger.

1 **Q: What does Mr. Meyer observe in regard to KCP&L's rates?**

2 A: From the EEI report, KCP&L's total retail average rate of 5.65¢/kWh as of January 1,
3 2006 was 31.3% below the national average of 8.22¢/kWh. As of January 1, 2018,
4 KCP&L's total retail average rate of 11.16¢/kWh was 3% higher than the national
5 average of 10.85¢/kWh.

6 **Q: What does Mr. Meyer observe in regard to GMO's rates?**

7 A: The rate comparison for GMO is not as straightforward due to the recent consolidation of
8 the MPS and L&P rate districts. However, from the EEI report, GMO-MPS had a total
9 retail average rate of 6.45¢/kWh and GMO-L&P had a total retail average rate of
10 5.20¢/kWh. As of January 1, 2018, GMO's combined total retail average rate was
11 9.61¢/kWh, which is 11% lower than the national average.

12 **Q: Does Mr. Meyer offer an explanation for why KCP&L's rates have grown faster**
13 **than GMO's rates?**

14 A: Yes. Mr. Meyer points to the following events that have affected KCP&L's rates: 1) a
15 2009 rate increase reflecting costs associated with environmental upgrades at Iatan 1, 2) a
16 2010 rate case reflecting costs associated with the construction of Iatan 2, and 3) a 2014
17 rate case reflecting costs associated with environmental improvements at LaCygne. Mr.
18 Meyer also observes that the L&P rate district has seen a dramatic increase in rates due to
19 its financial interest in the Iatan stations. MPS, on the other hand, was not exposed to the
20 costs associated with either the Iatan units or the LaCygne units.

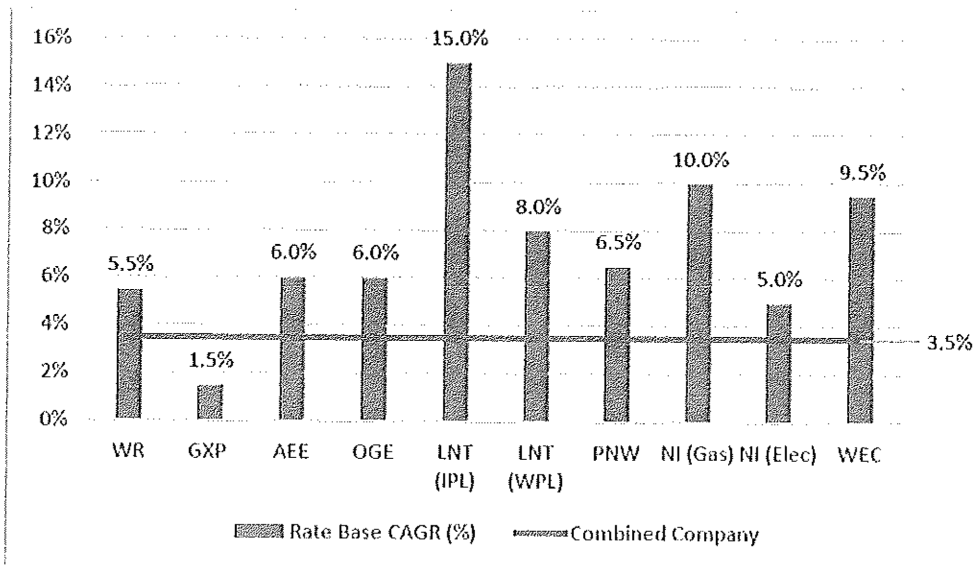
21 **Q: How does KCP&L respond to this assessment of its rates?**

22 A: The Company fully acknowledges the rate pressures faced by it and its customers over
23 the last several years. However, the conditions explained by Mr. Meyer only address part

1 of the story. Examination of utility rates over time generally shows a series of increases
2 and decreases that correspond with construction cycles. Back in 2007, KCP&L increased
3 rates for the first time in 20 years as part of a robust Comprehensive Energy Plan
4 ("CEP") designed to address energy needs for the region. The CEP was the result of an
5 18-month, highly collaborative process involving customers, regulators, communities and
6 environment advocates. The CEP took a balanced approach to meet the energy needs of
7 the region by proposing the construction of a new, high efficiency base load coal-fired
8 generating plant, construction of a new wind-powered generating facility, installation of
9 environmental upgrades to existing generation plants, transmission/infrastructure
10 improvements, and deployment of energy efficiency and affordability programs for
11 customers.
12 KCP&L's efforts in developing and winning support for its CEP was recognized
13 by the Edison Electric Institute, which awarded the Company its highest honor for
14 community involvement. The CEP also was endorsed by the Sierra Club, local labor
15 unions, the Kansas City Area Development Council, as well as numerous local economic
16 development agencies, chambers of commerce, and industrial customers such as Ford,
17 Sprint and area hospitals. In fact, several of these industrial customers were parties that
18 signed onto the CEP.
19 **Q: What level of future investment does the Company forecast?**
20 A: The Company does not forecast the same level of investment going forward as seen in
21 this recent major build cycle the past ten years. As described in our IRP filings, KCP&L
22 is coming off a recent major build cycle with the CEP and environmental retrofits. From
23 a generation supply standpoint, we do not anticipate any new major baseload supply

1 construction programs. In fact, the Company's future rate base percentage growth is
2 modest compared to peer companies. As a merged company, rate base growth is still
3 modest relative to peers at less than 4%:

4 **Selected Company Disclosed Capital Investment Growth**
5 **Compared to Combined Company**



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7 **7. <u>Data Security and Privacy</u>**

8 **Q: Please provide an overview of the testimony supplied by OPC witness Dr. Geoff**
9 **Marke related to data security.**

10 A: Dr. Marke recommends that the Commission order a rulemaking workshop to amend the
11 Chapter 13 billing rules due to technological changes in billing, data practices and
12 associated privacy concerns. He also recommends that the Commission order the
13 Company, in this rate case, to undertake specific practices related to (1) consent for
14 disclosure and green button adoption, (2) data modeling standards, and (3) annual
15 submission of a cybersecurity plan and privacy impact assessments.

1 **Q: As a preliminary matter, are you familiar with the requirements of MoPSC rule (4**
2 **CSR 240-20.015 (2)(C)) regarding the sharing of customer information?**
3 A: Yes, this rule prohibits KCP&L and GMO from sharing specific customer information
4 with affiliated or non-affiliated entities without the customer's consent.
5 **Q: Does the Company comply with the requirements of MoPSC rule4 CSR 240-**
6 **20.015(2)(C)?**
7 A: Yes.
8 **Q: Turning back to Dr. Marke's testimony regarding customer privacy and data**
9 **security, do you agree with Dr. Marke's recommendations?**
10 A: In part. The Company takes its responsibility for data security and privacy seriously as
11 explained in Company witness Johnson's rebuttal testimony. The Company agrees with
12 Dr. Marke that emerging data security and privacy issues should be addressed in a
13 rulemaking workshop. Dr. Marke's specific recommendations need to be examined by
14 all stakeholders before being adopted. For example, Dr. Marke at p. 18 of his testimony
15 believes that a customer must provide specific consent before data is provided to third
16 parties. However, this affirmative consent would effectively prohibit the Company from
17 providing information pursuant to a law enforcement subpoena or to vendors used to
18 provide utility service. Although there may in fact be a need to revise the Chapter 13
19 billing rules to reflect technological changes, any such specific requirements should be
20 addressed in a rulemaking docket that is applicable to all utilities, rather than in a
21 company-specific rate case. If a party has specific concerns related to data privacy
22 violations, they already have the ability to file a complaint with the Commission.

1 Because of the need to address Dr. Marke's specific recommendations in a
2 rulemaking workshop, his Company-specific recommendations for this rate case should
3 be rejected by the Commission as they are premature.

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

5 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 DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President – 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.

Darrin R. Ives

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

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

GMO ACQUISITION

On July 14, 2008, Great Plains Energy closed its acquisition of GMO. The total purchase price of the acquisition was approximately $1.7 billion. The fair value of the 32.2 million shares of Great Plains Energy common stock issued was approximately $1.0 billion. Great Plains Energy paid approximately $0.7 billion of cash consideration. Immediately prior to Great Plains Energy's acquisition of GMO, Black Hills Corporation (Black Hills) acquired GMO's electric utility assets in Colorado and its gas utility assets in Colorado, Kansas, Nebraska and Iowa. Following the closing of the acquisition, Great Plains Energy wholly owns GMO, including its Missouri-based utility operations consisting of the Missouri Public Service and St. Joseph Light & Power divisions. GMO is included in Great Plains Energy's consolidated financial statements beginning as of July 14, 2008.

The regulatory approval order from the MPSC was received on July 1, 2008. Certain parties filed appeals and a motion to stay the order with the Cole County, Missouri, Circuit Court, which affirmed the order in June 2009. This decision has been appealed. The order remains in effect unless reversed by the courts.

The MPSC order provided for the deferral of transition costs to be amortized over a five-year period to the extent that synergy savings exceed amortization. The Company settled its first post-transaction rate cases and the settlement agreements were silent with respect to transition costs. The Company will continue to defer transition costs until amortization is ordered by the MPSC. KCC order approved the deferral of up to $10.0 million of transition costs to be amortized over a five-year period beginning with rates expected to be effective in 2010. At December 31, 2009, Great Plains Energy had $51.5 million of regulatory assets related to transition costs, which included $29.3 million at KCP&L and $22.2 million at GMO.

The acquisition was accounted for under the purchase method of accounting. As a result, the assets and liabilities of GMO were recorded at their estimated fair values as of July 14, 2008. The following table shows the allocation of the purchase price to the assets acquired and liabilities assumed at the date of the acquisition.

	July 14 2008	
Purchase Price Allocation	(millions)	
Cash	$ 677.7	
Common stock (32.2 million shares)	1,026.1	(a)
Stock options (0.5 million options)	2.7	(b)
Transaction costs	35.6	
Total purchase price	1,742.1	
Cash and cash equivalents	949.6	
Receivables	159.1	
Deferred income taxes	511.0	
Other current assets	131.4	
Utility plant, net	1,627.4	
Nonutility property and investments	131.4	
Regulatory assets	146.6	
Other long-term assets	76.0	
Total assets acquired	3,732.5	
Current liabilities	311.8	
Regulatory liabilities	115.9	
Deferred income taxes	241.5	
Long-term debt	1,334.2	
Other long-term liabilities	156.0	
Net assets acquired	1,573.1	
Goodwill	$ 169.0	

(a) The fair value was based on the average closing price of Great Plains Energy common stock of $31.88, the average during the period beginning two trading days before and ending two trading days after February 7, 2007, the announcement of the acquisition, net of issuing costs.

(b) The fair value was calculated by multiplying the stock options outstanding at July 14, 2008, by the option exchange ratio of 0.1569, calculated as defined in the merger agreement.

Great Plains Energy recorded $169.0 million of goodwill, all of which is included in the electric utility segment. None of the goodwill is tax deductible. The factors that contributed to a purchase price that resulted in goodwill were strategic considerations and significant cost savings and synergies including: expanded regulated electric utility business; adjacent regulated electric utility territories; increased GMO financial strength and flexibility; improved reliability and customer service and disposition of non-strategic gas operations. Changes to the initial allocation of the purchase price consisted primarily of additional fair value adjustments to certain real estate properties, increased unrecognized tax benefits related to prior year tax positions on GMO tax returns, adjustment to regulatory assets due to the settlement of regulatory treatment and net operating loss valuation allowance adjustments.

Goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. The goodwill impairment test is a two-step process, the first step of which is the comparison of the fair value of a reporting unit to its carrying amount, including goodwill, to identify potential impairment. If the carrying amount exceeds the fair value of the reporting unit, the second step of the test is performed, consisting of assignment of the reporting unit's fair value to its assets and liabilities to determine an implied fair value of goodwill which is compared to the carrying amount of goodwill to determine the impairment loss, if any, to be recognized in the financial statements. The annual impairment test for the GMO acquisition goodwill was conducted on September 1, 2009. Great Plains Energy's regulated electric utility operations are considered one reporting unit for assessment of impairment, as they are included within the same operating segment and have similar economic characteristics. The determination of fair value of the reporting unit consisted of two valuation techniques: an income approach consisting of a discounted cash flow analysis and a market approach consisting of a determination of reporting unit invested capital using market multiples derived from the historical revenue, EBITDA and net utility asset values and market prices of stock of electric and gas company regulated peers. The results of the two techniques were evaluated and weighted to determine a point within the range that management considered representative of fair value for the reporting unit. Fair value of the reporting unit exceeded the carrying amount, including goodwill; therefore, there was no impairment of goodwill.

The following table provides unaudited pro forma results of operations for Great Plains Energy for December 31, 2008 and 2007, as if the acquisition had occurred on January 1 of those years, respectively. Pro forma results are not necessarily indicative of the actual results that would have resulted had the acquisition actually occurred on January 1, 2008, or January 1, 2007.

	December 31	
	2008	2007
	(millions, except per share amounts)	
Operating revenues	$ 2,013.6	$ 1,944.3
Income from continuing operations	$ 121.1	$ 119.2
Net income	$ 156.1	$ 157.5
Earnings available for common shareholders	$ 154.5	$ 155.9
Basic and diluted earnings per common share from continuing operations	$ 1.18	$ 1.00
Basic and diluted earnings per common share	$ 1.53	$ 1.33

Kansas City Power & Light Company

Rate Case Expense Process