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| *Exhibit No.:* | |
| *Issues:* | *Rate Case Expense* |
| | *401k Expense, DSM* |
| *Witness:* | *Matthew R. Young* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Rebuttal Testimony* |
| *Case No.:* | *ER-2014-0370* |
| *Date Testimony Prepared:* | *May 7, 2015* |

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

# REBUTTAL TESTIMONY

# OF

# MATTHEW R. YOUNG

**KANSAS CITY POWER & LIGHT COMPANY**
**CASE NO. ER-2014-0370**

*Jefferson City, Missouri*
*May, 2015*

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**REBUTTAL TESTIMONY**

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**MATTHEW R. YOUNG**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2014-0370**

Q. Please state your name and business address.

A. Matthew R. Young, Fletcher Daniels State Office Building, 615 East 13th Street, Room G-8, Kansas City, Missouri 64106.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission").

Q. Are you the same Matthew R. Young who previously filed direct testimony in this proceeding?

A. Yes. I provided testimony in the Commission Staff's ("Staff") Cost of Service Report filed on April 3, 2015, regarding Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Miscellaneous Test Year Adjustments, Insurance, Injuries and Damages, Property Tax Expense, Rate Case Expense, Economic Relief Pilot Program, Income Eligible Weatherization Program, Demand-Side Management Program, and Renewable Energy Standards.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the direct testimony of Kansas City Power & Light's ("KCPL" or "Company") Experts/Witnesses Ronald A. Klote and Tim M. Rush. More specifically, I will describe the differences between Staff's and KCPL's positions, and present the Staff's recommended rate methodology relating to the rate case expense, 401k expense, and demand side management (DSM) program cost recovery.

**EXECUTIVE SUMMARY**

Q. Please summarize Staff's position for the recovery of rate case expense.

A. Staff's position is to include in KCPL's revenue requirement, 50% of the actual amount of prudently incurred rate case expense[1], normalized over a three year period. Staff will continue to update actual amounts of rate case expense throughout this proceeding and will true-up expenses incurred up to an as yet undetermined cut-off date to be agreed upon by all parties. Staff recommends that the rate case expense recovered in base rates should not be considered for future consideration of over or under recovery.

Q. Please summarize Staff's position on 401k expense.

A. Staff's position is to include costs for 401k expense in the amount of cash expenditures only. Since KCPL's contributions to the 401k program were funded with approximately 79% cash and 21% stock contributions in 2014, Staff made an adjustment to the test year to reflect the amount of cash 401k funding only.

Q. Please summarize Staff's position for the recovery of KCPL's demand side management regulatory assets.

A. Staff's position is to maintain the practice of amortizing historic DSM vintage expenses (DSM vintages are discussed below) into rates as approved in prior KCPL rate cases. For the amortization of the vintage that will be established in this case (Vintage 6), Staff recommends that the recovery period be set consistent with the six (6) year recovery period ordered by the Commission for the most recent vintage (Vintage 5).

[1] 50% Rate Case Expense sharing sponsored by Staff witness Keith Majors in Staff's April 3, 2015 Cost of Service Report.

**RATE CASE EXPENSE**

Q. How do the positions of Staff and KCPL differ as to rate case expense?

A. There are four material differences between KCPL's and Staff's rate case expense adjustments.

1. KCPL includes the cost of its depreciation study in rate case expense and sets recovery of the study's costs over a three year period.
2. KCPL includes an amortization of deferred rate case expense relating to costs incurred after the end of the true-up period set in Case No. ER-2010-0355 ("2010 Case").
3. Staff is recommending a 50/50 expense sharing of rate case expense between ratepayers and shareholders.
4. In its direct filing, KCPL's adjustment CS-80 reflects a projected amount of rate case expense to be incurred from this rate increase request. Staff included in its direct case, actual rate case costs through December 31, 2014.

Q. How did Staff account for the costs of KCPL's depreciation study?

A. Instead of including the depreciation study's costs in rate case expense, which is recovered over three years, Staff made an adjustment to the income statement to set the recovery period to five years.

Q. Why did Staff propose a five year recovery period for this item?

A. Pursuant to 4 CSR 240-3.160, KCPL is required to conduct a depreciation study at least every five years. This means the depreciation study KCPL obtained for this case will probably have a five year useful life. Therefore, Staff concluded a five year recovery period is more appropriate than a three year period.

Q. Did Staff's rate case expense adjustment recognize amortizations of deferred costs from the 2010 Case?

A. No. As discussed by Staff witness Keith Majors in Staff's Cost of Service Report, the final revenue requirement in Case No. ER-2012-0174 included <u>two</u> distinct amortizations of deferred rate case expense from KCPL's 2010 Case. The first tier of deferred costs relates to 2010 rate case expense incurred through the true-up date of the 2010 Case, which was December 31, 2010. The second tier of deferred 2010 rate case expense relates to costs incurred after the 2010 Case true-up date. In his direct testimony, KCPL witness Ronald A. Klote describes how KCPL included an "amortization" of 2010 rate case expense in this case's revenue requirement because the amortizations will still be ongoing as of the true-up in this case. However, Mr. Klote does not fully describe the different timing of the two separate amortizations in his testimony.

Due to the timing of recovery of the deferred costs, the rate case expense amortizations that were incurred pre and post 2010 true-up come to an end at different times. While Mr. Klote is correct that the amortization of 2010 post true-up costs (2$^{nd}$ tier) is not scheduled to finish by the true-up date in this case, the amortization of 2010 pre true-up rate case expense (1$^{st}$ tier) ended in April of 2014.

Since the 1$^{st}$ tier's amortization was built into rates in KCPL's previous rate case, the Company continues to recover the rate case expense amortization in rates and will continue to do so until new rates go into effect as a result of this case, approximately at the end of September 2015. Staff applied the amortizations for the fully recovered 1$^{st}$ tier against the balance of the 2$^{nd}$ tier of 2010 deferred rate case expense, which resulted in the full reimbursement of both tiers of deferred costs. Since all deferred rate case expense is fully recovered under this treatment, Staff did not recognize any amortizations of rate case expense from the 2010 Case in my adjustment.

Q. Are you sponsoring Staff's rate case expense sharing adjustment?

A. No. The 50% reduction of rate case expense recovered from ratepayers is sponsored by Staff witness Keith Majors in Staff's Cost of Service Report.

Q. Are there any other matters to discuss concerning rate case expense?

A. Yes. Since Staff is recommending the use of actual rate case expense incurred, a cut-off date will need to be established for expenses to be included in this case's ordered revenue requirement. Rate case expense is unique in that the majority of these expenses are "back-loaded". KCPL incurs rate case expenses for outside witnesses and legal counsel, a large portion of which are related to hearings and the filing of initial and reply briefs. Staff will attempt to come to an agreement with the parties on the appropriate cutoff date for these expenses.

**<u>401K EXPENSE</u>**

Q. How do Staff's and KCPL's positions on 401K expense differ?

A. While KCPL includes cash *and* stock contributions for its 401k program as an expense in its cost of service, Staff only includes KCPL's cash contributions.

Q. Does KCPL issue common stock?

A. No. KCPL has no publicly traded shares of common stock. The shares of stock used to fund the 401k program are Great Plains Energy ("Great Plains") shares.

Q. Why does Staff exclude the stock funding as 401k expense?

A. Requiring ratepayers to provide cash through rates for an expense which requires no cash outlay by the utility is generally inappropriate for ratemaking purposes.

When KCPL transfers shares of Great Plains' unallocated stock to the employee 401k program, there is no cash transaction of any kind. However, KCPL seeks to increase its revenue requirement for an expense unrelated to a cash transaction by including the stock funding as an expense in its 401k adjustment.

Q. How much of KCPL's 401k funding is from stock?

A. Through information provided in response to Staff Data Request No. 163, Staff calculated that, on average, 21% of total 401k funding is from stock contributions. Staff computed this average by examining the ratio of total 401k funding to stock 401k funding in three distinct pay periods.

Q. Were there any changes to KCPL's 401k plan in 2014?

A. Yes. As described by KCPL witness Ronald A. Klote, non-union employees hired after January 1, 2014, are not eligible for the Company's pension plan but will instead receive an annual 401k contribution from KCPL. The amount of the contribution is projected to be 4% of the employees' base pay. KCPL's 401k adjustment includes a projection of this additional contribution.

Q. Did Staff recognize the change in the 401k plan in its adjustment?

A. No. As of the December 31, 2014 update period, the additional contributions were found to be an out-of-period expense. However, Staff will re-examine the 401k contributions through the true-up period ending May 31, 2015. Additional 401k contributions for 2014 are scheduled during this time period.

**DEMAND SIDE MANAGEMENT COST RECOVERY**

Q. What is Staff's position on demand side management cost recovery?

A. Staff's position is to maintain the amortization of historic DSM vintages as approved in prior KCPL rate cases. For the amortization period of the vintage that will be established in this case (Vintage 6), Staff recommends that the recovery period be set consistent with the recovery periods ordered by the Commission for the previous vintage (Vintage 5).

Q. What are "DSM vintages?"

A. Beginning in Case No. ER-2007-0291 and in every rate case since, KCPL has utilized the "defer and amortize" accounting method to recover the cost of its DSM programs. In each rate case, the Commission established an amount of deferred DSM costs that were to be recovered over a certain time period. The resulting amortization of costs were defined and classified as a separate vintage, one vintage per rate case. The recovery periods for Vintage 1 through Vintage 4 were set for 10-year recovery, but in KCPL's 2010 rate case, Case No.ER-2010-0355, the recovery period for Vintage 5 was set for six years. The following is an excerpt from the Report and Order in Case No. ER-2010-0355 addressing the appropriate amortization periods to be used for DSM program cost recovery:

> One area of agreement is that the "old" regulatory assets (Vintages 1, 2, and 3) should be governed by the previous decisions to amortize those regulatory asset accounts over a ten-year period and that amortization period should not change. The Commission also agrees and directs that Vintages 1, 2, and 3 continue to be amortized over a ten-year period…
>
> KCP&L agrees with MDNR regarding the treatment for "future" investments. The Commission agrees as well and will direct that DSM program costs for investments made from December 31, 2010, until a future recovery mechanism is in place [Vintage 5] shall be placed in a regulatory asset account and amortized over six years with a carrying cost equal to the AFUDC rate applied to the unamortized balance
>
> With regard to the "current" investments, it would be inconsistent with previous Commission orders to authorize a six-year amortization for the current investments (Vintage 4). The Commission determines that

> these Vintage 4 investments should continue to be amortized over a ten-year period…
>
> [T]he Commission determines that the unamortized balances of the regulatory asset accounts shall be included in rate base for determining rates in this case.

Q. Has the Commission ordered a recovery period for the current vintage of DSM costs incurred by KCPL since its last rate proceeding?

A. No.

Q. What is Staff's recommendation for the amortization of Vintage 6 in this case?

A. Staff recommends that deferred costs of Vintage 6 should be amortized over a six year period. Amortizing the costs over six years is consistent with the Commission's most recent decision on the amortization of Vintage 5.

Q. How does KCPL propose to amortize the unrecovered DSM costs?

A. As described on page 38 of KCPL witness Tim M. Rush's Direct Testimony, KCPL's proposed amortization of deferred DSM costs effectively rolls all existing vintages, along with the unestablished Vintage 6, into one regulatory asset and amortizes the total balance over an 11 year period.

Q. Why did KCPL choose an 11 year amortization period for rate recovery purposes?

A. On page 39 of his direct testimony, Mr. Rush describes a study KCPL conducted to find the average measure life of the various DSM programs in its portfolio. The Company's study found a weighted average measure life of 10.7 years.

Q. Did you review the study that KCPL relied on?

A. Yes. The study conducted by KCPL relies on budgeted and projected numbers from 2014 to 2033. These costs are estimates that are substantially beyond the true-up date in this case. These costs do not meet the known and measurable ratemaking standard. Also, the projected DSM program costs used in the study are for future DSM-type expenditures and do not have any direct relation to the deferred historical DSM costs.

Q. Why did Staff choose a six year amortization for the current DSM Vintage?

A. First, Staff chose six years because that recovery period is consistent with the Commission's most recent order regarding deferred DSM costs. Second, KCPL's estimate of its DSM programs' measure life, based on future expenditures, are not related to the DSM costs incurred since 2005, making KCPL's projected 11-year measure life calculation irrelevant.

Q. Are there any long-term rate implications in KCPL's requested recovery period?

A. Yes. The existing amortizations of Vintages 1 and 2 are scheduled to conclude by the end of calendar year 2017. As of the update period in this case, the unrecovered balances for those vintages total $1,825,208. If KCPL's requested accounting treatment were approved, those vintages would be included in the Company's rate base for another eleven (11) years instead of a little over two years, resulting in an extended period in which KCPL will earn a return on the unamortized balance of those vintages. This treatment would spread out the recovery period for these previously incurred costs and result in a greater amount of cash recovery from customers over time for this item compared to the result when the original shorter amortization periods are maintained.

Since prior Commission orders have allowed KCPL to collect a return on these vintages in rate base, and each vintage includes an amount of carrying costs that reimburses

KCPL above the amount of actual expenditures, extending the time period in which the Company earns an increased rate of return is not appropriate.

Q. Does this conclude your rebuttal testimony?

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-2014-0370 |

AFFIDAVIT OF MATTHEW R. YOUNG

| | | |
|---|---|---|
| STATE OF MISSOURI | ) | |
| | ) | ss. |
| COUNTY OF COLE | ) | |

Matthew R. Young, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Matt Young

Matthew R. Young

Subscribed and sworn to before me this 6th day of May, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public