Exhibit No.:	
Issue:	Revenue Requirement
Witness:	Michael L. Brosch
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Midwest Energy Consumer's Group
Case No.:	ER-2016-0285
Date Testimony Prepared:	November 30, 2016

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-2016-0285**

Direct Testimony and Schedules of

Michael L. Brosch

Revenue Requirement

On behalf of

Midwest Energy Consumers' Group

PUBLIC VERSION

November 30, 2016

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-2016-0285**

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF JACKSON	)	

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:

1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. We have been retained by the Midwest Energy Consumer's Group in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2016-0285.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael L. Brosch
Michael L. Brosch

Subscribed and sworn to before me this 30th day of November 2016.

MIKILA WASHINGTON
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: Mar. 18, 2020
12197484

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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<u>Direct Testimony of Michael L. Brosch</u>

BEFORE THE PUBLIC SERVICE COMMISSION
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<u>Direct Testimony of Michael L. Brosch</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148.

Q WHAT IS YOUR PRESENT OCCUPATION?

A I am the President of the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate and regulation work. The firm's business and my responsibilities are related to special services work for utility regulatory clients. These services include rate case reviews, cost of service analyses, jurisdictional and class cost allocations, financial studies, rate design analyses and focused investigations related to utility operations and ratemaking issues.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Midwest Energy Consumer's Group ("MECG"). Utilitech, Inc. was engaged by MECG to review and address certain revenue requirement and ratemaking policy issues raised by Kansas City Power & Light ("KCPL" or "Company"). Utilitech's work, as sponsored in this testimony, complements the work of other MECG witnesses who will address other elements of the revenue requirement and rate design, including Messrs. Gorman and Brubaker.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A My testimony is responsive to KCPL's proposals for either cost of service tracking mechanisms or "trackers" for property tax and net transmission service expenses or, in the alternative, the inclusion of projected future expense amounts in the revenue requirement, subject to true-up if comparable actual expenses are ultimately lower than the projected amounts. I explain the regulatory policy and factual reasons why both proposals should be rejected by the Commission and why continued traditional test year regulation of these two categories of expense should continue. In this regard, my recommendations are consistent with my testimony in KCPL's last Missouri rate case proceeding, in which the Commission agreed that extraordinary rate tracker treatment, or the inclusion of projected higher post-test year expenses as an alternative, was not appropriate for these same categories of expense.

EDUCATION AND EXPERIENCE

Q WHAT IS YOUR EDUCATIONAL BACKGROUND?

A Appendix A to this testimony is a summary of my education and professional qualifications that also contains a listing of my previous testimonies in regulatory proceedings in Missouri and other states.

Q PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE IN THE FIELD OF UTILITY REGULATION.

A My professional career began in 1978, when I was employed by the Missouri Public Service Commission as part of the accounting department audit staff. While with the Staff from 1978 to 1981, I participated in rate cases involving Kansas City Power & Light Company, Missouri Public Service Company, Southwestern Bell and several smaller Missouri utilities. Since leaving the Commission Staff, I have worked as an independent consultant and have testified before utility regulatory agencies in Arizona, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory proceedings involving electric, gas, telephone, water, sewer, transit, water carrier and steam utilities. I have participated in many electric, gas and telephone utility regulatory proceedings, as listed and described in Appendix A. I testified for MECG in the most recent KCPL Missouri rate case, Case Number ER-2014-0370, addressing similar regulatory policy issues as well as the Company's proposal to implement a Fuel Adjustment Clause ("FAC").

EXECUTIVE SUMMARY

Q PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A My testimony explains why KCPL does not need and should not be awarded the extraordinary regulatory treatment it has proposed for test year property taxes, and net transmission expenses. I describe the key characteristics of traditional test year ratemaking and explain why piecemeal, preferential ratemaking for selected routine, ongoing types of expense is poor regulatory policy that should be avoided. I also explain the generally applied regulatory criteria to determine if and when extraordinary regulatory mechanisms are appropriate. My testimony demonstrates that the Company has not met these criteria and has not justified its requests for piecemeal, preferential treatment of property taxes and transmission expenses. My recommendation is that KCPL's proposed extraordinary ratemaking mechanisms for its net transmission expenses and its property tax expenses be rejected.

KCPL EXPENSE TRACKING PROPOSALS

Q DOES THE COMPANY CONTEND THAT CERTAIN OF ITS COSTS MERIT SPECIAL TREATMENT, COMPARED TO NORMAL TEST YEAR RATEMAKING PROCEDURES?

A Yes. In its Direct Testimony, the Company has proposed extraordinary ratemaking treatment for its transmission costs paid to Regional Transmission Organizations ("RTO's), primarily the Southwest Power Pool ("SPP"), and for its property tax expenses.[1] The proposed treatment of transmission expenses is explained by KCPL witness Mr. Ives as follows:

> SPP's regional transmission upgrade projects are being planned, constructed and billed to SPP members in order to expand and enhance the ability for the SPP transmission footprint. SPP's regional transmission plan provides for regional transmission expansion and a detailed list of projects in order to achieve the plan. As these projects are placed in service, KCP&L is paying its share of the costs of the expansion charged under SPP's FERC-approved tariff. Due to the continual increase in transmission cost levels during this expansion, the Company is requesting that a forecasted level of transmission of electricity by other costs be included in the Company's FAC. The Company requests, in the alternative, that if any of the transmission of electricity by others costs is not included in the FAC then the forecasted annual average of SPP-billed transmission costs for 2017 and 2018 be used in its cost of service and be tracked under a one-way tracker.[2]

With respect to the Company's proposal for property tax expenses, Mr. Ives argues for similar extraordinary regulatory treatment:

[1] KCPL initially requested special regulatory treatment of its expenses associated with its Critical Infrastructure Protection standards and cyber-security expenses in Direct Testimony, but this proposal was later withdrawn on September 9, 2016.

[2] Direct Testimony of Darrin Ives, page 9.

> Property taxes are determined by state assessors, are a significant component of the Company's cost of service and amounts assessed are beyond the control of the Company to manage. Since the 2014 Rate Case, property taxes have continued to increase, and are expected to continue to increase, from the amounts that were included in rates in that case. As such, the Company is requesting that the average of projected 2017 and 2018 property taxes be used in its cost of service and be tracked under a one-way tracker.[3]

More detailed discussion of the Company's proposed expense tracking or projected cost ratemaking mechanisms is provided in the Direct Testimonies of KCPL witnesses Messrs. Tim Rush, Ronald Klote and John Carlson.

Q IS THERE A COMMON THEME BEHIND THE COMPANY'S COST PROJECTION AND EXPENSE TRACKING PROPOSALS?

A Yes. In both instances, KCPL management has selected only categories of expense where future spending is expected to increase. For example, Mr. Ives explains his proposed tracking of projected future transmission expenses through the FAC or separately outside the FAC noting that, "SPP transmission costs allocated to KCPL have been rising, and projections show that these expenses will continue to increase at a significant rate."[4] Similarly, Mr. Klote supports base rate recovery of projected property tax costs through 2018 with rate tracking, stating, "[b]ased on the dramatic increases in Property Tax O&M expense in each of the last five years and the expected increases in earnings for KCPL, we expect Property Tax O&M expense to continue to increase in the next few years."[5]

Effectively, KCPL is attempting to apply extraordinary ratemaking methods in order to carry future costs into a rate case test year for recovery. Specifically, KCPL wants to carry costs into a future test year through the tracker or bring those future

3 Id, page 10.
4 Direct Testimony of Darrin R. Ives, page 11.
5 Direct Testimony of Ronald Klote, page 68.

costs into the current rate case test year through its request for forecasted costs. In either situation, KCPL's request is one-sided. KCPL seeks to apply its extraordinary requests only to costs that are increasing, but does not seek to apply the same tools to costs that are decreasing or revenues that are increasing.

In both instances, the types of expense where KCPL is <u>now</u> proposing extraordinary regulation through rate tracking mechanisms have historically been evaluated and quantified within traditional test year rate cases. These new tracking mechanism proposals should be carefully evaluated by the Commission to ensure that KCPL is not allowed to select only its increasing costs for tracking between test years, while other more favorable changes to the overall revenue requirement that may occur between test years are ignored and allowed to contribute to the Company's earnings.

Q WHAT RATIONALE IS OFFERED BY THE COMPANY FOR ITS PROPOSED EXTRAORDINARY TREATMENT OF TRANSMISSION AND PROPERTY TAX EXPENSES?

A The Company argues that "regulatory lag" is a significant problem that should be remedied, by allowing KCPL to select certain elements of its overall revenue requirement that are expected to increase for extraordinary cost tracking treatment. For his part, Mr. Ives states:

> Consistent with my testimony in the 2014 Rate Case, KCP&L continues to experience extensive regulatory lag, particularly in its Missouri jurisdiction, consistent with results over the last several years. The regulatory lag experienced prevents the Company from realizing an earned ROE that is reasonable and expected based on the allowed ROE authorized by the Commission in previous cases. While allowed returns do not represent a guarantee of a return, investors in our Company certainly have an expectation that earned returns will be reasonable in relation to the allowed returns. Investors have an understanding of the limitations of the Missouri regulatory framework caused by the use of historical test years and the lag that is inherent due to capital investments placed in service between rate cases; however, our recent experience in earned returns has not been reflective of the expected relationship between earned and allowed returns.

> In fact, the gap between earned returns and authorized returns from 2007 through 2015 as portrayed below has resulted in an aggregate earnings shortfall to our shareholders over the period in excess of $315 million, which in no way is reflective of investors' expectations for performance.[6]

Mr. Ives then presents a graph comparing the Company's "Earned ROE" to its "Authorized ROE" for the years 2007 through 2015 and claims that several factors contribute to regulatory lag for KCPL in Missouri, including:

- The regulatory model in Missouri is built primarily on historical financial information, trued up for known and measurable changes.

- This model ignores cost increases that have occurred between the historical test year used and the date rates are effective.

- In certain cost of service categories, costs can vary significantly from year-to-year, and when such costs are a material cost of service component, they can have a dramatic impact to the Company as a result of regulatory lag, and

- Another factor significantly contributing to regulatory lag for KCPL is that the Company is experiencing little or no growth in its Missouri sales due to stable population numbers in its Missouri service territory, conservation measures and other factors. This lack of load growth exacerbates the cost of service and capital investment regulatory lag previously discussed.[7]

After making these claims, Mr. Ives acknowledges in testimony that the Company was "…granted the use of a FAC which should decrease its fuel and purchased power cost impact upon regulatory lag on a going forward basis."[8] However, none of the historical information offered by Mr. Ives to illustrate the alleged historical earnings problem has been restated to reflect any retrospective impact of the Company's newly implemented Fuel Adjustment Clause, had a Missouri FAC been effective in those prior years.[9]

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6 Direct Testimony of Darrin R. Ives, page 11.

7 Id. pages 12-13.

8 Id. page 15.

9 In Data Request MECG 2-6, KCPL was asked to show the impact upon its "Earned ROE" in each of the years within Mr. Ives' graph, if the FAC that was approved for use by KCPL in the Company's last rate case had been effective in all such historical periods, and KCPL replied, "the Company has not produced such an analysis."

Q DID KCPL SUPPORT ITS REQUEST FOR IMPLEMENTATION OF A FUEL ADJUSTMENT CLAUSE IN ITS PREVIOUS BASE RATE CASE NO ER-2014-0370 BY PRESENTING THE SAME ARGUMENTS REGARDING HISTORICALLY LOWER ACHIEVED ROE LEVELS THAN COMMISSION-AUTHORIZED LEVELS?

A Yes. At page 4 of his Direct Testimony filed in Case No. ER-2014-0370, Mr. Ives presented the same graph comparing "Earned ROE vs. Authorized ROE" for the periods 2007 through 2013. In that prior case Mr. Ives argued:

> Overall, fuel, purchased power and transmission costs have increased significantly in recent years. Absent an FAC, these costs are reflected in customer rates at a level experienced in a historic period, typically an updated test year. Any change in costs either up or down must be absorbed by the Company. In the case of fuel, purchased power and transmission costs, these largely uncontrollable costs have steadily increased resulting in recovery and earnings shortfalls. The amount the Company has been allowed to recover as set in rates has simply been inadequate. The FAC however, will allow for the recovery of these prudently incurred costs and any change in the costs either up or down will be properly and importantly—timely— returned to or recovered from customers.[10]

After KCP&L was granted its requested FAC in the prior rate case, any past problems with under-recoveries of fuel and purchased power costs should be largely remedied going forward. However, Mr. Ives has offered no restatement of his graph of Earned ROE in his direct testimony in the instant case to show how much of the claimed "earnings shortfall" in the years 2007 through 2015 would have been mitigated if the now extant FAC had been in place in those years.

Q HAS THE IMPLEMENTATION OF AN FAC FOR THE BENEFIT OF KCPL RESULTED IN INCREASED EARNINGS FOR THE COMPANY AND SIGNIFICANT IMPROVEMENT IN ITS RECENT FINANCIAL PERFORMANCE?

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[10] Darrin Ives Direct Testimony in ER-2014-0370 at page 22.

A Yes. The KCPL Fuel Adjustment Clause was implemented when new rates went into effect on September 29, 2015. In its highly confidential response to Data Request MECG 4-2, the Company confirmed that the Missouri FAC has provided for the deferral for future recovery of an additional **__________** of fuel and purchased power costs in its first eleven months of operation. This result represents a significant contribution to higher pretax earnings of the utility, at the expense of KCPL ratepayers. I have included a copy of this response within Schedule MLB-1.

Q HAVE THE COMPANY'S PUBLICLY REPORTED FINANCIAL RESULTS IMPROVED IN 2016, AFTER AN FAC WAS AUTHORIZED IN KCPL'S RECENTLY CONCLUDED MISSOURI RATE CASE?

A Yes. The SEC Form 10K filed by Great Plains Energy, Inc. for the third quarter of 2016 describes the financial performance of its "Electric Utility Segment" as follows:

> Electric utility's net income increased $82.0 million year to date September 30, 2016, compared to the same period in 2015 primarily due to:
>
> - a $176.9 million increase in gross margin driven by new retail rates, warmer weather, ***new cost recovery mechanisms***, an increase in MEEIA throughput disincentive and an increase in recovery of program costs for energy efficiency programs under MEEIA, partially offset by a decrease in other items including higher transmission expense; (emphasis added)
>
> - a $29.9 million increase in other operating expenses driven by an increase in Wolf Creek operating and maintenance expenses primarily due to increased refueling outage amortization, an increase in pension expense, an increase in program costs for energy efficiency programs under MEEIA and an increase in general taxes driven by higher property taxes and higher gross receipts taxes due to an increase in retail revenues, partially offset by a decrease in plant operating and maintenance expenses;
>
> - an $11.2 million increase in depreciation and amortization expense driven by capital additions;
>
> - a $5.3 million increase in interest charges primarily due to an increase in interest expense in 2016 related to KCP&L's issuance of $350 million of 3.65% Senior Notes in August 2015; partially offset by a decrease in interest expense due to KCP&L's purchase in lieu of redemption of its $50.0 million and $21.9 million EIRR Series 2005 bonds in September 2015; and

- a $48.2 million increase in income tax expense primarily due to an increase in pre-tax income.[11]

While the amounts in Great Plain's public financial statements are inclusive of KCPL's operations in both Missouri and Kansas as well as its Greater Missouri Operations ("GMO") that are included in this "segment", these results illustrate how the timing and amounts of increased retail rates, new utility cost recovery mechanisms and offsetting increases and decreases in various expenses all contribute to higher net overall earnings. The Company's financial performance has improved and it would be patently unfair to ratepayers to allow selective additional future rate tracking treatment for only those elements of its overall cost of service that KCPL management expects will increase.

Q HAS THE COMPANY PROVEN THAT IT WILL BE UNABLE TO EARN AT OR NEAR ITS AUTHORIZED ROE IN THE FUTURE, AFTER NEW RATES ARE SET IN THE PENDING MISSOURI RATE CASE, WITHOUT MORE EXPANSIVE RATE TRACKING OF HIGHER EXPECTED FUTURE EXPENSES?

A No. The Company has not presented any verifiable financial projections or other factual data to show that future achieved ROE levels will suffer meaningful earnings attrition after rates are set in this pending rate case.

Q HAS THE COMPANY'S IMPROVED FINANCIAL PERFORMANCE SINCE THE LAST MISSOURI RATE ORDER CONTRIBUTED TO THE ABILITY OF GREAT PLAINS ENERGY TO PAY DIVIDENDS TO SHAREHOLDERS?

11 Great Plains Energy Incorporated, Kansas City Power & Light Company, SEC Form 10-Q for the quarterly period ended September 30, 2016, page 55.

A Yes. In a recent News Release reporting "Strong Third Quarter Results" the parent company announced a 5 percent annualized dividend increase from $1.05 to $1.10 per share.[12]

Q HAS THIS IMPROVED FINANCIAL PERFORMANCE BEEN DEMONSTRATED IN OTHER WAYS?

A Yes. In late May 2016, Great Plains announced the acquisition of Westar Energy. In making this acquisition, Great Plains is paying a significant premium over the book value for Westar. Certainly, it is unlikely that Great Plains is able to make such a large and costly acquisition if Missouri regulation was such a financial burden, as KCPL now seeks to depict.

Q ARE KCPL SHAREHOLDERS COMPENSATED FOR ANY NEGATIVE IMPLICATIONS ASSOCIATED WITH MISSOURI REGULATION?

A Yes, to the extent that there is increased regulatory lag in Missouri, KCPL has been compensated. Specifically, while Kansas has statutorily authorized both a property tax and a transmission tracker, the Kansas Commission has also granted KCPL a somewhat lower return on equity. In 2014, KCPL was completing rate cases in both Missouri and Kansas. While Missouri authorized a return on equity of 9.5%, Kansas authorized a return on equity of only 9.3%. Based upon the reconciliation prepared in that case on July 17, 2015, this difference in return on equity was worth approximately $4.2 million to KCPL. Noticeably, while KCPL bemoans certain aspects of Missouri regulation, it fails to note the higher return on equity authorized in Missouri.

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12 Great Plains Energy New Release dated November 3, 2016. Available at: http://phx.corporate-ir.net/phoenix.zhtml?c=96211&p=irol-newsArticle_print&ID=2219603

Q HOW HAVE YOU ORGANIZED THE BALANCE OF YOUR TESTIMONY RESPONDING TO THE COMPANY'S PROPOSED EXPENSE TRACKING MECHANISMS?

A My testimony will first explain the traditional treatment of utility operating expenses within test year rate cases and the rationale for consistent and internally matched accounting for changes in utility expenses, revenues, rate base investment and cost of capital. Then I will describe the policy criteria that should be applied whenever exceptions to traditional ratemaking are proposed, including piecemeal expense tracking proposals of the type being recommended by KCPL witnesses. Then, after explaining the proper evaluative criteria for piecemeal cost-tracking mechanisms, I will apply this approach to each of the Company's proposed cost tracking mechanisms in separate sections of this testimony.

REGULATORY POLICY CONCERNS RAISED BY TRACKERS

Q PLEASE DESCRIBE HOW TRADITIONAL UTILITY RATE REGULATION WORKS.

A Traditional regulation of energy utilities involves the conduct of formal rate cases, in which the utility selects a test year and presents a calculation of its desired revenue requirement, including operating expenses, depreciation and taxes, plus a rate of return applied to a rate base measure of invested capital. The key characteristics of traditional rate case regulation include:

- A **test year**, in which all of the components of the revenue requirement are holistically analyzed and quantified in a balanced and internally consistent manner with appropriate "matching" of costs and revenues.

- Utilization of regulatory lag as an **efficiency incentive**, by financially rewarding the utility for achieved cost reductions and punishing the utility when costs increase more rapidly than revenues between test years.
- Application of **regulatory rules** to the analysis of revenue requirement components, including prescribed adjustments, minimum filing requirements, and adherence to past rate orders and policies.
- A detailed **formal filing** with testimony and exhibits supportive of the asserted revenue requirement.
- Updated quantification of input data, employing a **holistic measurement** of changing revenue requirements, which in Missouri includes a true-up of all individually significant elements of the revenue requirement to capture the most current available ongoing cost levels,
- An opportunity for **prudence review** of management actions or inaction that may have contributed to unreasonable recorded costs.
- **Procedural provisions** for discovery and critical analysis of test year data submitted by the utility, and for litigation of disputed issues.
- **Comprehensive Review** of utility filings, discovery and submission of testimony and exhibits by Commission Staff and consumer intervenors.
- **Regulatory costs** are dedicated to support these more formal procedures.

The fundamental concept behind traditional utility regulation is that, in the absence of competitive markets to determine pricing for an essential public service, just and reasonable utility rates should be determined based primarily upon careful measurement of the utility's prudently incurred costs to provide such monopoly services.

Q DOES TRADITIONAL, TEST-YEAR REGULATION CAUSE PUBLIC UTILITY MANAGEMENT TO BE COMPLETELY INDIFFERENT ABOUT ITS COST LEVELS?

A No. An important element of traditional test period regulation is the incentive created for management to control and reduce costs, so as to maximize the opportunity to actually earn at or above the authorized return level between rate case test periods. Traditional test year regulation is not continuous regulation, because prices established in a rate case are normally fixed for a period of years. Changes in actual costs or sales levels between rate cases can increase or decrease a utility's profit levels before such changes can be translated into revised prices after a "next" rate case. This passage of time between rate cases, commonly referred to as "regulatory lag," serves as an efficiency incentive and moderates the counter-incentive that results when prices are based upon costs to serve.

Another beneficial characteristic of traditional test year regulation is the intensive focus upon utility operations and costs within a formal proceeding in which Commission Staff and other interested parties can carefully examine or audit the components making up the revenue requirement. The potential for regulatory disallowance of excessive or otherwise unreasonable costs in such formal proceedings represents another form of efficiency incentive to management.

Q HOW DOES USE OF A TRACKING MECHANISM FOR SELECTED ELEMENTS OF THE UTILITY'S OVERALL COSTS REDUCE THE INCENTIVES TO MANAGEMENT FOR CONTROL OVER THE TRACKED TYPE OF COST?

A A tracking mechanism for a specific type of cost eliminates the regulated lag incentive that would normally serve to encourage efficiency and cost control between rate cases. If every dollar of a tracked type of cost is eligible for deferral and future rate recovery, management can afford to be less concerned about efficiency and the aggressive pursuit of cost containment for that type of cost and can be expected to focus attention on other areas of the business where earnings will be impacted by cost changes. In fact, if the pursuit of new efficiencies in connection with any tracked cost involves any significant risks or the incurrence of other costs that are <u>not</u> tracked, rational business behavior would discourage the pursuit of such efficiencies. Thus, trackers not only blunt the incentive to be efficient in regards to the tracked cost, it may also discourage overall efficiency with regards to untracked costs that are related to the tracked cost. An example is a situation where a utility operates under a fuel adjustment clause. The presence of that mechanism makes utility management largely apathetic to increases in tracked fuel and purchased power expenses. As a result, management is not encouraged to accelerate capital investments or overhaul costs that are justified by increased combustion efficiency that reduces tracked fuel usage and expense, because the recovery of such accelerated non-includable cost is <u>not</u> tracked between test-years while the related fuel expense savings go directly to ratepayers. In this way, the presence of the selective tracking mechanism (a fuel adjustment clause) for only certain includable costs, reduces the incentive for the utility to optimize overall costs through efficiency programs that involve incurrence of costs that are not tracked..

Q DOES THE USE OF FORECASTED COSTS RAISE MANY OF THE SAME CONCERNS?

A Yes. The use of forecasted costs raises similar concerns. Specifically, if the Commission includes a forecasted amount for any specific cost, then the utility's incentive to minimize those costs is reduced. In essence, the Commission would be giving the utility a blank check, up to the amount of the forecasted cost, within which range it is expected to operate. In this case, the utility has much less incentive to minimize actual spending and a strong incentive to maximize the forecasted amount being used to set rates. The utility will undoubtedly argue that it is still subject to some prudency disallowances, but the Commission has specifically noted in the past that prudency reviews are not as effective as regulatory lag in serving to minimize costs. For instance, the Commission noted in a prior Ameren case:

> Of course, any such expenditure would still be subject to a prudence review in the next rate case, but a prudence review is not a complete substitute for a good financial incentive.[13]
>
> However, an after-the-fact prudence review is not a substitute for an appropriate financial incentive, nor is an incentive provision intended to be a penalty against the company. Rather, a financial incentive recognizes that fuel and purchased power activities are very complex and there are actions AmerenUE can take that will affect the cost effectiveness of those activities.[14]

Q DOES THE USE OF FORECASTED COSTS RAISE ANY OTHER CONCERNS?

A Yes. The use of forecasted costs are extremely dependent on the utility's ability and willingness to accurately forecast costs, without injecting bias into the judgment that is required in preparing any forecast. In many situations, this ability is extremely limited. For instance, in its last rate case KCPL sought to utilize forecasts for many costs including CIPS / cyber-security costs. The request to use forecasted costs was again based upon KCPL's forecast that these cyber-security costs would increase in the future. Barely a year after the Commission issued its order rejecting KCPL's request to use forecasted costs, KCPL admits that the projected increase in these costs did not occur and that there has been a "recent moderation in the level of increases in CIP/cyber-security compliance costs."[15]

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13 *Report and Order*, Case No. ER-2008-0318, issued January 27, 2009, at page 40.

14 *Id.* at 72.

15 *Notice of Withdrawal of Proposal to Use Forecasted Expenses or a Tracker for CIP / Cyber-Security Compliance Costs*, filed September 9, 2016.

The problems arising from the use of forecasts to establish utility rates have been broadly recognized. From the utility's perspective, there is a strong incentive to pessimistically forecast future utility cost increases, so as to reduce the risk of unfavorable variances caused when actual costs exceed the levels of forecasted cost used in setting rates. From the ratepayers' perspective, utility management has a tremendous information advantage from which to develop rate case forecasts that employ pessimistic assumptions and inputs, so as to optimize rate levels and reduce the risk of lower future earnings if future actual costs exceed rate case forecasted levels.

Q ARE YOU AWARE OF ANY PUBLISHED STUDY THAT ADDRESSES THE PROBLEMS WITH BIAS AND INFORMATION ASYMMETRY THAT ARE ASSOCIATED WITH UTILITY FORECASTS THAT ARE USED TO SET RATES?

A Yes. On August 13, 2013, the National Regulatory Research Institute ("NRRI") published a report titled, Future Test Years: Challenges Posted for State Utility Commissions. NRRI is the research arm of the National Association of Regulatory Utility Commissioners ("NARUC").[16] The Executive Summary of this report defines future test year ("FTY") and historical test year ("HTY") approaches and states:

> The reader might ask why a commission should rely on anything other than an FTY, since good ratemaking requires that new rates reflect the utility's costs and sales, at least over the first several months that they are in effect. Ratemaking, after all, is prospective, and an FTY matches the test year with the effective period of new rates. Although in theory this argument seems indisputable, it ignores the reality that forecasts are susceptible to error and some costs and sales elements are inherently difficult to predict. Another factor, as this paper stresses, is that utilities would have incentives to present biased forecasts that are not always easy for commission staff and interveners to uncover. A commission would be presumptuous to assume that forecasted costs and sales are more accurate than modified HTY data accounting for "known and measurable" changes. In fact, many commissions have taken this

[16] Available at: http://nrri.org/download/nrri-13-08-future-test-years/

> view, which seems sensible and in line with their mandate to set "just and reasonable" rates.
>
> In sum, an environment of rising average cost does not constitute a sufficient condition for the use of an FTY. Supporters of an FTY give this false impression, which ignores the reality of utility forecasts being susceptible to bias and inherent error. Information asymmetry, which is an acute problem in public utility regulation, makes it difficult for commissions to evaluate a utility's forecasts in terms of their accuracy and objectivity.[17]

This report also discusses three major areas of concern when using future test year forecasts:

- **Why would a utility be more inclined to overstate costs than to understate costs?** The utility expects the commission to lower its cost forecasts, so it would tend to initially file inflated costs. There is little payback for a utility that hedges on the low side. The likelihood of the utility's actual costs being higher would increase, thus jeopardizing its rate of return and penalizing shareholders.

- **How serious is this problem?** It depends on the ability of a utility to get away with reporting inflated costs. For example, the utility might ask for recovery of costs in a rate case no matter how frivolous or unlikely they are. It has little to lose if the commission catches it (except for the credibility of future forecasts); if the commission approves the cost, the utility recovers "phantom" or imprudent costs. The result is that the utility's customers are paying excessively for utility service.

- **How can a commission detect overstating of costs?** It can observe any systematic bias in past forecasts. For example, it may detect constant overforecasting of a certain cost item for a number of years. The only way for a commission to uncover inflated costs, although admittedly imperfect, is to do a thorough review of the assumptions, methodologies and other factors underlying the forecasts. This activity requires a commission staff with adequate resources and skills. It also subtracts time from other crucial rate-case matters that could lead to ill-informed decisions.[18]

The bias inherent in creation of test year rate case forecasts is undeniable and argues against reliance upon forecasts within rate case proceedings.

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17 Future Test Years: Challenges Posted for State Utility Commissions; August 13, 2013, National Regulatory Research Institute ("NRRI"), Executive Summary at iv.

18 Id., page 24, footnotes omitted.

Q DOES THE INSTALLATION OF NEW COST TRACKING MECHANISMS ADD TO THE COMMISSION'S REGULATORY RESPONSIBILITIES AND RESOURCE COMMITMENTS?

A Yes. Each new cost tracking mechanism imposes additional regulatory burdens upon the Commission, its Staff, and concerned intervenors, through the creation of incremental monthly cost deferral accounting entries with carrying charges that should be rigorously analyzed for accuracy and prudence before being converted into incremental future rate increases. However, the incremental regulatory resources required for this needed critical analysis is often limited.

Q HOW DOES KCPL ATTEMPT TO JUSTIFY ITS REQUEST TO DEVIATE FROM TEST YEAR REGULATION?

A The Company is requesting new expense tracking mechanisms for only its SPP transmission and property tax expenses simply on the basis that these expenses are expected to increase above test year levels in the future. As discussed above, Company witnesses Ives and Rush contend that the Company's historical inability to fully achieve Commission-authorized rates of return on equity ("ROE") is caused by "regulatory lag" which they attribute to the delay in their ability to explicitly recognize cost increases in the ratemaking process. The Company's new proposed tracking mechanisms are intended to secure incremental revenue increases, beyond the amounts available through normal rate case processes, so as to improve the Company's future earnings.

Q ARE PREDICTIONS OF HIGHER FUTURE EXPENSE LEVELS A REASONABLE BASIS FOR CREATING NEW REGULATORY TRACKING MECHANISMS BETWEEN RATE CASE TEST YEARS?

A No. In fact, this is precisely the wrong reason for implementing expense tracking mechanisms. A tracking mechanism is an extraordinary regulatory treatment that can be appropriate only where large and volatile future changes in costs may threaten the financial stability of the utility without such a tracking mechanism. In contrast, steadily increasing costs can be readily addressed in traditional rate cases and do not require any extraordinary treatment via a tracking mechanism or forecasted costs. Tracking of normal inflationary pressures upon routinely incurred cost levels introduces an upward bias toward higher future revenue requirements, particularly when piecemeal cost tracking mechanisms are installed for only selected increasing costs, while ignoring favorable cost trends or increasing operational efficiency. While such a bias is beneficial to utility shareholders, it is not likely to produce just and reasonable rates for utility customers.

Q HAS KCPL PROPOSED ANY MEANINGFUL CRITERIA FOR CONSIDERATION BY THE COMMISSION IN DETERMINING WHEN A COST TRACKING MECHANISM SHOULD BE APPROVED?

A No meaningful objective criteria are specified or systematically applied within the Company's testimony regarding expense tracking for changes in transmission expenses or property taxes. Instead, Mr. Ives argues, "[b]y utilizing such forward-looking treatment judiciously, the Commission can have a positive impact on KCP&L's ability to continue to enjoy access to low-cost capital to fund future investments that will be used to serve customers."[19] However, without robust criteria to carefully evaluate such extraordinary rate treatment proposals, there is no limit to the scope of cost

[19] In its response to Data Request MECG 2-7, KCPL explained that "Judiciously" as used in this passage of testimony means "selectively" or "on a targeted basis" rather than "universally" or "in all circumstances". This request asked for copies of all reports, analyses, publications, studies, projections and other data relied upon to support its "judicious" approach and no materials were relied upon or provided by the Company.

categories that could be selected for new tracking mechanisms in instances where future utility costs are expected to be higher. If new tracking mechanisms are made generally available in Missouri without carefully prescribed regulatory criteria, the Commission can expect to be inundated with such requests in future rate case proceedings where utility management's fiduciary duty to maximize utility earnings would dictate aggressively pursuing these attractive opportunities for additional revenues and earnings.

Q IS THERE ANOTHER REASON WHY COSTS THAT ARE EXPECTED TO INCREASE IN THE FUTURE SHOULD <u>NOT</u> BE SUBJECTED TO REGULATORY TRACKING AND FUTURE RECOVERY?

A Yes. The many diverse elements of electric utility revenue requirements are constantly changing between test years. Some utility costs increase while others decline. New investments are made to replace aging or obsolete utility plant assets, which can favorably impact maintenance costs or can inject new technologies and efficiencies into utility operations. Between test years, customers can be added or can modify their load and revenue levels significantly, particularly in times of economic growth. In recent years, historically low interest rates have allowed electric utilities to refinance long term debt at attractive cost rates to reduce the overall revenue requirement. Any attempt to isolate and track selected costs that are expected to increase, while ignoring the other continuous changes in the utility's revenue requirement elsewhere that may offset such cost increases, opens the regulatory system up to gaming and excessive rates. The isolation of only cost increases for regulatory tracking and future recovery creates a problem of "piecemeal ratemaking" that destroys the essential balance and "matching" of costs and revenues that is performed by measuring all of the elements of the test year revenue requirement in a balanced manner in formal rate cases.

Q CAN YOU CITE ANY SPECIFIC EXAMPLES OF SIGNIFICANT COST REDUCTIONS THAT KCPL HAS EXPERIENCED HISTORICALLY AND EXPECTS TO EXPERIENCE IN THE FUTURE THAT HELP TO OFFSET INFLATIONARY PRESSURES UPON KCPL'S OTHER COSTS?

A Yes. The Company has been able to refinance long term debt, achieving substantial savings in interest expense, and expects to realize additional future cost savings when certain currently outstanding debt is scheduled to mature and be refinanced. I have included in Schedule MLB-2 a copy of KCPL responses to MECG Data Request 3-5 that provides information regarding past and future cost savings from refinancing activities. Since late 2011, long term debt refinancing activities and reductions in the interest rates on tax-exempt bonds have produced interest savings for KCPL totaling more than $10.5 million annually. According to this response, the Company has taxable long-term debt maturing in 2017, 2018 and 2019 that it expects to refinance at a lower cost when it matures. Depending upon the tenor of new debt issued in connection with these refinancing activities, estimated future annual interest expense savings could range from $27.2 million to $36.9 million on a total company basis.

Other costs savings programs have been implemented by KCPL that have produced ongoing and significant realized savings in the past several years. Mr. Heidtbrink states in testimony that, "[t]he Company has worked very hard to manage the costs that can be controlled, which ultimately reduce the rate increase request. A host of cost control measures have been undertaken over the past several years, including but not limited to, the supply chain transformation project, benchmarking initiatives in the generation, delivery and supply chain areas, and disciplined management of employee headcount." According to this testimony, KCPL has achieved efficiencies historically that have limited the increase in total Great Plains

Energy non-fuel operating and maintenance expense to 0.69% annually from 2011-2015, a rate significantly below general inflation levels.[20] Company management should be expected to continue to aggressively manage future expense levels and not be excused from such responsibility through the adoption of regulatory policies that burden ratepayers with forward-looking estimated expenses on a piecemeal basis, as if continuing efficiency gains are not expected to mitigate future cost increases.

Finally, KCPL's parent company has agreed to acquire Westar Energy and has estimated that this transaction will provide significant opportunities for increased efficiency, cost savings and investment optimization across the combined company, yielding estimated net efficiencies of about $65 million in year 1 and improving to $200 million in year 3 and beyond.[21] The KCPL Missouri portion of such estimated savings would be available to mitigate any increases in transmission or property tax expenses, if the Westar Energy transaction is consummated and business operations of the merged entities are integrated as planned. Noticeably, while KCPL seeks a tracker for selected increasing cost items, it has not proposed a tracker for the multitude of costs that it alleges will decrease as a result of the Westar acquisition. In this way, KCPL hopes to capture the entirety of merger-enabled savings for the benefit of shareholders until such savings can be reflected in a future rate case.

Q ARE THERE ANY SITUATIONS WHERE MISSOURI'S TRADITIONAL TEST YEAR RATEMAKING APPROACH SHOULD BE MODIFIED?

A Yes. There can be extraordinary circumstances where traditional test year ratemaking should be supplemented with cost tracking mechanisms. One instance can be for net energy costs, including fuel and purchased power costs less off-system sales, where

[20] Direct Testimony of Scott Heidtbrink at 11.

[21] See Great Plains Energy Investor Presentation dated June 7, 2016, slide deck page 7, available at: http://phx.corporate-ir.net/phoenix.zhtml?c=96211&p=irol-presentations

the legislature has permitted the use of a Fuel Adjustment Clause ("FAC") mechanism to track and recover or return changes in net energy costs that occur between test years. The Commission has reviewed requests for FAC implementation and, after applying certain evaluative criteria, has approved Fuel Adjustment Clauses for KCPL and for other Missouri electric utilities.

Additionally, there can be large and volatile costs, other than net energy costs, incurred by utilities where traditional test year ratemaking may be incapable of producing reasonable results that properly balance the interests of the utility and its ratepayers. For example, the Commission has granted expense tracking treatment for vegetation management costs incurred by electric utilities after it passed new vegetation management rules and for gas utilities costs incurred to comply with new gas safety rules.[22]

Q WHAT IS THE PRIMARY CRITERIA USED IN MISSOURI FOR THE CONSIDERATION OF TRACKING MECHANISMS?

A In the last KCPL rate case the Commission applied an "extraordinary" standard for its consideration of extraordinary mechanisms like Accounting Authority Orders or trackers. For instance, in discussing the implementation of a tracker for transmission costs, the Commission stated:

[22] Regarding electric utilities, following extensive storm related service outages in 2006, the Commission promulgated new rules designed to compel Missouri's electric utilities to do a better job of maintaining their electric distribution systems. Those rules, entitled Electrical Corporation Infrastructure Standards 4 CSR 240-23.020 and Electrical Corporation Vegetation Management Standards and Reporting Requirements 4 CSR 240-23.030 became effective on June 30, 2008. In ER-2008-0318, the Commission allowed Ameren UE to recover $54.1 million in its base rates for vegetation management costs, and $10.7 million for infrastructure inspection costs. However, since the rules were new, the Commission found that Ameren UE had too little experience to reasonably know how much it would need to spend to comply with the vegetation management and infrastructure inspection rules. Because of that uncertainty, the Commission established a two-way tracking mechanism to allow Ameren UE to track its vegetation management and infrastructure costs. Since that time, as utilities have become more familiar with the vegetation management rules and costs have moderated, the Commission has discontinued the vegetation management tracker for all Missouri utilities.

> The evidence presented in this case showed that KCPL's transmission costs, while having increased in recent years, are normal, ordinary and recurring operation costs. These recurring costs are not abnormal or significantly different from the ordinary and typical activities of the company, so they are not extraordinary and, therefore, not subject to deferral under the USoA. The Commission concludes that KCPL has not met its burden of proof to demonstrate that projected transmission cost increases are extraordinary, so its request for a transmission tracker will be denied.[23]

It is my understanding that the Commission's decision to apply an extraordinary standard for consideration of a tracking mechanism has been upheld by the Western District Court of Appeals.

Q IN ADDITION TO THE EXTRAORDINARY STANDARD, WHAT ARE THE BASIC CRITERIA THAT OTHER REGULATORY COMMISSIONS HAVE EMPLOYED TO EVALUATE THE NEED FOR TRACKING MECHANISM TREATMENT OF CERTAIN UTILITY COSTS?

A Cost tracking mechanisms should be approved <u>only</u> in instances where compelling circumstances justify departure from traditional test period review of all test year costs and revenues within rate case proceedings in which the overall revenue requirement can be audited and considered in a balanced and synchronized manner. Costs or revenue changes to be deferred or tracked through a rider should generally have <u>all</u> of the following attributes to merit such exceptional and preferential rate recovery treatment:

1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases.
2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels.

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[23] *Report and Order*, Case No. ER-2014-0370, issued September 15, 2015, at page 54. Similarly, the Commission applied an extraordinary standard to its consideration and rejection of a tracker mechanism for property taxes (page 56) and cyber-security costs (page 58).

3. Volatile in amount, causing potentially significant swings in income and cash flows if not tracked.

4. Straightforward and simple to administer, readily audited and verified through expedited regulatory reviews.

5. Balanced, such that any known factors that mitigate cost impacts are accounted for in a manner that preserves test year matching principles.

Relative to the volatility factor, it is important to recognize that volatility does not simply refer to an increasing cost. Rather, as the Commission has recognized, volatility involves costs that are increasing and decreasing in an unpredictable manner.

> Thus AmerenUE's fuel costs, while certainly rising, cannot be said to be volatile. ***Markets in which prices are volatile tend to go up and down in an unpredictable manner***. When a utility's fuel and purchased power costs are swinging in that way, the time consuming ratemaking process cannot possibly keep up with the swings. As a result, in those circumstances, a fuel adjustment clause may be needed to protect both the utility and its ratepayers from inappropriately low or high rates. ***Because AmerenUE's costs are simply rising, that sort of protection is not needed***.[24]

In the testimony that follows, I will discuss the facts associated with KCPL's proposed new regulatory mechanisms for RTO transmission expenses and property taxes and subject the proposals to these criteria, to support my recommendation that the proposals should not be approved by the Commission.

TRANSMISSION EXPENSE PROPOSAL

Q PLEASE DESCRIBE THE COMPANY'S SPECIFIC PROPOSALS WITH RESPECT TO RATEMAKING FOR TRANSMISSION EXPENSES.

A KCPL witness Mr. Rush explains the Company's proposal, stating:

[24] Case No. ER-2007-0002, *Report and Order*, issued May 22, 2007, at page 23 (emphasis added).

> The Company requests that all transmission costs associated with the charges and revenues from Southwest Power Pool ("SPP") billings, and transmission costs to buy and sell energy, be recovered in rates through the FAC mechanism. This will provide for a direct link between transmission associated with the sale and purchase of energy and ensure appropriate recovery of transmission costs billed to KCP&L. Transmission costs incurred for the operation of KCP&L transmission systems will not be included in the FAC, but will be recovered through base rates. The adjustment in this case reflects inclusion of the projected transmission costs for the average of 2017 and 2018. To the extent the Commission rejects inclusion of any portion of SPP transmission costs in the FAC, then in the alternative, the Company requests inclusion of the projected transmission costs and revenues for the average of 2017 and 2018, be included in base rates. If the actual costs are less than forecasted expense levels included in rates, then the difference will be credited to customers in the next rate case. If the actuals are greater than the amount in rates, then the Company would absorb the excess costs.[25]

Mr. Rush also acknowledges that, in the Company's last rate case, KCPL requested a comparable form of inclusion of the net transmission costs and revenues in its proposed FAC, as well as the same asymmetrical tracker approach in that Case No. ER-2014-0370, and he admits that "both positions were rejected in that case and the inclusion of transmission expenses and revenues is currently on appeal." He also recites a series of requests prior to the last rate case where piecemeal tracker and Accounting Authority Order ("AAO") treatment of transmission costs has been requested by KCPL and rejected by the Commission.[26]

Q IN REJECTING KCPL'S MOST RECENT REQUEST FOR RATE TRACKING TREATMENT OF TRANSMISSION EXPENSES IN CASE NO. ER-2014-0370, DID THE COMMISSION EXPRESS THE SAME CONCERNS YOU HAVE DESCRIBED IN THIS TESTIMONY WITH REGARD TO REGULATORY POLICIES ASSOCIATED WITH TRACKERS?

A Yes. In its Report and Order the Commission agreed with Staff's witness and stated, "The broad use of trackers should be limited because they violate the matching

25 Direct Testimony of Tim Rush, pages 8-9.
26 Id, pages 9-10.

principle, tend to unreasonably skew ratemaking results, and dull the incentives a utility has to operate efficiently and productively under the rate regulation approach employed in Missouri."[27] The Report and Order provided a definition of "extraordinary items" that may be eligible for deferral and later recovery under the Uniform System of Accounts prescribed by the FERC and recited the Company's previous requests for a "transmission tracker" that were denied. In conclusion on this matter, the Commission Stated:

> The evidence presented in this case showed that KCPL's transmission costs, while having increased in recent years, are normal, ordinary and recurring operation costs. These recurring costs are not abnormal or significantly different from the ordinary and typical activities of the company, so they are not extraordinary and, therefore, not subject to deferral under the USoA. The Commission concludes that KCPL has not met its burden of proof to demonstrate that projected transmission cost increases are extraordinary, so its request for a transmission tracker will be denied.

The Commission also denied the Company's request to add an additional amount of $5 million as an estimate of increased transmission costs, subject to refund in a future rate case, noting the Company's failure to adequately explain how the estimate was determined or how the Commission has the legal authority to grant such relief.[28]

Q HOW MANY TIMES HAS THE COMMISSION REJECTED KCPL'S REQUEST FOR A TRANSMISSION TRACKER?

A The Commission has rejected KCPL's requested transmission tracker on at least three separate occasions within the last four years. For instance, in Case No. ER-2012-0174, the Commission stated: "Applicants have not proved that the transmission cost increases meet that standard. The projected transmission cost increases are not

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[27] File No. ER-2014-0370, Report and Order issued September 2, 2015, page 51 at 116.
[28] Id, page 54.

"extraordinary" within the legal definition because they are not rare or current."[29] Still again, in Case No. EU-2014-0077, the Commission again rejected KCPL's requested transmission tracker on the basis that it failed to meet the "extraordinary" standard. "Consistent with the language in General Instruction No. 7, the Commission has evaluated the transmission costs for which Companies seek an AAO to determine if they are an unusual and infrequent occurrence. The Commission concludes they are not."[30] Then, as mentioned, the Commission rejected KCPL's proposed transmission tracker in its last rate case (Case No. ER-2014-0370). Therefore, this represents the fourth time in less than four years that KCPL has requested a tracker for its transmission costs.

Q DO YOU AGREE WITH THE COMMISSION'S CONCLUSION IN PREVIOUS RATEMAKING DECISIONS THAT KCPL'S TRANSMISSION EXPENSES ARE NORMAL, ORDINARY AND RECURRING OPERATIONAL COSTS FOR WHICH TRACKER TREATMENT IS NOT APPROPRIATE?

A Yes. These costs are incurred every day in order to operate the Company's grid and represent the continuing recovery of mostly fixed costs associated with KCPL's share of the O&M expense, return on investment and depreciation of transmission facilities across the Southwest Power Pool ("SPP") region. The historically increasing trend in such expenses that the Company has experienced does not justify extraordinary regulatory treatment of such costs.

Q ARE THE COMPANY'S SPP TRANSMISSION EXPENSES AN INDIVIDUALLY LARGE COMPONENT OF TOTAL ANNUAL EXPENSES OR ANNUAL REVENUES?

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29 *Report and Order*, Case No. ER-2012-0174, issued January 9, 2013, at page 31.
30 *Report and Order*, Case No. EU-2014-0077, issued July 30, 2014, at page 10.

A No. Mr. Klote sponsors the Company's adjustment proposing to reach forward and include an average of 2017 and 2018 projected costs, which results in an annualized amount of $69.2 million being requested by KCPL.[31] In relation to Total Operating Expenses, as reported by KCPL in SEC Form 10K for 2015 of $1.35 billion, transmission expenses represented about 5.1 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in SEC Form 10K for 2015 of $1.72 billion, these SPP transmission expenses represented about 4.0 percent of overall electric revenues.[32] These relationships illustrate the fairly modest contribution of SPP transmission expenses to the Company's overall costs and revenues. When we focus upon only the year-over-year <u>change</u> in SPP transmission expenses, for which KCPL proposes extraordinary ratemaking treatment, the amounts involved do not merit tracker treatment.[33]

Q AT THESE LEVELS, ARE CHANGES IN SPP TRANSMISSION CHARGES SUBSTANTIAL ENOUGH TO HAVE A MATERIAL IMPACT UPON REVENUE REQUIREMENTS AND THE FINANCIAL PERFORMANCE OF THE BUSINESS BETWEEN RATE CASES?

A No. Given the modest overall amount of expense involved, as a percentage of overall costs and revenues, changes in SPP transmission expenses in isolation would not be reasonably expected to adversely impact the Company's future financial stability or

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31 Direct Testimony of Ronald Klote, page 41. Mr. Klote also proposes rate recovery of SPP Schedule 1-A. administrative fees of another $12.6 million at page 51 of his testimony.

32 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2015, page 55. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

33 It is important to recognize that, while the Commission rejected KCPL's proposed transmission tracker, the Commission did authorize the implementation of a fuel adjustment clause which includes that amount of transmission costs that are related to power purchased from third parties. Therefore, some amount of KCPL's transmission costs is already tracked. Therefore, the referenced numbers are inflated in that they do not reflect that portion of transmission costs that are already tracked through the fuel adjustment clause.

access to capital on reasonable terms. Transmission charges can be reasonably addressed in traditional rate cases, where these expenses have been handled in previous Missouri rate case proceedings.

Q HAVE THE HISTORICAL LEVELS OF SPP TRANSMISSION CHARGES TO KCPL PROVEN TO BE VOLATILE FROM YEAR TO YEAR?

A No. KCPL witness Mr. Carlson sponsors “Schedule JRC-4” with his Direct Testimony summarizing in a graph historical and projected SPP Base Plan Funding Costs, which is a large components of overall SPP transmission charges. Schedule JRC-4 shows steady increases in these charges from 2010 to 2016, and then relative stability at around $50 million per years in all subsequent projected years 2017 through 2024.

Q DOES KCPL EXPECT THAT ITS OVERALL SPP TRANSMISSION EXPENSES, INCLUDING THE OTHER SPP FEES AND ASSESSMENTS INCLUDED IN ITS RATEMAKING ADJUSTMENTS, WILL BE VOLATILE AFTER 2016?

A No. In its Highly Confidential response to Data Request MECG 2-10, the Company provided its Transmission Expense Budget for the years 2016 through 2020. The following table summarizes these expense estimates based upon this response:

****HC Table 1: KCPL Projected Transmission Expenses by Year**[34]

**

In this response, the Company stated, **_______________________________________

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____

____** is expected by the Company with regard to SPP transmission charges and fees in the future. The same response reveals minimal expected change in annual transmission revenues in each of the future years 2016 through 2020. A copy of KCPL's highly confidential response to Data Request MECG 2-10 is included in Schedule MLB-3.

Q ARE THE TRANSMISSION EXPENSES THE COMPANY PAYS TO SPP ENTIRELY BEYOND THE CONTROL OF KCPL MANAGEMENT?

[34] Derived from KCPL response to Data Request MECG 2-10.

A No. The Company participates in the governance of SPP, in an effort to exercise control over decisions made that impact net charges to KCPL by SPP. In its response to Data Request MECG 2-10, KCPL listed many different employees who monitor and participate in the committees, working groups and task forces making up the SPP governance structure.[35]

Q WOULD A TRACKING MECHANISM FOR THE COMPANY'S SPP TRANSMISSION EXPENSES BE STRAIGHTFORWARD AND SIMPLE TO ADMINISTER, READILY AUDITED AND VERIFIED THROUGH EXPEDITED REGULATORY REVIEWS?

A No. Any SPP transmission expense tracking mechanism would be challenging to effectively audit and verify, because of the number and complexity of the underlying transactions. The incremental costs to the utility and the Commission Staff, as well as the effort and cost involved if any disputes arise, argue against adopting such an SPP transmission expense tracking mechanism. The difficulty in auditing the costs that are flowed through a tracking mechanism can be observed in a recent situation involving GMO's fuel adjustment clause. Historically, the Commission has disallowed all transmission costs associated with the Crossroads unit in Mississippi. Nevertheless, GMO recorded these transmission costs as recoverable through its fuel adjustment clause. Initially, these otherwise disallowed costs were not recognized and were allowed to be recovered in the fuel adjustment clause. Only later, were these disallowed costs noticed and a correction made.[36] These facts illustrate the difficulty in auditing and ensuring that only proper costs are included in any inherently complex tracking mechanism.

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35 See KCPL response to Data Request MECG 2-10, parts (d) and (e) contained in Schedule MLB-3.

36 *Staff Cost of Service Report*, Case No. ER-2016-0156, filed July 15, 2016, at pages 60, 187-189.

Q WOULD A TRACKING MECHANISM FOR CHANGES IN TRANSMISSION EXPENSES BETWEEN TEST YEARS BE APPROPRIATELY BALANCED, SUCH THAT ANY KNOWN FACTORS THAT MITIGATE COST IMPACTS ARE ACCOUNTED FOR IN A MANNER THAT PRESERVES TEST YEAR MATCHING PRINCIPLES?

A Yes. Transmission net revenues and expenses represent discrete amounts that are not interactive with other elements of the utility's base rate revenue requirement. Added transmission investments and costs may improve the efficiency of the transmission grid, helping KCPL reduce its net energy costs that are being tracked through the FAC.

Q CONSIDERING EACH OF THE CRITERIA YOU HAVE RECOMMENDED FOR EXTRAORDINARY REGULATORY TREATMENT OF SPECIFIC TYPES OF COSTS, SHOULD KCPL'S SPP TRANSMISSION EXPENSES BE GRANTED THE TRACKING MECHANISM TREATMENT THAT IS PROPOSED BY THE COMPANY?

A No. As described above, SPP transmission expenses incurred by KCPL are not extraordinary and are not sufficiently large and volatile that they merit extraordinary expense tracking treatment. Additionally, KCPL management exercises some limited control over SPP transmission expenses and the incentive for ongoing cost control efforts and costs would be blunted if expense tracker treatment was implemented.

Q SHOULD THE FORECASTED LEVELS OF SPP TRANSMISSION COSTS EXPECTED BY KCPL IN THE YEARS 2017 AND 2018 BE INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT?

A No. These forecasted amounts are not known and measurable and cannot be verified at this time. Instead, actual fact-based calculations should be used to determine test year transmission expenses. Notably, the ability for the Company to include a trued-up level of such expenses under the traditional regulatory approach used in Missouri serves to minimize any regulatory lag associated with transmission expenses.

Q ARE THERE OTHER CONSIDERATIONS THAT YOU BELIEVE UNDERMINE THE COMPANY'S REQUEST FOR A TRANSMISSION TRACKER?

A Yes. As an initial matter, I would point out that the KCPL is allowed to recover some of its transmission costs through its fuel adjustment clause. Section 386.266 allows for the implementation of a fuel adjustment clause for the recovery of changes in the utility's "fuel and purchased-power costs, including transportation." In recent cases, the Commission has been asked to extend the scope of "transportation" costs to include these transmission costs. There, the Commission held that the inclusion of transportation costs was limited to only those transmission costs associated with purchased power from third-parties and does not extend to the transmission of energy from the utility's own generating resources.[37] Thus, in interpreting the scope of Section 386.266, the Commission has already allowed some percent of utility transmission costs in the fuel adjustment clause.

It would seem somewhat illogical that the General Assembly would authorize the inclusion of some percentage of transmission costs within a fuel adjustment clause if it believed that the Commission already had authority to allow for the tracking of 100% of such costs. Any interpretation that the FAC only allows for tracking of a certain percentage of such costs, while then separately creating a tracker for the tracking of 100% of such costs, seems to create an illogical result.

[37] See, *Report and Order*, Case No. ER-2014-0370, issued September 2, 2015, at page 33. See also, *Report and Order*, Case No. ER-2014-0258, issued April 29, 2015, at pages 114-16; *Report and Order*, Case No. ER-2014-0351, issued June 24, 2015, at pages 27-29.

Finally, I would note that KCPL is the only Missouri utility that has requested a transmission tracker. Neither Ameren nor Empire has requested the creation of a transmission tracker. Moreover, it is my understanding that neither of these utilities has expressed any difficulty in earning near the authorized return on equity as a result of the lack of a transmission expense tracker. Therefore, the situation raised by KCPL appears to be truly unique to this utility.

PROPERTY TAX PROPOSAL

Q PLEASE DESCRIBE THE COMPANY'S PROPOSED PROPERTY TAX RATEMAKING MECHANISM.

A According to KCPL witness Rush, "The Company proposes to establish the level of property taxes in this case based on the average of projected 2017 and 2018 costs. The Company would then track its actual property tax expenses on an annual basis against this amount, with the Missouri jurisdictional portion of any excess recovery treated as a regulatory liability (Account 254). When the Company files its next rate case, any amount recorded in account 254 is an over-collection of the Missouri portion of property taxes, and the Company will make an adjustment to return that amount back to customers."[38] In support of this approach, KCPL witness Mr. Klote refers to the Company's historically increasing trend in property tax expenses, stating, "KCP&L Property Tax expense has continued to increase dramatically over the last five years; in 2011 KCP&L's Property Tax O&M expense was $72.2 million and in 2015 KCP&L's Property Tax O&M expense was $90.7 million. In each of the prior years the Company's Property Tax O&M expense has increased by several million dollars over the prior year amount." Mr. Klote then states, "we expect Property Tax O&M expense to

[38] Direct Testimony of Tim Rush, page 13.

continue to increase in the next few years…[t]herefore, it is appropriate to use the average of 2017 and 2018 budgeted Property Tax O&M expense."[39]

Q DID THE COMPANY PROPOSE A SIMILAR MECHANISM FOR PROPERTY TAXES IN ITS LAST RATE CASE?

A Yes. A tracker mechanism for property taxes was proposed by KCPL in Case No. ER-2014-0370 and in surrebuttal requested for the first time that for property taxes not afforded tracker treatment, $5.6 million of annual estimated Missouri jurisdictional property tax expense should be added to the revenue requirement above the base amount and, if this forecast amount recognized in revenue requirement exceeds actual property tax expenses during the period rates are in effect, such amounts should be credited to customers in a subsequent rate case.

Q DID THE COMMISSION APPROVE EITHER THE TRACKER MECHANISM OR THE INCLUSION OF ADDITIONAL FORECASTED PROPERTY TAXES IN ITS ORDER?

A No. In its Report and Order in Case No. ER-2014-0370, the Commission stated:

> KCPL has requested that the Commission approval the same type of deferral mechanism for property tax expenses that it requested for transmission fee expenses. For that reason, the Commission incorporates herein the analysis contained in the conclusions of law and decision section from the transmission fee expense issue discussed above. The Commission concludes that KCPL has not met its burden of proof to demonstrate that projected property tax increases are extraordinary, so its request for a property tax tracker will be denied.
>
> KCPL's correct level of property tax expense to recognize in its revenue requirement on a total company basis is $91,616,599. KCPL has also requested that the Commission add to this amount an additional amount of $5.6 million, which it claims is an estimate of its increased property tax costs, subject to refund in a future rate case. Since this request was first submitted in surrebuttal testimony, it violates Commission Rule 4 CSR 240-2.130(7)(A), which requires that "[d]irect testimony shall include all testimony and exhibits asserting and explaining that party's entire case-in-chief". By submitting the

39 Direct Testimony of Ronald Klote, page 68.

> request for the first time in surrebuttal, KCPL has prevented other parties from having a sufficient opportunity to conduct discovery or provide testimony on that matter. The Commission also finds that KCPL failed to adequately explain how it arrived at its estimate and how the Commission has the legal authority to grant such relief. For all these reasons, the Commission concludes that the KCPL's request for an additional $5.6 million added to the approved base amount of revenue requirement should be denied.[40]

With essentially the same facts in the present case, I believe the Commission should again reach the same conclusion. There is simply no justification for piecemeal, single-issue ratemaking for KCPL's property tax expenses, as explained below.

Q ARE THE COMPANY'S PROPERTY TAX EXPENSES AN INDIVIDUALLY LARGE COMPONENT OF TOTAL ANNUAL EXPENSES OR ANNUAL REVENUES?

A No. As noted by Mr. Klote, for the year 2015, a total of $90.7 million of property tax expense was recorded by KCPL.[41] In relation to Total Operating Expenses, as reported by KCPL in SEC Form 10K for 2015 of $1.35 billion, property taxes represented about 6.7 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in SEC Form 10K for 2015 of $1.72 billion, property taxes represented about 5.3 percent of overall electric revenues.[42] These relationships illustrate the modest contribution of property taxes to the Company's overall costs and revenues. When we focus upon only the year-over-year <u>change</u> in property tax expenses, for which KCPL proposes extraordinary ratemaking treatment, the amounts involved do not merit tracker treatment.

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[40] File No. ER-2014-0370, Report and Order issued September 2, 2015, page 56.

[41] KCPL response to Staff Data Request 104R, Part 4 Attachment.

[42] Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2015, page 55. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

Q ARE ANNUAL CHANGES IN PROPERTY TAXES SUBSTANTIAL ENOUGH TO HAVE A MATERIAL IMPACT UPON REVENUE REQUIREMENTS AND THE FINANCIAL PERFORMANCE OF KCPL BETWEEN RATE CASES?

A No. Given the level of expense involved, as a percentage of overall costs and revenues, changes in property taxes in isolation would not be reasonably expected to adversely impact the Company's future financial stability or access to capital on reasonable terms. Property taxes can be reasonably addressed in traditional rate cases, where these taxes have been handled in previous Missouri rate cases.

Q WERE THE HISTORICAL LEVELS OF KCPL'S PROPERTY TAXES VOLATILE FROM YEAR TO YEAR?

A No. The following graph summarizes the Company's property tax expenses payable in both Kansas and Missouri from 2011 through 2015:

****<u>HC Table 2: KCPL Property Tax Expenses by Year</u>**[43]

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[43] Derived from KCPL Highly Confidential Schedule RAK-9.

This data clearly shows the relative stability and predictability of historical property tax levels experienced by KCPL. The Company has experienced gradual, single digit percentage increases in this expense from year to year, rather than any volatility or extreme levels of change in any recent year.

Q ARE KCPL'S PROPERTY TAXES BEYOND THE CONTROL OF MANAGEMENT, WHERE UTILITY MANAGEMENT HAS LITTLE INFLUENCE OVER EXPERIENCED COST LEVELS?

A Property tax assessments and mill levy rates are largely, but not completely beyond the control of utility management. There are a number of periodic filings and opportunities for property tax calculation reviews and exemption provisions that KCPL management must prudently administer.[44] KCPL tax staff personnel work closely with the Missouri State Assessors regarding the valuations of KCPL used to determine property taxes. The inputs to determine taxable value are discussed in detail by the KCPL staff and the State Assessors during the valuation process to ensure that the appraisal is based on accurate data and the assumptions are valid. The annual valuation is reviewed in detail by the KCPL tax staff and all information is tied back to company financial reports. Additionally, the KCPL staff reviews the logic and methods used by the State Assessors to validate that the appraisal is sound and based on generally accepted appraisal theory. The KCPL staff also reviews the state and local tax bills to validate agreement with the various appraisals and that the bills are correct and accurate including the application of proper mill levy tax rates. Any potential error noted in KCPL's annual review is communicated and discussed until KCPL is satisfied that

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[44] Contracts governing Payments in Lieu of Tax ("PILOT") for wind facilities exempted from property taxation are discussed in the Direct Testimony of Ronald Klote at pages 69-70.

either there was no error or the taxing authority agreed to correct and reissue a new tax bill.[45]

Q WOULD A TRACKING MECHANISM FOR KCPL'S PROPERTY TAXES BE STRAIGHTFORWARD AND SIMPLE TO ADMINISTER, READILY AUDITED AND VERIFIED THROUGH EXPEDITED REGULATORY REVIEWS?

A Yes. In isolation, a property tax tracking mechanism would not be particularly difficult to audit and verify, although some administrative cost would be incurred because of the large number of taxing jurisdictions that are involved and the potential for corrections and revisions to individual tax bills in each year. From an accounting perspective, property taxes are discrete payments that can be readily isolated for verification and would therefore not require complex analysis to isolate any labor, benefits and other costs embedded in base rates to avoid double recoveries. However, the incremental costs to the utility and the Commission Staff, as well as the effort and cost involved if any disputes arise, argue against adding such a tracking mechanism to the Missouri regulatory regime unless a financial need for such a tracker is proven.

Q WOULD A TRACKING MECHANISM FOR CHANGES IN PROPERTY TAXES BETWEEN TEST YEARS BE APPROPRIATELY BALANCED, SUCH THAT ANY KNOWN FACTORS THAT MITIGATE COST IMPACTS ARE ACCOUNTED FOR IN A MANNER THAT PRESERVES TEST YEAR MATCHING PRINCIPLES?

A Yes. Property taxes do not, when paid, create any foreseeable opportunity for offsetting cost savings, operational efficiencies or other benefits to KCPL that must be identified and recognized as an offset to any recorded cost deferrals.

45 KCPL response to Data Request MECG 3-2.

Q CONSIDERING EACH OF THE CRITERIA YOU HAVE RECOMMENDED FOR EXTRAORDINARY REGULATORY TREATMENT OF SPECIFIC TYPES OF COSTS, SHOULD KCPL'S PROPERTY TAX EXPENSES BE GRANTED THE TRACKING MECHANISM TREATMENT THAT IS PROPOSED BY THE COMPANY?

A No. As described above, property tax expenses incurred by KCPL are not sufficiently large and volatile that they merit extraordinary expense tracking treatment. Additionally, KCPL management exercises some control over property tax expenses and the incentive for ongoing cost control efforts and costs would be blunted if expense tracker treatment was implemented.

Q SHOULD THE FORECASTED LEVELS OF PROPERTY TAXES EXPECTED BY KCPL IN THE YEARS 2017 AND 2018 BE INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT?

A No. These forecasted amounts are not known and measurable and cannot be verified at this time. Instead, actual fact-based true up calculations should be used to determine annualized test year property tax expenses. Notably, the ability for the Company to include a trued-up level of property tax expenses under the traditional regulatory approach used in Missouri serves to minimize any regulatory lag associated with property taxes. This outcome can be observed in KCPL's last Missouri rate order. As noted above, the Commission approved a total company property tax expense for ratemaking purposes of $91,616,599 and rejected the Company's proposal to increase this amount by another $5.6 million for estimated future increases in property taxes.[46] This allowed property tax expense level exceeded KCPL's historically incurred expenses through 2015, as shown in Table 2, above. The $5.6 million of forecasted

[46] File No. ER-2014-0370, Report and Order issued September 2, 2015, page 55-56. See Note

additional property taxes sought by KCPL in its former rate case was based upon average budgeted property tax expenses for 2016 and 2017 of **________________________________ **, respectively.[47] The Company's updated budgeted property tax expense for the same years 2016 and 2017, as reflected in Mr. Klote's Schedule RAK-9 in the current rate filing, are now significantly lower at **________________________________ ** respectively. The recent reductions in KCPL's budgeted property tax expense illustrates the uncertainty associated with using forecasted data in setting rates and highlights the risk that ratepayers will be overcharged when a utility is allowed to employ forecasts for ratemaking purposes.

Q HAVE OTHER MISSOURI UTILITIES REQUESTED A TRACKER OR THE USE OF FORECASTED AMOUNTS FOR PROPERTY TAXES?

A No. Neither Ameren nor Empire has a property tax tracker and it is my understanding that KCPL is the only Missouri utility that has requested the use of such an extraordinary mechanism.

Q DO YOU HAVE ANY OTHER THOUGHTS REGARDING KCPL'S REQUEST FOR TRACKERS OR FORECASTED COSTS?

A Yes. In the event that the Commission grants KCPL's proposed selective implementation of a tracker, or the use of forecasted costs, for only expenses that are expected to increase, this represents a significant shift of risk from the utility shareholders to the ratepayers. Much as the Commission was instructed to do when it implemented a fuel adjustment clause (Section 386.266.7), the Commission should consider the reduction of KCPL's business risk associated with the adoption of either of these requests when it establishes an appropriate return on equity in this case. I would

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47 Rush HC Surrebuttal Testimony in Docket No. 2014-0370, page 16.

refer any questions regarding the appropriate quantification of the reduced business risk to MECG witness Gorman.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

Michael L. Brosch
Utilitech, Inc. – President
Bachelor of Business Administration (Accounting)
University of Missouri-Kansas City (1978)
Certified Public Accountant Examination (1979)

GENERAL

Mr. Brosch serves as the director of regulatory projects for the firm and is responsible for the planning, supervision and conduct of firm engagements. His academic background is in business administration and accounting and he holds CPA certificates in Kansas and Missouri. Expertise is concentrated within regulatory policy, financial and accounting areas with an emphasis in revenue requirements, business reorganization and alternative regulation.

EXPERIENCE

Mr. Brosch has supervised and conducted the preparation of rate case exhibits and testimony in support of revenue requirements and regulatory policy issues involving more than 100 electric, gas, telephone, water, and sewer proceeding across the United States. Responsible for virtually all facets of revenue requirement determination, cost of service allocations and tariff implementation in addition to involvement in numerous utility merger, alternative regulation and other special project investigations.

Industry restructuring analysis for gas utility rate unbundling, electric deregulation, competitive bidding and strategic planning, with testimony on regulatory processes, asset identification and classification, revenue requirement and unbundled rate designs and class cost of service studies.

Analyzed and presented testimony regarding income tax related issues within ratemaking proceedings involving interpretation of relevant IRS code provisions and regulatory restrictions.

Conducted extensive review of the economic impact upon regulated utility companies of various transactions involving affiliated companies. Reviewed the parent-subsidiary relationships of integrated electric and telephone utility holding companies to determine appropriate treatment of consolidated tax benefits and capital costs. Sponsored testimony on affiliated interests in numerous Bell and major independent telephone company rate proceedings.

Has substantial experience in the application of lead-lag study concepts and methodologies in determination of working capital investment to be included in rate base.

Conducted alternative regulation analyses for clients in Arizona, California, Texas and Oklahoma, focused upon challenges introduced by cost-based regulation, incentive effects available through alternative regulation and balancing of risks, opportunities and benefits among stakeholders.

Mr. Brosch managed the detailed regulatory review of utility mergers and acquisitions, diversification studies and holding company formation issues in energy and telecommunications transactions in multiple states. Sponsored testimony regarding merger synergies, merger accounting and tax implications, regulatory planning and price path strategies. Traditional horizontal utility mergers as well as leveraged buyouts of utility properties by private equity investors were addressed in several states.

Analyzed the utilization of alternative forms of regulation for energy and telecommunications utilities, including formula ratemaking, deferral/amortization accounting, rate adjustment riders and revenue decoupling methodologies. Mr. Brosch has been involved in the design of alternative regulation structures and tariffs and has addressed the attrition considerations and management efficiency incentive impacts arising from alternative regulation. Has been responsible for administration of alternative regulation filings in multiple jurisdictions.

WORK HISTORY

1985 - Present	**Principal** - Utilitech, Inc. (Previously Dittmer, Brosch and Associates, Inc.)
1983 - 1985:	**Project manager** - Lubow McKay Stevens and Lewis. Responsible for supervision and conduct of utility regulatory projects on behalf of industry and regulatory agency clients.
1982 - 1983:	**Regulatory consultant** - Troupe Kehoe Whiteaker and Kent. Responsible for management of rate case activities involving analysis of utility operations and results, preparation of expert testimony and exhibits, and issue development including research and legal briefs. Also involved in numerous special projects including financial analysis and utility systems planning. Taught firm's professional education course on "utility income taxation - ratemaking and accounting considerations" in 1982.
1978 - 1982:	**Senior Regulatory Accountant** - Missouri Public Service Commission. Supervised and conducted rate case investigations of utilities subject to PSC jurisdiction in response to applications for tariff changes. Responsibilities included development of staff policy on ratemaking issues, planning and evaluating work of outside consultants, and the production of comprehensive testimony and exhibits in support of rate case positions taken.

OTHER QUALIFICATIONS

Bachelor of Business Administration - Accounting, 1978
University of Missouri - Kansas City "with distinction"

Member	American Institute of Certified Public Accountants Missouri Society of Certified Public Accountants Kansas Society of Certified Public Accountants
Attended	Iowa State Regulatory Conference 1981, 1985 Regulated Industries Symposium 1979, 1980 Michigan State Regulatory Conference 1981 United States Telephone Association Round Table 1984 NARUC/NASUCA Annual Meeting 1988, Speaker NARUC/NASUCA Annual Meeting 2000, Speaker NASUCA Regional Consumer Protection Meeting 2007, Speaker
Instructor	INFOCAST Ratemaking Courses Arizona Staff Training Hawaii Staff Training

Green Hills Telephone Company	Missouri	PSC	TR-78-282	Staff	1978	Rate Base, Operating Income
Kansas City Power and Light Co.	Missouri	PSC	ER-78-252	Staff	1978	Rate Base, Operating Income
Missouri Public Service Company	Missouri	PSC	ER-79-59	Staff	1979	Rate Base, Operating Income
Nodaway Valley Telephone Company	Missouri	PSC	16,567	Staff	1979	Rate Base, Operating Income
Gas Service Company	Missouri	PSC	GR-79-114	Staff	1979	Rate Base, Operating Income
United Telephone Company	Missouri	PSC	TO-79-227	Staff	1979	Rate Base, Operating Income
Southwestern Bell Telephone Co.	Missouri	PSC	TR-79-213	Staff	1979	Rate Base, Operating Income
Missouri Public Service Company	Missouri	PSC	ER-80-118 GR-80-117	Staff	1980	Rate Base, Operating Income
Southwestern Bell Telephone Co.	Missouri	PSC	TR-80-256	Staff	1980	Affiliate Transactions
United Telephone Company	Missouri	PSC	TR-80-235	Staff	1980	Affiliate Transactions, Cost Allocations
Kansas City Power and Light Co.	Missouri	PSC	ER-81-42	Staff	1981	Rate Base, Operating Income
Southwestern Bell Telephone	Missouri	PSC	TR-81-208	Staff	1981	Rate Base, Operating Income, Affiliated Interest
Northern Indiana Public Service	Indiana	PSC	36689	Consumers Counsel	1982	Rate Base, Operating Income
Northern Indiana Public Service	Indiana	URC	37023	Consumers Counsel	1983	Rate Base, Operating Income, Cost Allocations
Mountain Bell Telephone	Arizona	ACC	9981-E1051-81-406	Staff	1982	Affiliated Interest
Sun City Water	Arizona	ACC	U-1656-81-332	Staff	1982	Rate Base, Operating Income
Sun City Sewer	Arizona	ACC	U-1656-81-331	Staff	1982	Rate Base, Operating Income
El Paso Water	Kansas	City Counsel	Unknown	Company	1982	Rate Base, Operating Income, Rate of Return
Ohio Power Company	Ohio	PUCO	83-98-EL-AIR	Consumer Counsel	1983	Operating Income, Rate Design, Cost Allocations
Dayton Power & Light Company	Ohio	PUCO	83-777-GA-AIR	Consumer Counsel	1983	Rate Base
Walnut Hill Telephone	Arkansas	PSC	83-010-U	Company	1983	Operating Income, Rate Base
Cleveland Electric Illum.	Ohio	PUCO	84-188-EL-AIR	Consumer Counsel	1984	Rate Base, Operating Income, Cost Allocations
Cincinnati Gas & Electric	Ohio	PUCO	84-13-EL-EFC	Consumer Counsel	1984	Fuel Clause
Cincinnati Gas & Electric	Ohio	PUCO	84-13-EL-EFC (Subfile A)	Consumer Counsel	1984	Fuel Clause
General Telephone - Ohio	Ohio	PUCO	84-1026-TP-AIR	Consumer Counsel	1984	Rate Base
Cincinnati Bell Telephone	Ohio	PUCO	84-1272-TP-AIR	Consumer Counsel	1985	Rate Base
Ohio Bell Telephone	Ohio	PUCO	84-1535-TP-AIR	Consumer Counsel	1985	Rate Base
United Telephone - Missouri	Missouri	PSC	TR-85-179	Staff	1985	Rate Base, Operating Income

Wisconsin Gas	Wisconsin	PSC	05-UI-18	Staff	1985	Diversification-Restructuring
United Telephone - Indiana	Indiana	URC	37927	Consumer Counsel	1986	Rate Base, Affiliated Interest
Indianapolis Power & Light	Indiana	URC	37837	Consumer Counsel	1986	Rate Base
Northern Indiana Public Service	Indiana	URC	37972	Consumer Counsel	1986	Plant Cancellation Costs
Northern Indiana Public Service	Indiana	URC	38045	Consumer Counsel	1986	Rate Base, Operating Income, Cost Allocations, Capital Costs
Arizona Public Service	Arizona	ACC	U-1435-85-367	Staff	1987	Rate Base, Operating Income, Cost Allocations
Kansas City, KS Board of Public Utilities	Kansas	BPU	87-1	Municipal Utility	1987	Operating Income, Capital Costs
Detroit Edison	Michigan	PSC	U-8683	Industrial Customers	1987	Income Taxes
Consumers Power	Michigan	PSC	U-8681	Industrial Customers	1987	Income Taxes
Consumers Power	Michigan	PSC	U-8680	Industrial Customers	1987	Income Taxes
Northern Indiana Public Service	Indiana	URC	38365	Consumer Counsel	1987	Rate Design
Indiana Gas	Indiana	URC	38080	Consumer Counsel	1987	Rate Base
Northern Indiana Public Service	Indiana	URC	38380	Consumers Counsel	1988	Rate Base, Operating Income, Rate Design, Capital Costs
Terre Haute Gas	Indiana	URC	38515	Consumers Counsel	1988	Rate Base, Operating Income, Capital Costs
United Telephone -Kansas	Kansas	KCC	162,044-U	Consumers Counsel	1989	Rate Base, Capital Costs, Affiliated Interest
US West Communications	Arizona	ACC	E-1051-88-146	Staff	1989	Rate Base, Operating Income, Affiliate Interest
All Kansas Electrics	Kansas	KCC	140,718-U	Consumers Counsel	1989	Generic Fuel Adjustment Hearing
Southwest Gas	Arizona	ACC	E-1551-89-102 E-1551-89-103	Staff	1989	Rate Base, Operating Income, Affiliated Interest
American Telephone and Telegraph	Kansas	KCC	167,493-U	Consumers Counsel	1990	Price/Flexible Regulation, Competition, Revenue Requirements
Indiana Michigan Power	Indiana	URC	38728	Consumer Counsel	1989	Rate Base, Operating Income, Rate Design
People Gas, Light and Coke Company	Illinois	ICC	90-0007	Public Counsel	1990	Rate Base, Operating Income
United Telephone Company	Florida	PSC	891239-TL	Public Counsel	1990	Affiliated Interest
Southwestern Bell Telephone Company	Oklahoma	OCC	PUD-000662	Attorney General	1990	Rate Base, Operating Income (Testimony not admitted)
Arizona Public Service Company	Arizona	ACC	U-1345-90-007	Staff	1991	Rate Base, Operating Income
Indiana Bell Telephone Company	Indiana	URC	39017	Consumer Counsel	1991	Test Year, Discovery, Schedule
Southwestern Bell Telephone Company	Oklahoma	OCC	39321	Attorney General	1991	Remand Issues
UtiliCorp United/ Centel	Kansas	KCC	175,476-U	Consumer Counsel	1991	Merger/Acquisition

Southwestern Bell Telephone Company	Oklahoma	OCC	PUD-000662	Attorney General	1991	Rate Base, Operating Income
United Telephone - Florida	Florida	PSC	910980-TL	Public Counsel	1992	Affiliated Interest
Hawaii Electric Light Company	Hawaii	PUC	6999	Consumer Advocate	1992	Rate Base, Operating Income, Budgets/Forecasts
Maui Electric Company	Hawaii	PUC	7000	Consumer Advocate	1992	Rate Base, Operating Income, Budgets/Forecasts
Southern Bell Telephone Company	Florida	PSC	920260-TL	Public Counsel	1992	Affiliated Interest
US West Communications	Washington	WUTC	U-89-3245-P	Attorney General	1992	Alternative Regulation
UtiliCorp United/ MPS	Missouri	PSC	ER-93-37	Staff	1993	Affiliated Interest
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-1151, 1144, 1190	Attorney General	1993	Rate Base, Operating Income, Take or Pay, Rate Design
Public Service Company of Oklahoma	Oklahoma	OCC	PUD-1342	Staff	1993	Rate Base, Operating Income, Affiliated Interest
Illinois Bell Telephone	Illinois	ICC	92-0448 92-0239	Citizens Board	1993	Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest
Hawaii Electric Company	Hawaii	PUC	7700	Consumer Advocate	1993	Rate Base, Operating Income
US West Communications	Arizona	ACC	E-1051-93-183	Staff	1994	Rate Base, Operating Income
PSI Energy, Inc.	Indiana	URC	39584	Consumer Counselor	1994	Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest
Arkla, a Division of NORAM Energy	Oklahoma	OCC	PUD-940000354	Attorney General	1994	Cost Allocations, Rate Design
PSI Energy, Inc.	Indiana	URC	39584-S2	Consumer Counselor	1994	Merger Costs and Cost Savings, Non-Traditional Ratemaking
Transok, Inc.	Oklahoma	OCC	PUD-1342	Staff	1994	Rate Base, Operating Income, Affiliated Interest, Allocations
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-940000477	Attorney General	1995	Rate Base, Operating Income, Cost of Service, Rate Design
US West Communications	Washington	WUTC	UT-950200	Attorney General/ TRACER	1995	Operating Income, Affiliate Interest, Service Quality
PSI Energy, Inc.	Indiana	URC	40003	Consumer Counselor	1995	Rate Base, Operating Income
Oklahoma Natural Gas Company	Oklahoma	OCC	PUD-880000598	Attorney General	1995	Stand-by Tariff
GTE Hawaiian Telephone Co., Inc.	Hawaii	PUC	PUC 94-0298	Consumer Advocate	1996	Rate Base, Operating Income, Affiliate Interest, Cost Allocations
Mid-American Energy Company	Iowa	ICC	APP-96-1	Consumer Advocate	1996	Non-Traditional Ratemaking
Oklahoma Gas and Electric Company	Oklahoma	OCC	PUD-960000116	Attorney General	1996	Rate Base, Operating Income, Rate Design, Non-Traditional Ratemaking

Southwest Gas Corporation	Arizona	ACC	U-1551-96-596	Staff	1997	Operating Income, Affiliated Interest, Gas Supply
Utilicorp United - Missouri Public Service Division	Missouri	PSC	EO-97-144	Staff	1997	Operating Income
US West Communications	Utah	PSC	97-049-08	Consumer Advocate	1997	Rate Base, Operating Income, Affiliate Interest, Cost Allocations
US West Communications	Washington	WUTC	UT-970766	Attorney General	1997	Rate Base, Operating Income
Missouri Gas Energy	Missouri	PSC	GR 98-140	Public Counsel	1998	Affiliated Interest
ONEOK	Oklahoma	OCC	PUD980000177	Attorney General	1998	Gas Restructuring, rate Design, Unbundling
Nevada Power/Sierra Pacific Power Merger	Nevada	PSC	98-7023	Consumer Advocate	1998	Merger Savings, Rate Plan and Accounting
PacifiCorp / Utah Power	Utah	PSC	97-035-1	Consumer Advocate	1998	Affiliated Interest
MidAmerican Energy / CalEnergy Merger	Iowa	PUB	SPU-98-8	Consumer Advocate	1998	Merger Savings, Rate Plan and Accounting
American Electric Power / Central and South West Merger	Oklahoma	OCC	980000444	Attorney General	1998	Merger Savings, Rate Plan and Accounting
ONEOK Gas Transportation	Oklahoma	OCC	970000088	Attorney General	1998	Cost of Service, Rate Design, Special Contract
U S West Communications	Washington	WUTC	UT-98048	Attorney General	1999	Directory Imputation and Business Valuation
U S West / Qwest Merger	Iowa	PUB	SPU 99-27	Consumer Advocate	1999	Merger Impacts, Service Quality and Accounting
U S West / Qwest Merger	Washington	WUTC	UT-991358	Attorney General	2000	Merger Impacts, Service Quality and Accounting
U S West / Qwest Merger	Utah	PSC	99-049-41	Consumer Advocate	2000	Merger Impacts, Service Quality and Accounting
PacifiCorp / Utah Power	Utah	PSC	99-035-10	Consumer Advocate	2000	Affiliated Interest
Oklahoma Natural Gas, ONEOK Gas Transportation	Oklahoma	OCC	980000683, 980000570, 990000166	Attorney General	2000	Operating Income, Rate Base, Cost of Service, Rate Design, Special Contract
U S West Communications	New Mexico	PRC	3008	Staff	2000	Operating Income, Directory Imputation
U S West Communications	Arizona	ACC	T-0105B-99-0105	Staff	2000	Operating Income, Rate Base, Directory Imputation
Northern Indiana Public Service Company	Indiana	IURC	41746	Consumer Counsel	2001	Operating Income, Rate Base, Affiliate Transactions
Nevada Power Company	Nevada	PUCN	01-10001	Attorney General-BCP	2001	Operating Income, Rate Base, Merger Costs, Affiliates
Sierra Pacific Power Company	Nevada	PUCN	01-11030	Attorney General-BCP	2002	Operating Income, Rate Base, Merger Costs, Affiliates
The Gas Company, Division of Citizens Communications	Hawaii	PUC	00-0309	Consumer Advocate	2001	Operating Income, Rate Base, Cost of Service, Rate Design
SBC Pacific Bell	California	PUC	I.01-09-002 R.01-09-001	Office of Ratepayer Advocate	2002	Depreciation, Income Taxes and Affiliates
Midwest Energy, Inc.	Kansas	KCC	02-MDWG-922-RTS	Agriculture Customers	2002	Rate Design, Cost of Capital

Qwest Communications – Dex Sale	Utah	PSC	02-049-76	Consumer Advocate	2003	Directory Publishing
Qwest Communications – Dex Sale	Washington	WUTC	UT-021120	Attorney General	2003	Directory Publishing
Qwest Communications – Dex Sale	Arizona	ACC	T-0105B-02-0666	Staff	2003	Directory Publishing
PSI Energy, Inc.	Indiana	IURC	42359	Consumer Counsel	2003	Operating Income, Rate Trackers, Cost of Service, Rate Design
Qwest Communications – Price Cap Review	Arizona	ACC	T-0105B-03-0454	Staff	2004	Operating Income, Rate Base, Fair Value, Alternative Regulation
Verizon Northwest Corp	Washington	WUTC	UT-040788	Public Counsel	2004	Directory Publishing, Rate Base, Operating Income
Citizens Gas & Coke Utility	Indiana	IURC	42767	Consumer Counsel	2005	Operating Income, Debt Service, Working Capital, Affiliate Transactions, Alternative Regulation
Hawaiian Electric Company	Hawaii	HPUC	04-0113	Consumer Advocate	2005	Operating Income, Rate Base, Cost of Service, Rate Design
Sprint/Nextel Corporation	Washington	WUTC	UT-051291	Public Counsel	2006	Directory Publishing, Corporate Reorganization
Puget Sound Energy, Inc.	Washington	WUTC	UE-060266 and UG-060267	Public Counsel	2006	Alternative Regulation
Hawaiian Electric Company	Hawaii	HPUC	05-0146	Consumer Advocate	2006	Community Benefits / Rate Discounts
Cascade Natural Gas Company	Washington	WUTC	UG-060259	Public Counsel	2006	Alternative Regulation
Arizona Public Service Company	Arizona	ACC	E-01345A-05-0816	Staff	2006	Cost of Service Allocations
Hawaiian Electric Company	Hawaii	HPUC	05-0146	Consumer Advocate	2006	Capital Improvements and Discounted Rates
Hawaii Electric Light Company	Hawaii	HPUC	05-0315	Consumer Advocate	2006	Operating Income, Rate Base, Cost of Service, Rate Design
Union Electric Company d/b/a AmerenUE	Missouri	PSC	2007-0002	Attorney General	2007	Operating Income, Rate Base, Fuel Adjustment Clause
Hawaiian Electric Company	Hawaii	PUC	2006-0386	Consumer Advocate	2007	Operating Income, Cost of Service, Rate Design
Maui Electric Company	Hawaii	PUC	2006-0387	Consumer Advocate	2007	Operating Income, Cost of Service, Rate Design
Peoples Gas / North Shore Gas Company	Illinois	ICC	07-0241, 0242	Attorney General	2007	Rate Adjustment Clauses
Commonwealth Edison	Illinois	ICC	07-0566	Attorney General, City	2008	Ratemaking Policy, Rate Trackers
Illinois Power Company, Illinois Public Service Co., Central Illinois Public Service Co	Illinois	ICC	07-0585 cons.	Attorney General/CUB	2008	Rate Adjustment Clauses

Southwestern Public Service Company	Texas	PUCT	35763	Municipalities	2008	Operating Income, Rate Base, Affiliate Transactions
The Gas Company	Hawaii	PUC	2008-0081	Consumer Advocate	2009	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Hawaiian Electric Company	Hawaii	PUC	2008-0083	Consumer Advocate	2009	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Commonwealth Edison	Illinois	ICC	2009-0263	Attorney General	2009	Rate Adjustment Clauses
Avista Corporation Washingon WUTC	Washington	WUTC	UG-060518	Attorney General	2009	Rate Adjustment Clauses
Kauai Island Utility Cooperative	Hawaii	PUC	2009-0050	Consumer Advocate	2009	Operating Income, Cooperative Ratemaking Policies, Cost of Service
Maui Electric Company	Hawaii	PUC	2009-0163	Consumer Advocate	2010	Operating Income, Rate Base, Cost of Service, Rate Design
Hawaii Electric Light Company	Hawaii	PUC	2009-0164	Consumer Advocate	2010	Operating Income, Rate Base, Cost of Service, Rate Design
Commonwealth Edison	Illinois	ICC	2010-0467	AG / CUB	2010	Operating Income, Rate Base
Commonwealth Edison	Illinois	ICC	2010-0527	Attorney General	2010	Alternative Regulation
Atmos Pipeline - Texas	Texas	RCT	GUD 10000	ATM Cities	2010	Operating Income, Rate Base, Cost of Service, Rate Adjustment Clause
Ameren Missouri	Missouri	PSC	2011-0028	Industrial Customers	2011	Operating Income, Rate Base
Hawaiian Electric Company	Hawaii	PUC	2010-0080	Consumer Advocate	2011	Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design
Utilities, Inc.	Illinois	ICC	11-0561..0566	Attorney General	2011	Operating Income, Rate Base, Rate Design
Commonwealth Edison	Illinois	ICC	11-0721	AG / CUB	2011	Alternative Regulation
Utilities, Inc.	Illinois	ICC	11-0059 RH	AG	2012	Rate Design
Maui Electric, Ltd.	Hawaii	PUC	2011-0092	Consumer Advocate	2012	Operating Income, Rate Base, Cost of Service, Rate Design
Ameren Illinois Utilities	Illinois	ICC	12-0001	AG/AARP	2012	Alternative Regulation
Commonwealth Edison	Illinois	ICC	12-0321	AG	2012	Alternative Regulation
Ameren Illinois Utilities	Illinois	ICC	12-0293	AG	2012	Alternative Regulation
Ameren Missouri	Missouri	PSC	ER2012-0166	Industrials	2012	Income Taxes, Alternative Reg
Atmos Energy	Texas	RCT	10170	Municipals	2012	Operating Income, Rate Base
Peoples Gas / North Shore Gas Company	Illinois	ICC	12-0511/0512	AG	2012	Operating Income, Rate Base
Ameren Illinois Utilities	Illinois	ICC	13-0192	AG	2013	Operating Income, Rate Base
Ameren Illinois Utilities	Illinois	ICC	13-0301	AG	2013	Alternative Regulation

Commonwealth Edison	Illinois	ICC	13-0318	AG	2013	Alternative Regulation
Commonwealth Edison	Illinois	ICC	13-0553	AG	2013	Alternative Regulation
Commonwealth Edison	Illinois	ICC	13-0589	AG	2014	Refund of Rider Revenues
Commonwealth Edison	Illinois	ICC	14-0312	AG	2014	Alternative Regulation
Ameren Illinois Utilities	Illinois	ICC	14-0317	AG	2014	Alternative Regulation
Atmos Energy	Texas	RCT	10159	Municipals	2014	Operating Income, Rate Base
Southwestern Public Service Company	Texas	PUCT	43695	Municipals	2015	Operating Income, Rate Base
Kansas City Power & Light Company	Missouri	PSC	2014-0370	Industrials	2015	Alternative Regulation, Taxes
Commonwealth Edison Company	Illinois	ICC	15-0287	AG	2015	Alternative Regulation
Ameren Illinois Company	Illinois	ICC	15-0305	AG	2015	Alternative Regulation
Hawaiian Electric Company / NextEra Energy	Hawaii	PUC	2015-0012	Consumer Advocate	2015	Merger Approval
Florida Power & Light	Florida	PSC	160021-EI	AARP	2016	Rate Plan; Forecasts; Rate of Return
Commonwealth Edison	Illinois	ICC	16-0259	AG	2016	Alternative Regulation
Ameren Illinois	Illinois	ICC	16-0262	AG	2016	Alternative Regulation
Southwestern Public Service Company	Texas	PUCT	45524	Municipals	2016	Operating Income, Rate Base
Texas Oklahoma Kansas Gas, LLC	Kansas	KCC	15-TKOG-236-COM	Customers	2016	Billing Determinants

Schedule MLB-1

Is Highly Confidential

In Its Entirety

Schedule MLB-2

KCPL
Case Name: 2016 KCPL Rate Case
Case Number: ER-2016-0285

Response to Woodsmall David Interrogatories - MECG_20160803
Date of Response: 8/22/2016

Question:3/5/2016

[Cost of Debt].

Has the Company been able to refinance any of its long-term debt, either at maturity or prior to scheduled maturity, at a net savings in interest costs during any of the past five years? Are there expected to be future opportunities, given the structure and tenor of the Company's outstanding long term debt, to reduce debt borrowing costs if financial market conditions remain favorable? Please explain and quantify the annualized net interest cost savings associated with each historical or reasonably anticipated future debt cost savings opportunity identified in your response.

Response:
Yes, KCP&L has been able to refinance some of its long-term debt at a net savings over the past five years. The $150 million 2001 6.5% Senior Notes matured on November 15, 2011 and were refinanced with the $400 million 2011 5.3% Senior Notes that mature on October 1, 2041. KCP&L also has several series of tax-exempt bonds which can be in a long-term interest rate mode for a specific period of time until a mandatory put back to the Company or in a long-term interest rate mode until final maturity or in a floating interest rate mode. Sometimes when a tax-exempt bond is put back to the Company, KCP&L holds the bonds for a while before it remarkets the bonds to new investors. All of the currently outstanding tax-exempt bonds have had changes in interest rates over the past five years. On June 30, 2011, the $265.938 million of outstanding tax-exempt bonds had a weighted average cost of 5.16% and on June 30, 2016, the $280.38 million of outstanding tax-exempt bonds had a weighted average cost of 1.86%.

Yes, there are expected to be future opportunities to reduce debt borrowing costs. KCP&L has taxable long-term debt maturing in 2017, 2018 and 2019 that it expects to refinance at lower cost when it matures. The $250 million 2007 5.85% Senior Notes mature on June 15, 2017. The $350 million 2008 6.375% Senior Notes mature on March 1, 2018. The $400 million 2009 7.15% Mortgage Bonds mature on April 1, 2019. Recent indicative new issue pricing for 10 year debt is around 2.86% and for 30 year debt it is around 3.83%. KCP&L also has a $31 million 1.25% tax-exempt bond that matures July 1, 2017 which it does not expect to refinance at a lower cost and is expected to be refinanced by combining it with the 2017 Senior Note maturity. The maturing long-term debt in 2017 through 2019 is expected to be refinanced with some 10 year and some 30 year debt depending on market conditions.

Historical annual savings:

Senior notes = $150 million * (6.5%-5.3%) = $1.8 million
Tax exempt bonds= $265.938 million * (5.16%-1.86%) = $8.776 million

Future potential annual savings based on current 10 year indicative rates:
2007 Senior note = $250 million * (5.85%-2.86%) = $7.475 million
2008 Senior note = $350 million * (6.375%-2.86%) = $12.3 million
2009 Mortgage bonds = $400 million * (7.15%-2.86%) = $17.16 million

Future potential annual savings based on current 30 year indicative rates:
2007 Senior note = $250 million * (5.85%-3.83%) = $5.05 million
2008 Senior note = $350 million * (6.375%-3.83%) = $8.9 million
2009 Mortgage bonds = $400 million * (7.15%-3.83%) = $13.28 million

Information provided by Gregg Clizer

Attachment: Q3-5_Verification.pdf

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2016-0285

The response to Data Request # 3-5 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: August 22, 2016

Schedule MLB-3
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