

Exhibit No.:
Issues: Revenue Requirement
Witness: James R. Dauphinais
Type of Exhibit: Direct Testimony
Sponsoring Party: Missouri Industrial Energy Consumers and
Midwest Energy Consumers Group
Case No.: ER-2012-0174
Date Testimony Prepared: August 2, 2012

**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-2012-0174**
) Tracking No. YE-2012-0404
)
)

Direct Testimony of

James R. Dauphinais

Revenue Requirement

On behalf of

**Missouri Industrial Energy Consumers
and
Midwest Energy Consumers Group**

August 2, 2012



Project 9593

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STATE OF MISSOURI)
)) SS
COUNTY OF ST. LOUIS)

Affidavit of James R. Dauphinais

James R. Dauphinais, being first duly sworn, on his oath states:

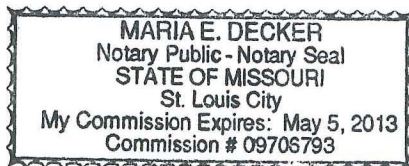
1. My name is James R. Dauphinais. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Missouri Industrial Energy Consumers and Midwest Energy Consumers Group in this proceeding on its behalf.

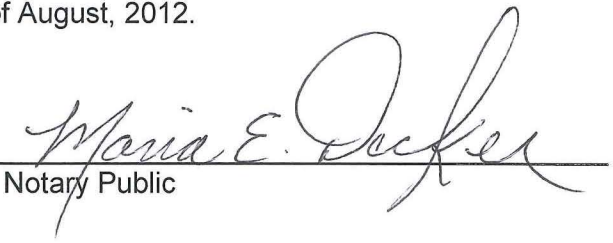
2. Attached hereto and made a part hereof for all purposes is my direct testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2012-0174.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that they purport to show.


James R. Dauphinais

Subscribed and sworn to before me this 1st day of August, 2012.




Notary Public

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Direct Testimony of James R. Dauphinais

I. INTRODUCTION

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

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

4 **Q WHAT IS YOUR OCCUPATION?**

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

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A This information is included in Appendix A to this testimony.

9 **Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE
10 COMMISSION ("COMMISSION" OR "MOPSC")?**

11 A Yes. I have previously testified before the Commission on several occasions. The
12 subject matter of that testimony included, but was not limited to, electric utility fuel and
13 purchased power costs, off-system sales revenues and margins, transmission

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1 expenses, transmission revenues, fuel adjustment clauses and Regional
2 Transmission Organization (“RTO”) participation.

3 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

4 A This testimony is presented on behalf of Missouri Industrial Energy Consumers
5 (“MIEC”) and Midwest Energy Consumers Group (“MECG”). Member companies of
6 these two groups purchase substantial amounts of electric power from Kansas City
7 Power & Light Company (“KCPL” or “Company”).

8 **Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

9 A My testimony addresses the transmission expenses and revenues the Company has
10 proposed for recovery in base rates and the Company’s proposal to establish a
11 transmission tracking mechanism (“Transmission Tracker”), which would track certain
12 transmission costs on an actual basis versus the level set in this case. Under its
13 proposed Transmission Tracker, any actual transmission cost amount in excess of
14 the level set in this case would be treated as a regulatory asset and any actual
15 shortfall from the level set in this case would be treated as a regulatory liability. The
16 Company would then seek a true-up as a part of its next base rate proceeding.

17 The fact that I do not address a particular issue in this testimony should not be
18 interpreted as approval of any position taken by the Company.

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1 Q IN ADDITION TO YOUR ANALYSIS OF TRANSMISSION ISSUES, HAVE YOU
2 REVIEWED THE DIRECT TESTIMONY OF YOUR COLLEAGUE NICHOLAS L.
3 PHILLIPS REGARDING THE SUBJECT OF THE COMPANY'S FUEL COSTS AND
4 ITS OFF-SYSTEM SALES MARGINS?

5 A Yes. I worked with Mr. Phillips on the development of his analytical approach. I
6 concur with the results of his analysis and his recommendation to the Commission
7 with regard to the Company's fuel costs and off-system sales margins.

8 Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS WITH
9 REGARD TO THE OTHER ISSUES ON WHICH YOU ARE TESTIFYING.

10 A At this time, I have no proposed adjustments to the levels of transmission expenses
11 and transmission revenues the Company is proposing to recover in base rates.
12 However, I am recommending that the Commission require the Company to
13 annualize its transmission revenues based on actual values and rates at the end of
14 the true-up period in the same manner the Company is proposing to do for its
15 transmission expenses. In addition, I am recommending that the Commission deny
16 the Company's request for a Transmission Tracker.

17 **II. TRANSMISSION EXPENSES**

18 Q HAVE YOU REVIEWED THE LEVEL OF TRANSMISSION EXPENSES THE
19 COMPANY IS PROPOSING TO RECOVER IN BASE RATES?

20 A Yes. The Company is proposing to recover its historical test year transmission
21 expenses as adjusted through the end of the true-up period in this proceeding. In its
22 direct case, the Company has annualized its transmission expenses to reflect
23 forecasted values through the end of the true-up period including the projected level

1 of rates at the end of the true-up period. These adjustments include: (i) CS-45
2 Transmission of Electricity by Others (Account 565), (ii) the Schedule 12 portion of
3 CS-85 Annualize Regulatory Assessments and (iii) CS-86 Annualize SPP, RTO and
4 NERC Fees. These adjustments are discussed in the testimonies of Company
5 witnesses John P. Weisensee and John P. Carlson (Weisensee Direct at 35,
6 46 through 47 and JPW-4 and Carlson Direct at 2 through 11).

7 **Q HAVE YOU IDENTIFIED ANY ISSUES WITH THE COMPANY'S DIRECT CASE**
8 **WITH REGARD TO THE LEVEL OF TRANSMISSION EXPENSES IT IS**
9 **PROPOSING TO COLLECT IN BASE RATES?**

10 A While I continue to study this issue and will be reviewing the direct testimony of other
11 parties in this proceeding with regard to this issue, I have not at this time identified
12 any issues with the level of transmission expenses the Company is proposing to
13 recover in its base rates. However, I would caution that in its annualization of
14 transmission expenses the Company relied upon projected values through the end of
15 the true-up period. The Company's annualization will need to be updated to reflect
16 actual values and rates at the end of the true-up period once such actual values are
17 available.

18 **III. TRANSMISSION REVENUES**

19 **Q HAVE YOU REVIEWED THE LEVEL OF TRANSMISSION REVENUES THE**
20 **COMPANY IS PROPOSING TO RECOVER IN BASE RATES?**

21 A Yes. As with transmission expenses, I continue to study this issue and will be
22 reviewing the direct testimony of other parties in this proceeding with regard to this
23 issue. However, I have identified that it appears the Company is proposing to use

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1 test year transmission revenues without any adjustment to reflect actual values and
2 rates at the end of the true-up period in this proceeding. This is inappropriate as the
3 Company is proposing to adjust its transmission rate base and transmission
4 expenses for actual values and rates at the end of the true-up period in this
5 proceeding. In order to maintain the relationship between revenues, expenses and
6 rate base that is expected to exist during the year rates are in effect, it is imperative
7 that if any one of these three elements is to be updated for known and measureable
8 values through the end of the true-up period, the other two elements must be updated
9 as well.

10 **Q WHAT DO YOU RECOMMEND TO THE COMMISSION WITH RESPECT TO THIS**
11 **ISSUE?**

12 A I recommend that the Commission require the Company to annualize its transmission
13 revenues through the end of the true-up period in this proceeding in a manner
14 consistent with the way it is annualizing transmission expenses through the end of the
15 true-up period. This will help to ensure the relationship between revenues, expenses
16 and rate base remains in synchronism so the Company does not over-recover its
17 costs.

18 **IV. TRANSMISSION TRACKER**

19 **Q PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO ESTABLISH A**
20 **TRANSMISSION TRACKER.**

21 A The Company is proposing to establish a Transmission Tracker to track the actual
22 level of the following expenses from the values for these expenses that were included
23 in base rates:

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- 1 • Southwest Power Pool (“SPP”) Schedule 1-A Administration Charge;
- 2 • SPP Transmission Costs; and
- 3 • SPP Schedule 12 FERC Assessment Fees.

4 After its new base rates go into effect, the Company would track the difference
5 between: (i) its actual amounts for these three expenses and (ii) the amounts for
6 these three expenses that have been included in base rates. Actual amounts for
7 these expenses that are in excess of the base rate level would be treated as a
8 regulatory asset (Account 182) and actual shortfalls for these expenses from the base
9 rate level would be treated as a regulatory liability (Account 254). A true-up of these
10 expenses as reflected in the accumulated regulatory asset and regulatory liability
11 amounts for these expenses would occur at the time of the Company’s next base rate
12 proceeding (Ives Direct at 13 through 17 and Carlson Direct at 2 through 11).

13 **Q HOW DO YOU RESPOND TO THE COMPANY’S PROPOSAL TO ESTABLISH A**
14 **TRANSMISSION TRACKER?**

15 A I recommend the Commission deny the Company’s request to establish a
16 transmission tracker. It has not reasonably demonstrated that it has a true need to
17 track these expenses. In general, the use of a tracker, be it a tracker that
18 automatically adjusts rates between base cases or a tracker that only adjusts at the
19 time of the next best rate case, should be avoided unless true need for them has
20 been demonstrated by the utility requesting it. There are two paramount reasons this
21 is the case.

22 First, the use of a tracker allows a utility to pursue single-issue ratemaking.
23 Under single-issue ratemaking, a utility can receive additional revenue in rates due to
24 either an increase in a tracked expense or decrease in a tracked revenue without any

1 consideration of whether that utility would simultaneously be receiving offsetting
2 decreases in expenses or offsetting increases in revenues for those expenses and
3 revenues that are not being tracked. To put it more simply, allowing a tracker can
4 break the synchronism between revenues, expenses and rate base leading to a utility
5 over-recovering its costs.

6 Second, the use of a tracker eliminates the inherent incentive a utility has to
7 minimize expenses and maximize revenues between base rate proceedings, which
8 over time works to keep electric rates lower than they otherwise would be. When a
9 utility is allowed to track an expense, it can become indifferent with regard to
10 minimizing that expense since it knows it will not need to file a new base rate case in
11 order to recover any increases in that expense. Similarly, when a utility is allowed to
12 track a revenue, it can become indifferent with regard to maximizing that revenue
13 since it knows that it will not need to file a base rate case in order to recover any
14 shortfall in that revenue.

15 **Q WHAT SHOULD BE REASONABLY DEMONSTRATED IN ORDER FOR A UTILITY**
16 **TO SHOW IT HAS A TRUE NEED FOR A TRACKER?**

17 **A** The utility needs to show that the expense or revenue in question is:

- 18 • Large enough to present a threat to the financial well being of the
19 utility;
- 20 • Volatile; and
- 21 • Cannot be reasonably managed by the utility.

1 Q DO ANY OF THE THREE EXPENSES THE COMPANY WOULD LIKE TO TRACK
2 THROUGH ITS PROPOSED TRANSMISSION RACKER MEET THESE THREE
3 PREREQUISITES?

4 A No. SPP Schedule 1-A Administration Charges are neither very large, volatile or
5 incapable of being managed by the Company. The Schedule 1-A rate, while larger
6 than, for example, MISO's administration charges, is still currently only a relatively
7 small \$0.255 per MWh and is subject to a FERC rate cap of \$0.35 per MWh. The
8 rate may rise to the \$0.35 per MWh level, but it cannot reasonably be said that the
9 administration charge is volatile like, for example, the market price of a commodity
10 might be. It can to a degree be managed by the Company by being active in the SPP
11 stakeholder process and, as necessary, at FERC, to help ensure, working with other
12 stakeholders, the SPP's costs are maintained within reasonable levels.

13 KCPL's total SPP Transmission Costs are projected to increase from just
14 under \$20 million to just under \$45 million by 2016. This projected cost increase is
15 being driven by the construction of new regional transmission projects within the SPP
16 footprint. However, the increase is not volatile as the increase is well forecasted by
17 SPP and occurs in stair steps much like the rate base of a utility increases as new
18 major capital projects are brought into service. It is also, like the SPP Schedule 1-A
19 charge, a cost that can to a degree be managed by the Company being active in the
20 SPP stakeholder process and, again, as necessary, at FERC. Allowing the Company
21 to track this expense would eliminate the inherent incentive the Company otherwise
22 would have to be vigilant in trying to contain these costs to reasonable levels in the
23 SPP stakeholder process and, as necessary, at FERC. In addition, as indicated in
24 the testimony of Mr. Carlson and Mr. Ives (Carlson Direct at 6 and Ives Direct at 14),
25 the regional transmission projects driving these costs are expected to provide

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1 significant benefits. The Company's proposed Transmission Tracker would not reflect
2 these offsetting benefits.

3 Finally, SPP Schedule 12 FERC Assessment Fees fails two of the three tests.
4 It is relatively small in magnitude and at it is non-volatile. The Company itself has
5 conceded it does not expect to see much variability in the Schedule 12 fees in the
6 near term because the Schedule 12 rate has remained somewhat constant over the
7 last couple of years and the Company expects that to continue (Carlson Direct at 10).

8 To conclude, for the reasons I have detailed, the Company's request for a
9 Transmission Tracker should be denied.

10 **V. CONCLUSIONS AND RECOMMENDATIONS**

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

12 A At this time, I have no proposed adjustments to the levels of transmission expenses
13 and transmission revenues the Company is proposing to recover in base rates.
14 However, I am recommending that the Commission require the Company to
15 annualize its transmission revenues based on actual values and rates at the end of
16 the true-up period in the same manner the Company is proposing to do for its
17 transmission expenses. In addition, I am recommending that the Commission deny
18 the Company's request for a Transmission Tracker.

19 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A Yes.

Qualifications of James R. Dauphinais

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

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

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation and a Principal with the firm of
6 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A I graduated from Hartford State Technical College in 1983 with an Associate's Degree
10 in Electrical Engineering Technology. Subsequent to graduation I was employed by
11 the Transmission Planning Department of the Northeast Utilities Service Company as
12 an Engineering Technician.

13 While employed as an Engineering Technician, I completed undergraduate
14 studies at the University of Hartford. I graduated in 1990 with a Bachelor's Degree in
15 Electrical Engineering. Subsequent to graduation, I was promoted to the position of
16 Associate Engineer. Between 1993 and 1994, I completed graduate level courses in
17 the study of power system transients and power system protection through the
18 Engineering Outreach Program of the University of Idaho. By 1996 I had been
19 promoted to the position of Senior Engineer.

20 In the employment of the Northeast Utilities Service Company, I was
21 responsible for conducting thermal, voltage and stability analyses of the Northeast

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1 Utilities' transmission system to support planning and operating decisions. This
2 involved the use of load flow and power system stability computer simulations.
3 Among the most notable achievements I had in this area include the solution of a
4 transient stability problem near Millstone Nuclear Power Station, and the solution of a
5 small signal (or dynamic) stability problem near Seabrook Nuclear Power Station. In
6 1993 I was awarded the Chairman's Award, Northeast Utilities' highest employee
7 award, for my work involving stability analysis in the vicinity of Millstone Nuclear
8 Power Station.

9 From 1990 to 1997 I represented Northeast Utilities on the New England
10 Power Pool Stability Task Force. I also represented Northeast Utilities on several
11 other technical working groups within the New England Power Pool ("NEPOOL") and
12 the Northeast Power Coordinating Council ("NPCC"), including the 1992-1996 New
13 York-New England Transmission Working Group, the Southeastern
14 Massachusetts/Rhode Island Transmission Working Group, the NPCC CPSS-2
15 Working Group on Extreme Disturbances and the NPCC SS-38 Working Group on
16 Interarea Dynamic Analysis. This latter working group also included participation
17 from a number of ECAR, PJM and VACAR utilities.

18 In addition to my technical responsibilities, I was also responsible for oversight
19 of the day-to-day administration of Northeast Utilities' Open Access Transmission
20 Tariff. This included the creation of Northeast Utilities' pre-FERC Order No. 889
21 transmission electronic bulletin board and the coordination of Northeast Utilities'
22 transmission tariff filings prior to and after the issuance of Federal Energy Regulatory
23 Commission ("FERC" or "Commission") FERC Order No. 888. I was also responsible
24 for spearheading the implementation of Northeast Utilities' Open Access Same-Time
25 Information System and Northeast Utilities' Standard of Conduct under FERC Order

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1 No. 889. During this time I represented Northeast Utilities on the Federal Energy
2 Regulatory Commission's "What" Working Group on Real-Time Information Networks.
3 Later I served as Vice Chairman of the NEPOOL OASIS Working Group and
4 Co-Chair of the Joint Transmission Services Information Network Functional Process
5 Committee. I also served for a brief time on the Electric Power Research Institute
6 facilitated "How" Working Group on OASIS and the North American Electric Reliability
7 Council facilitated Commercial Practices Working Group.

8 In 1997 I joined the firm of Brubaker & Associates, Inc. The firm includes
9 consultants with backgrounds in accounting, engineering, economics, mathematics,
10 computer science and business. Since my employment with the firm, I have filed or
11 presented testimony before the Federal Energy Regulatory Commission in
12 Consumers Energy Company, Docket No. OA96-77-000, Midwest Independent
13 Transmission System Operator, Inc., Docket No. ER98-1438-000, Montana Power
14 Company, Docket No. ER98-2382-000, Inquiry Concerning the Commission's Policy
15 on Independent System Operators, Docket No. PL98-5-003, SkyGen Energy LLC v.
16 Southern Company Services, Inc., Docket No. EL00-77-000, Alliance Companies, et
17 al., Docket No. EL02-65-000, et al., Entergy Services, Inc., Docket No.
18 ER01-2201-000, and Remedying Undue Discrimination through Open Access
19 Transmission Service, Standard Electricity Market Design, Docket No. RM01-12-000,
20 Midwest Independent Transmission System Operator, Inc., Docket No. ER10-1791-
21 000 and NorthWestern Corporation, Docket No. ER10-1138-000. I have also filed or
22 presented testimony before the Alberta Utilities Commission, Colorado Public Utilities
23 Commission, Connecticut Department of Public Utility Control, Illinois Commerce
24 Commission, the Indiana Utility Regulatory Commission, the Iowa Utilities Board, the
25 Kentucky Public Service Commission, the Louisiana Public Service Commission, the

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1 Michigan Public Service Commission, the Missouri Public Service Commission, the
2 Montana Public Service Commission, the Public Utility Commission of Texas, the
3 Wisconsin Public Service Commission and various committees of the Missouri State
4 Legislature. This testimony has been given regarding a wide variety of issues
5 including, but not limited to, avoided cost calculations, certification of public
6 convenience and necessity, fuel adjustment clauses, interruptible rates, market
7 power, market structure, prudence, resource planning, standby rates, transmission
8 losses, transmission planning and transmission line routing.

9 I have also participated on behalf of clients in the Southwest Power Pool
10 Congestion Management System Working Group, the Alliance Market Development
11 Advisory Group and several working groups of the Midwest Independent
12 Transmission System Operator, Inc. ("MISO"), including the Congestion Management
13 Working Group and Supply Adequacy Working Group. I am currently an alternate
14 member of the MISO Advisory Committee in the end-use customer sector on behalf
15 of a group of industrial end-use customers in Illinois. I am also the past Chairman of
16 the Issues/Solutions Subgroup of the MISO Revenue Sufficiency Guarantee ("RSG")
17 Task Force.

18 In 2009, I completed the University of Wisconsin-Madison High Voltage Direct
19 Current ("HVDC") Transmission course for Planners that was sponsored by MISO. I
20 am a member of the Power and Energy Society ("PES") of the Institute of Electrical
21 and Electronics Engineers ("IEEE").

22 In addition to our main office in St. Louis, the firm also has branch offices in
23 Phoenix, Arizona and Corpus Christi, Texas.