

Exhibit No.:
Issues: FAC Policy
Witness: Natelle Dietrich
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

NATELLE DIETRICH

KANSAS CITY POWER & LIGHT

CASE NO. ER-2014-0370

*Jefferson City, Missouri
June 2015*

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power &)
Light Company's Request for Authority to)
Implement a General Rate Increase for)
Electric Service)

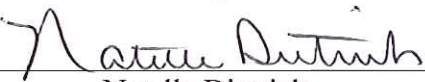
Case No. ER-2014-0370

AFFIDAVIT OF NATELLE DIETRICH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

COMES NOW, Natelle Dietrich and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Surrebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Natelle Dietrich

Subscribed and sworn to before me this 14th day of June, 2015.

SUSAN L. SUNDERMEYER Notary Public - Notary Seal State of Missouri Commissioned for Callaway County My Commission Expires: October 28, 2018 Commission Number: 14942086
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Notary Public

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SURREBUTTAL TESTIMONY

OF

NATELLE DIETRICH

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

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Q. Please state your name and business address.

A. Natelle Dietrich, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am Director of Tariff, Safety, Economic and Engineering Analysis for the Missouri Public Service Commission.

Q. Are you the same Natelle Dietrich who contributed to the Staff's *Revenue Requirement Cost of Service Report* ("COS Report")¹?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony?

A. I am responding to the rebuttal testimony of KCPL witness Tim Rush that KCPL's request for a Fuel Adjustment Clause ("FAC") is "consistent with the Regulatory Plan Stipulation because the tariff implementing the FAC will not become effective until after June 1, 2015."²

Q. Has Mr. Rush previously provided testimony related to FAC tariff effective dates?

¹ In the Staff's COS Report, I am the sponsoring Staff Expert/Witness for Section XIV.A titled "FAC – Policy" pages 189 – 194.

² Rebuttal testimony of Tim M. Rush, Case No. ER-2014-0370, page 6, lines 16-17. May 7, 2015.

Surrebuttal Testimony of
Natelle Dietrich

1 A. Yes, Mr. Rush filed direct testimony on behalf of KCP&L Greater Missouri
2 Operations Company (“GMO”) in Case No. EO-2008-0216 (“FAC Tariff Testimony”). The
3 FAC Tariff Testimony (without attachments) is attached as Schedule ND-S1.

4 Q. Please explain Mr. Rush’s FAC Tariff Testimony on tariff effective dates.

5 A. In his FAC Tariff Testimony, Mr. Rush starts by explaining the various tariff
6 filings that occurred leading up to tariffs that were approved by the Commission on
7 June 29, 2007, to become effective July 5, 2007³. Mr. Rush goes on to explain GMO’s
8 position on the effective date of the FAC Accumulation Period related to those tariffs.

9 Mr. Rush acknowledges that the Court of Appeals⁴ found that “an Accumulation
10 Period cannot start until the effective date of a tariff [July 5, 2007], including an FAC”⁵.
11 However, Mr. Rush states that GMO’s position is that the first Accumulation Period should
12 start June 1, 2007⁶ – 34 days⁷ prior to the effective date of the tariffs, which the Court of
13 Appeals had stated “clearly constitutes retroactive ratemaking.”⁸ In fact, the question at the
14 top of page 11 of Mr. Rush’s FAC Tariff Testimony asks “Why would that not be retroactive
15 ratemaking *as indicated by the Court of Appeals ruling?*”⁹ (emphasis added) Mr. Rush went
16 on to request an Accounting Authority Order mechanism to allow GMO to recover deferred
17 costs related to the 34 days in future rate proceedings. The Commission denied this request.

18 Q. Why is the FAC Tariff Testimony relevant to Staff’s policy position in this
19 case?

³ Direct testimony of Tim M. Rush, Case No. EO-2008-0216, page 3, beginning at line 6 through page 4, line 1.

⁴ *State ex rel. AG Processing, Inc. v. Public Service Commission*, 311 S.W.3d 361 (Mo. Ct. App. 2010).

⁵ Direct testimony of Tim M. Rush, Case No. EO-2008-0216, page 8, beginning at line 22 through page 9, line 1.

⁶ Id at page 11, lines 2-3.

⁷ In the FAC Tariff Testimony, Mr. Rush repeatedly refers to “34 days”. By Staff’s calculation, “34” days should be “35” days. For consistency with Mr. Rush’s testimony, I use “34” days in this surrebuttal testimony.

⁸ *State ex rel. AG Processing, Inc. v. Public Service Commission*, 311 S.W.3d 361 at 367 (Mo. Ct. App. 2010).

⁹ Direct testimony of Tim M. Rush, Case No. EO-2008-0216, page 11, lines 3-4.

Surrebuttal Testimony of
Natelle Dietrich

1 A. In this case, the meaning of the Regulatory Plan approved by the Commission
2 in Case No. EO-2005-0329 is in dispute, and the position taken by Mr. Rush regarding the
3 Regulatory Plan in this case contradicts testimony he gave regarding the Regulatory Plan in
4 Case No. ER-2012-0174.¹⁰ Mr. Rush's direct testimony in Case No. ER-2012-0174 (without
5 attachments) is attached as Schedule ND-S2. In his rebuttal testimony he attempts to explain
6 away this contradiction.¹¹ The FAC Tariff Testimony demonstrates that Mr. Rush will not
7 only contradict his previous testimony on the meaning of the Regulatory Plan, but he will also
8 argue a decision from the Court of Appeals does not mean what it says.

9 Q. Does this conclude your testimony?

10 A. Yes it does.

¹⁰ See Staff Revenue Requirement Cost of Service Report, Case No. ER-2014-0370, page 192, line 27 through page 193, line 3.

¹¹ Rebuttal testimony of Tim M. Rush, Case No. ER-2014-0370, page 7, lines 3-12. May 7, 2015.

Exhibit No.: 1
Issue: Fuel Adjustment Clause
Witness: Tim M. Rush
Sponsoring Party: KCP&L Greater
Missouri Operations Company
Case No.: EO-2008-0216
Date Testimony Prepared: April 1, 2011

MISSOURI PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri

April 2011

KCP&L Exhibit No. 1
Date 5/17/11 Reporter SM
File No. EO-2008-0216

DIRECT TESTIMONY

OF

TIM M. RUSH

Case No. EO-2008-0216

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

2 A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L") as Director,
6 Regulatory Affairs.

7 **Q: What are your responsibilities?**

8 A: My general responsibilities include overseeing the preparation of the rate cases, class cost
9 of service studies and rate design of both KCP&L and KCP&L Greater Missouri
10 Operations Company ("GMO" or the "Company"). I am also responsible for overseeing
11 the regulatory reporting and general activities of the Company as they relate to the
12 Missouri Public Service Commission ("MPSC" or "Commission").

13 **Q: Please describe your education, experience and employment history.**

14 A: I received a Master's Degree in Business Administration from Northwest Missouri State
15 University in Maryville, Missouri. I did my undergraduate study at both the University
16 of Kansas in Lawrence and the University of Missouri in Columbia. I received a
17 Bachelor of Science Degree in Business Administration with a concentration in
18 Accounting from the University of Missouri in Columbia.

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~~Date Reported~~
~~File No~~

1 **Q: Please provide your work experience.**

2 A: I was hired by KCP&L in 2001, as Director, Regulatory Affairs. Prior to my
3 employment with KCP&L, I was employed by St. Joseph Light & Power Company
4 (“Light & Power”) for over 24 years. At Light & Power, I held the position of Manager
5 of Customer Operations from 1996 to 2001, where I had responsibility for the regulatory
6 area, as well as marketing, energy consultants and customer services area. Customer
7 services included the call center and collections areas. Prior to that, I held various
8 positions in the Rates and Market Research Department from 1977 until 1996. I was the
9 manager of that department for fifteen years.

10 **Q: Have you previously testified in a proceeding before the MPSC or before any other**
11 **utility regulatory agency?**

12 A: I have testified on numerous occasions before the MPSC on a variety of issues affecting
13 regulated public utilities.

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

15 A: My testimony will provide evidence related to the issues still outstanding in this case as it
16 was remanded back to the Commission after the opinion of the Missouri Court of
17 Appeals for the Western District, Case No. WD 70799, issued March 23, 2010, by the
18 Cole County Circuit Court on July 19, 2010. “... for further proceedings consistent with
19 the Court of Appeals’ opinion.” The outstanding questions which I will address are as
20 follows: the date that the initial Accumulation Period began; whether the Commission
21 has the authority to order a refund or adjustment in a future Fuel Adjustment Clause
22 (“FAC”) period for an over-collection; what the amount of any refund or adjustment
23 would be; and the mechanism that should be used if a refund is found to be appropriate. I

1 will also address what I believe to be a reasonable solution to the issue before the
2 Commission, if the Commission determines that a refund is due because of the timing of
3 approval of the FAC tariffs and that it was not the intent of the Commission to postpone
4 the implementation of the FAC beyond the effective date of June 1, 2007.

5 **I. DATE THE INITIAL ACCUMULATION PERIOD BEGAN**

6 **Q: Please summarize the events leading to the establishment of the FAC in Aquila's**
7 **2007 rate case that have caused there to be a question as to the start date of the**
8 **first Accumulation Period.**

9 A: Tariffs were filed by Aquila in response to the Commission's May 17, 2007 Report and
10 Order in Aquila's general rate case, Case No. ER-2007-0004 ("Report and Order") on
11 May 18, 2007. These proposed tariffs included provisions establishing Aquila's Base
12 Fuel Costs, as well as implementing the FAC that Aquila believed were consistent with
13 the Report and Order. Aquila made a subsequent filing on May 21, 2007 with corrected
14 effective dates and a request for expedited treatment. On May 22, 2007, Staff filed a
15 Motion for Clarification raising issues regarding the inclusion of SO2 costs in the FAC,
16 the appropriateness of calculating interest monthly, and the lack of true-up and prudence
17 language within the FAC tariffs. Even though the true-up and prudence requirements are
18 detailed in the Code of State Regulations relating to FACs, 4 CSR 240-3.161 and 4 CSR
19 240-20.090 ("FAC Regulations"), Aquila filed new tariffs with proposed language on all
20 of these issues on May 24, 2007. Two more sets of FAC tariffs were filed between May
21 24 and June 18, 2007 with minor wording changes requested by Staff and based upon a
22 clarifying order issued by the Commission on June 14, 2007. The June 18 tariffs were

1 approved on June 29, 2007 to become effective July 5, 2007. These approved FAC
2 tariffs are attached as Schedule TMR-1.

3 **Q: Please describe the Accumulation Periods that were established in the tariffs and the**
4 **purpose that they served.**

5 A: The tariffs established two accumulation periods per year. One period spans June
6 through November of each year, and the other spans December through May. The
7 purpose of the accumulation period is to compare actual costs incurred to the costs
8 recovered in base rates. Any over or under collected costs are then recovered (after
9 Commission approval) over a twelve month period

10 **Q: Do you agree with the Industrial Intervenors and the Office of the Public Counsel**
11 **("OPC") that the first Accumulation Period for the FAC in this case should have**
12 **been August 1, 2007?**

13 A: No, I do not.

14 **Q: Why is that?**

15 A: Except for the FAC tariff sheets discussed above, Aquila's general rate tariffs went into
16 effect pursuant to the Report and Order on June 1, 2007. These tariffs included the Base
17 Fuel Costs upon which the FAC is based and which are described as "Costs" on the first
18 page of the FAC tariff, Original Sheet 124 and quantified as "Applicable Base Energy
19 Cost" on the third page of the tariff. See Schedule TMR-1 at Orig. Sheet 124 and 126.
20 Pursuant to the tariff, a Cost Adjustment Factor ("CAF") is charged to customers in the
21 future for over-collected or under-collected costs, the Base Fuel Costs of which were
22 authorized and implemented on June 1, 2007. No rates were collected other than those

1 collected under the tariffs in place as of June 1, 2007. The Base Fuel Cost tariff sheets
2 are attached as Schedule TMR-2

3 **Q: Please explain the tariffs that set forth the FAC and the calculation of the CAF to be**
4 **charged on the customer's bill.**

5 A: The FAC tariffs became effective July 5, 2007, as authorized in the Report and Order
6 which was effective May 27, 2007. Clarifications were made to the proposed FAC tariff
7 sheets, but the Commission's approval of the recovery of variable fuel and purchased
8 power costs through a Rate Adjustment Mechanism ("RAM") utilizing an FAC, as
9 authorized by Section 386.266.1 and the FAC Regulations, did not change between May
10 27 and July 5.

11 **Q: What do the FAC Regulations state regarding the effective date of the approval of**
12 **RAM's such as an FAC?**

13 A: Section 4 CSR 240-20.090(1)(I) focuses on "the effective date of the commission order
14 approving a RAM." Aquila's RAM was approved in the Report and Order effective May
15 27, 2007. The specific FAC tariff sheets that set forth the calculation of future CAF's
16 became effective July 5, 2007.

17 **Q: How does the true-up period as specified in 4 CSR 240-3.161(1)(G) and 4 CSR 240-**
18 **20.090(1)(I) of the FAC Regulations relate to the Accumulation Period under**
19 **discussion in this matter?**

20 A: Although the Industrial Interveners and the OPC have asserted that the true-up period as
21 defined in the FAC Regulations also defines the appropriate start of an Accumulation
22 Period, that is not the case. Accumulation Period and true-up period are two different
23 features of the FAC Regulations. Rate changes based upon tariffs become effective on

1 the tariffs' effective date. The inclusion of the true-up period definition in the FAC
2 Regulations does not mandate that FAC Accumulation Periods must begin on the first of
3 a month. The true-up period provisions in the FAC Regulations ensure that any amounts
4 over-recovered or under-recovered during the Recovery Period defined in the FAC tariffs
5 are reflected in a timely manner.

6 **Q: When was the first true-up filing required from GMO?**

7 A: GMO was not required to file its first true-up until May of 2009. Prior to that time, there
8 would have been no information from which to determine a true-up amount. One year
9 after the implementation of the FAC would have been May 31, 2008. At that time, a full
10 12-month Recovery Period (March 2008 through February 2009) for the first six-month
11 Accumulation Period (June-November 2007) had not yet run its course. Only three
12 months of the Recovery Period (March-May 2008) had passed. Since the recovery period
13 is based upon twelve months worth of usage, any attempted comparison would have been
14 useless. At the end of the next true-up year, however, the first Recovery Period for the
15 initial Accumulation Period had passed and a true-up was performed. The true-up
16 application of the Company was reviewed by the MPSC Staff, approved by the
17 Commission, and the under-recovered amounts were included in the next semi-annual
18 filing. See Schedule TMR-3, Order Approving Annual Fuel Adjustment Clause True-up.

19 **Q: Would the due date of the true-up filing for the first Accumulation Period have**
20 **changed if the Accumulation Period began on a date other than June 1, 2007?**

21 A: No, the FAC tariffs call for two Accumulation Periods per year which conclude on
22 November 30 and May 31 each year. The recovery periods for these accumulations are
23 from March 1 through February 28 (29) and September 1 through August 31. The first

1 Recovery Period, per the FAC tariffs, would have concluded on February 28, 2009
2 whether the Accumulation Period began on June 1, July 5 or August 1. See Schedule
3 TMR-4, MPS and L&P Fuel Adjustment Clause (FAC) Timeline.

4 **Q: What do you conclude from this regarding the commencement of the first**
5 **Accumulation Period for the Company?**

6 A: The first Accumulation Period began on June 1, 2007, after the Report and Order became
7 effective on May 21, 2007, but, in any event, no later than July 5, 2007 when the
8 Commission's Order of June 29, 2007 that approved the FAC tariff sheets became
9 effective.

10 II. COMMISSION AUTHORITY TO REFUND

11 **Q: Does the Commission have the authority to order a refund or adjustment in a future**
12 **FAC period for the purported over-collection?**

13 A: No, it does not.

14 **Q: Please explain.**

15 A: To date, GMO has submitted FAC costs for seven Accumulation Periods and has
16 received seven approved FAC tariff changes from the Commission. Within the time
17 frame covered by these seven Accumulation Periods, GMO has filed four true-up
18 applications. Each of these true-up applications and their associated support have been
19 reviewed by the MPSC Staff and approved by the Commission. In addition to this, two
20 prudence reviews covering the first two years of the GMO FAC have been completed and
21 filed with the Commission. Detailed discovery and analysis were conducted by the Staff.
22 Neither Staff nor any other party has raised any objections, and the prudence reviews
23 were approved by the Commission. See Schedule TMR-5, Order Approving Staff's

1 Prudence Review – EO-2009-0115 and Schedule TMR-6, Order Approving Staff's

2 Prudence Review – EO-2010-0167.

3 **Q: What do these approvals mean for this case?**

4 A: These approvals signify that the Staff has reviewed and found that the Company has been
5 prudent in all aspects of its fuel procurement, purchased power purchases and energy
6 delivery to customers and it has implemented the FAC tariffs properly and properly
7 collected its additional fuel costs through the FAC tariffs approved by the Commission.
8 Commission Rule 4 CSR 240-20:090(7)(B) provides the timeline regarding prudence
9 audits. Prudence reviews must be initiated no longer than every 18 months. Audit results
10 are to be filed within 180 days after audit initiation. An order is required regarding
11 Staff's audit no later than 210 days after the audit is initiated, unless within 190 days a
12 party to the proceeding requests a hearing. Both of the Company's audits have complied
13 with the above requirements and were approved by the Commission without objection.
14 See Schedule TMR-5. Because of these facts, the Company agrees with Staff that there
15 is no legal or factual basis for the Commission to order a refund.

16 **III. POTENTIAL REFUND OR ADJUSTMENT AMOUNT**

17 **Q: Even though the Company does not agree that a refund is due, please explain what**
18 **the amount of refund or adjustment would be and how any refund would be made if**
19 **so ordered by the Commission.**

20 A: While the Company believes that the Commission cannot order a refund, if a refund
21 were required, the amount due to the customer would be 34 days worth of costs based
22 upon the amounts filed in the first accumulation filing with the MPSC. The Court of
23 Appeals stated that an Accumulation Period cannot start until the effective date of a tariff,

1 including an FAC. Although the Company believes that the tariffs approving the FAC
2 became effective June 1, 2007 under the Report and Order, the date that the specific FAC
3 tariffs became effective was July 5, 2007. Those 34 days of costs would include interest
4 through the refund date calculated at the Company's short-term borrowing rate. These
5 costs could be included as a reduction in the next semi-annual filing and refunded over
6 the next twelve-month Recovery Period. No restatement of rates implemented after the
7 first Recovery Period should be made. Under no circumstance should the amount of
8 refund be more than the 34 days. As stated earlier, the true-up period and the
9 Accumulation Periods are separate and distinct concepts under the FAC Regulations and
10 the Company's tariffs.

11 **Q: How should the amount be calculated?**

12 **A:** The amount of a 34-day refund under these circumstances should be calculated by taking
13 the costs for the month of June and adding them to costs representing four of the 31 days
14 of July costs. Then, in order to calculate the interest amount owed on this amount, a new
15 rate should be calculated using a July 5, 2007 beginning accumulation date. Using kWh
16 sales by month and the difference between the original rate and a rate reflecting the
17 refund, the recovery of the costs in question should be calculated on the same basis as
18 they were recovered from customers during the Recovery Period of March 2008 through
19 February 2009. Interest should then be applied to the refunded amount. Interest will
20 need to be calculated through the refund date. Therefore, the total amount to be refunded
21 would be the 34 days worth of costs, plus interest calculated on the amounts as collected
22 over the first Recovery Period, plus interest on that total amount through the refund date.
23 The amount, as calculated by the Company for those 34 days with interest through

1 12/31/10 is \$2,060,617 for MPS and \$502,935 for L&P. This amount would need to be
2 updated for interest through the refund date.

3 IV. POTENTIAL MECHANISM TO REFUND

4 **Q: You suggested earlier that if a refund is ordered and an amount calculated, the**
5 **refund amount should be included as a reduction in the next semi-annual filing and**
6 **refunded over the next twelve-month recovery period. Why would this be the**
7 **appropriate way to make the refund?**

8 **A:** Although there are various options to accomplish a refund, the most efficient and
9 reasonable option would be to include the refund as an adjustment in the next scheduled
10 FAC Recovery Period.

11 **Q: Why would the recovery of an ordered refund over the next annual Recovery Period**
12 **be the appropriate method?**

13 **A:** The FAC tariff sheets already have an efficient mechanism in place to accommodate
14 corrections and adjustments. This method is to adjust the semi-annual CAF (Cost
15 Adjustment Factor) calculation for any adjustments or corrections that need to be made.
16 On Original Sheet No. 125 the FAC tariff provides: "C = Under/Over recovery
17 determined in the true-up of prior recovery period cost, including accumulated interest,
18 and modifications due to prudence reviews." The change is then spread over the next
19 twelve-month Recovery Period. This method allows for the matching of the refund to
20 current usage patterns. This method is also reasonable because the amounts that it would
21 refund over 12 months had been previously collected over 12 months.

1 **V. ISSUE OF RETROACTIVE RATE MAKING**

2 **Q: You have consistently stated that it is the Company's position that June 1, 2007**
3 **should be the start date for the first Accumulation Period. Why would that not be**
4 **retroactive ratemaking as indicated by the Court of Appeals ruling?**

5 **A: As the Commission has indicated on page two of its March 18, 2008 Order Denying**
6 **Applications for Rehearing in this case, "under the terms of its regulation, the**
7 **Commission's May 27, 2007 Report and Order that set the parameters of Aquila's fuel**
8 **adjustment clause controlled the beginning of the company's cost accumulation period**
9 **rather than the subsequent approval of the implementing tariff." What the Commission**
10 **didn't go further to say is that the implementing tariff made no change to rates being**
11 **charged to the customers. The Base Energy Costs were already included in the tariff**
12 **sheets that became effective on June 1, 2007 and under which customers were billed.**
13 **The FAC tariffs that became effective July 5, 2007 contained a rate of \$0.0000 per**
14 **kilowatt-hour ("kWh").**

15 **Q: What is your view of the February 14, 2008 Order issued in this proceeding?**

16 **A: I believe that the Commission did not authorize the change of past rates for services**
17 **already provided. The Commission authorized the use of past costs accounted for during**
18 **the Accumulation Period of June 1 through November 30, 2007 to set rates that would be**
19 **charged to future customers based upon future usage.**

20 **VI. AAO MECHANISM**

21 **Q: While the Company does not agree that any refund is appropriate, if the**
22 **Commission determines that it erred in its implementation of the FAC and all of the**

1 **reviews and approvals of the FAC, does the Commission have an alternative to**
2 **address this issue.**

3 A: Yes. I believe that an accounting authority order (“AAO”) mechanism can accomplish
4 what the Commission wanted to do back in 2007 when it implemented to the first FAC in
5 the State. I believe that the following statements are true:

- 6 1.) The Commission wanted the tariffs to become effective on June 1, 2007.
- 7 2.) The Commission wanted to implement the FAC tariff simultaneously with
8 the other GMO tariffs.
- 9 3.) The accumulation period and all other aspects of the tariffs, timing, etc.
10 were to begin on the June 1, 2007 date.
- 11 4.) The reason for the delays in the actual FAC tariffs effective date was to
12 make sure that the FAC was implemented correctly, as this was the first
13 FAC to be implemented under the new rules.

14 Given all these considerations, I believe that the Commission has the authority to
15 authorize an AAO which would include all of the refunds determined by this
16 Commission to be necessary as a result of the Court’s Order on Remand.

17 The Commission has considered an AAO to be appropriate for events that it finds
18 to be extraordinary, unusual and unique and not recurring.¹ The refund of costs found by
19 the Commission to be prudently incurred certainly meets these criteria. The fact that the
20 refund is connected with the first AAO implemented by the Commission highlights the

¹ *In the matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Electrical Operations. In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Purchase Power Commitments.* 1 MPSC 3d 200 (1991) at 205.

1 extraordinary nature of the event. Since subsequent GMO FAC orders have been upheld
2 by the courts on appeal, the refund is also a non-recurring event.

3 GMO requests the Commission, if it determines that a refund or adjustment is
4 necessary, to permit unrecovered costs directly related to the FAC remand be deferred to
5 Account 182.3, Other Regulatory Assets. GMO will seek to recover these deferred costs
6 in future rate proceedings.

7 VII. CONCLUSION

8 **Q: Please summarize the Company's position.**

9 A: The tariffs that were approved in the Aquila Rate Case by the Commission in its Report
10 and Order of May 25, 2007 (effective May 31, 2007), including Tariff Sheets 2, 18, 19,
11 and 21 through 25, clearly advised customers that an FAC had been approved by the
12 Commission. These tariff sheets included the base fuel and purchased power costs. No
13 additional tariff was needed to begin charging approved rates. The Cost Adjustment
14 Factor ("CAF") would not change until approved by the Commission after Staff review
15 until a later date. This filing, review and approval would be the first time the impact of
16 the FAC tariffs would be known.

17 Aquila was the first Company to implement an FAC under Senate Bill 179, which
18 became Section 386.266, and the new rules promulgated by the Commission. The
19 newness of the situation caused much of the delay in the final version of the tariffs being
20 approved. Each of the delays caused the tariff effective dates to move back. The base
21 fuel and purchased power costs were charged to the customer beginning with the
22 effective date of the non-FAC tariffs, which was May 31, 2007. No change to customer
23 charges related to the FAC occurred until the appropriate costs were filed with the

1 Commission, reviewed by the Commission Staff and approved by the Commission in
2 accordance with the appropriate statutes and codes. The fact that a pass-through of
3 prudent fuel and purchased power costs had been approved by the Commission was
4 evident in numerous pages of the non-FAC tariffs.

5 The FAC tariffs effective for Aquila and later GMO, as well as the FAC
6 Regulations, require that the FAC rates be interim, subject to true-up and prudence
7 reviews. Thus, the Commission has no authority to order the Company to refund any
8 amounts associated with the June 1, 2007 Accumulation Period in question. The
9 Company believes, however, that if the Commission does order a refund, it should be for
10 not more than 34 days worth of the costs accumulated plus interest.

11 If a refund is ordered by the Commission, an AAO gives the Commission a
12 mechanism to accomplish its original intention regarding the implementation of GMO's
13 FAC.

14 **Q: Does this conclude your testimony at this time?**

15 **A: Yes, it does.**

Exhibit No.:

Issue: Minimum Filing Requirements,
Revenues, Depreciation Study,
Electric Class Cost of Service Study,
Rate Design, Rules and Regulations,
Interim Energy Charge, Integrated
Resource Plans

Witness: Tim M. Rush

Type of Exhibit: Direct Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2012-0174

Date Testimony Prepared: February 27, 2012

Filed
November 30, 2012
Data Center
Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
February 2012**

**Certain Schedules Attached To This Testimony Designated "Highly Confidential"
Have Been Removed
Pursuant To 4 CSR 240-2.135.**

**KCP&L Exhibit No. 40-NP
Date 10/17/12 Reporter MM
File No. ER-2012-0174**

Schedule ND-S2-1

DIRECT TESTIMONY

OF

TIM M. RUSH

Case No. ER-2012-0174

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

2 A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as
6 Director, Regulatory Affairs.

7 **Q: What are your responsibilities?**

8 A: My general responsibilities include overseeing the preparation of the rate case, class cost
9 of service ("CCOS") and rate design of both KCP&L and KCP&L Greater Missouri
10 Operations Company. I am also responsible for overseeing the regulatory reporting and
11 general activities as they relate to the Missouri Public Service Commission ("MPSC" or
12 "Commission").

13 **Q: Please describe your education, experience and employment history.**

14 A: I received a Master of Business Administration degree from Northwest Missouri State
15 University in Maryville, Missouri. I did my undergraduate study at both the University
16 of Kansas in Lawrence and the University of Missouri in Columbia. I received a
17 Bachelor of Science degree in Business Administration with a concentration in
18 Accounting from the University of Missouri in Columbia.

1 **Q: Please provide your work experience.**

2 A: I was hired by KCP&L in 2001 as the Director, Regulatory Affairs. Prior to my
3 employment with KCP&L, I was employed by St. Joseph Light & Power Company
4 ("Light & Power") for over 24 years. At Light & Power, I was Manager of Customer
5 Operations from 1996 to 2001, where I had responsibility for the regulatory area, as well
6 as marketing, energy consultant and customer services area. Customer services included
7 the call center and collections areas. Prior to that, I held various positions in the Rates
8 and Market Research Department from 1977 until 1996. I was the manager of that
9 department for fifteen years.

10 **Q: Have you previously testified in a proceeding before the MPSC or before any other**
11 **utility regulatory agency?**

12 A: I have testified on several occasions before the MPSC on a variety of issues affecting
13 regulated public utilities. I have additionally testified at the Federal Energy Regulatory
14 Commission and the Kansas Corporation Commission.

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

16 A: The purposes of my testimony are to:

- 17 I. Explain how the Company satisfied the MPSC's minimum filing requirements
18 ("MFR") under 4 CSR 240-3.030;
- 19 II. Explain how the Company satisfied the depreciation study requirements under 4
20 CSR 240-3.160;
- 21 III. Provide the retail revenue adjustment to reflect the annualized and normalized
22 revenue level for KCP&L's Missouri jurisdiction;

1 IV Address the Company's position on the inclusion of Off-System Sales ("OSS")
2 Margins in the Company's cost of service.

3 V. Discuss the results of KCP&L's CCOS study and proposed tariff changes;

4 VI. Recommend the rate design and other tariff changes in this case;

5 VII. Recommend the implementation of an Interim Energy Charge ("IEC"), and

6 VIII. Propose the combining of the two utilities' Integrated Resource Plans.

7 **I. MINIMUM FILING REQUIREMENTS**

8 **Q: What is the purpose of this part of your testimony?**

9 A: The purpose of this part of my testimony is to confirm that KCP&L has satisfied the
10 MPSC's MFR, as set forth in 4 CSR 240-3.030.

11 **Q: How did KCP&L satisfy the MFR?**

12 A: The following information was prepared to address the specific requirements of the MFR
13 as outlined in 4 CSR 240-3.030(3):

14 A. Letter of transmittal

15 B. General information, including:

16 1. The amount of dollars of the aggregate annual increase and percentage
17 over current revenues;

18 2. Names of counties and communities affected;

19 3. The number of customers to be affected;

20 4. The average change requested in dollars and percentage change from
21 current rates;

22 5. The proposed annual aggregate change by general categories of service
23 and by rate classification;

- 1 6. Press releases relative to the filing; and
2 7. A summary of reasons for the proposed changes.

3 **Q: Are you sponsoring this information?**

4 A: Yes, I am.

5 **Q: Was this information prepared under your direct supervision?**

6 A: Yes, it was.

7 **II. DEPRECIATION STUDY REQUIREMENTS**

8 **Q: Has the Company performed a depreciation study in this proceeding?**

9 A: No, the Company filed a depreciation study in its last rate case (Case No. ER-2010-0355)
10 in compliance with the requirements of 4 CSR 240-3.160. The rule requires a study to be
11 filed at least every five years or three years if a rate case occurs between the five years.
12 The last rate case falls within this time frame and thus a depreciation study is not required
13 in this rate case.

14 **III. ANNUALIZED/NORMALIZED REVENUES**

15 **Q: Were the retail revenues included in this filing prepared by you or under your**
16 **supervision?**

17 A: Yes, they were.

18 **Q: Will you describe the method used in developing the revenues for this case?**

19 A: Both the weather-normalized kWh sales and customer levels by rate class were developed
20 by Company witness George M. McCollister. Mr. McCollister explains those figures in
21 his Direct Testimony. The test year used by the Company in this case was twelve months
22 ending September 30, 2011, which will be updated for known and measurable changes
23 through August 31, 2012. The monthly bill frequencies for the twelve months ending

1 September 30, 2011, that contain the billing units for each of the billing blocks for the
2 various rate components were developed under my supervision. For example, the
3 residential general use rate has three billing blocks in the winter period, while only one
4 billing block in the summer period. The bill frequency collects the actual usage that is
5 billed in each of the billing blocks for each month of the test period. It also collects the
6 actual number of customers in each of the months.

7 By applying the actual rates to the usage in each of the billing blocks, the actual
8 revenues can be reproduced. This method provided the basis for determining the overall
9 revenues to be used in this case. The Company determined monthly revenues by
10 applying the normalized sales and customer levels for each month represented in the test
11 period to the corresponding billing frequency. This was done for each month. The
12 normalized sales and customer levels from this were then multiplied by the rates that took
13 effect on May 4, 2011. The sum of these revenues was compared to the actual revenues
14 for the test year ending September 30, 2011 to determine the revenue adjustment
15 contained in the Summary of Adjustments attached to the Direct Testimony of Company
16 witness John P. Weisensee as Schedule JPW-4 (adjustment R-20).

17 IV. OFF-SYSTEM SALES MARGIN

18 **Q: What is the Company recommending for inclusion in the cost of service in this case**
19 **with regard to OSS Margins?**

20 **A:** The Company proposes to initially establish the contribution of Off-System Sales Margin
21 ("Margin") at the 40th percentile of the probabilistic analysis for the period January 1,
22 2013 to December 31, 2013 ("2013 Period"). This would be treated as a reduction to
23 KCP&L's test year revenue requirements. The probabilistic analysis that supports setting

1 such Margin at the 40th percentile is provided in the Direct Testimony of Company
2 witness Michael M. Schnitzer.

3 **Q: Why is the Company recommending that the Commission set Margin at the 40th**
4 **percentile in this case, while the Company has supported setting it at the 25th**
5 **percentile in prior cases?**

6 A: Because of a number of factors, the Company is recommending the 40th percentile in
7 combination with a proposed IEC. Even though the 40th percentile is significantly higher
8 than the 25th, the 40th percentile is still a margin driver for the Company's revenue
9 increase request. Had the Company requested the 25th percentile, the rate increase
10 request would have been greater. The Company disagreed in the last case with including
11 the 40th percentile because of the risks it placed on the Company; however, the Company
12 supports the 40th percentile in this proceeding along with the Company's
13 recommendation for the IEC.

14 **Q: Please provide some history behind the OSS Margin issues and how they have been**
15 **treated for purposes of setting rates.**

16 A: Company witness Michael Schnitzer traces the history of OSS Margins and how it has
17 been treated in KCP&L's rate cases since 2006. The Commission has relied on Mr.
18 Schnitzer's probabilistic analysis of OSS Margins since the beginning of the
19 Comprehensive Energy Plan. The reason for using this type of analysis is based on the
20 need to balance the interests of shareholders and ratepayers. In each of the Company's
21 last four rate cases, the Commission ordered that any over-recovery of the margins be
22 returned to customers. Any under-recovery would be absorbed by the Company.

1 **Q: In your opinion, has this arrangement been fair to the Company, given the risks it**
2 **faced?**

3 A: No. I believe that it would have been more appropriate to provide for a symmetrical
4 method which provided for recovery of any under-recovery, as well as returning to
5 customers any over-recovery of OSS Margin. Because OSS Margin is such a critical
6 component of the Company's overall revenue requirement, it would not be reasonable
7 either to customers or to the Company to set the OSS Margin at a level and require the
8 Company to absorb margins below the level that is set and the Company to keep anything
9 above. Because of the risk to the Company, it is clear that a more appropriate vehicle for
10 dealing with OSS Margin is in a fuel adjustment clause or an IEC. OSS Margins are by
11 their very nature contra to fuel prices. By that, I mean when fuel prices go up, OSS
12 Margins go up, and OSS Margins is an offset to fuel and purchased power costs.

13 Since most state utility regulators in the United States consider OSS Margin to be
14 an element of their utilities' authorized fuel adjustment clauses, it serves as an off-set to
15 fuel and purchased power costs. I am recommending the Commission approve an IEC in
16 this proceeding to help address this imbalance between customers and the Company.

17 **V. ELECTRIC CLASS COST OF SERVICE**

18 **Q: Has the Company performed an electric CCOS study for this case?**

19 A: Yes, the Company performed a CCOS study for this case. Company witness Paul
20 Normand provides the CCOS study and summarizes the results of the study in his Direct
21 Testimony.

1 Q: **Has the Company filed a CCOS in previous rate cases?**

2 A: Yes. In the Company's last rate case, Case No. ER-2010-0355, the Company filed a
3 CCOS study which was used for purposes of rate making. In the Company's case
4 previous to that, Case No. ER-2009-0089, the Company also filed a CCOS.

5 Q: **Do the contents of the CCOS in this case reflect the financial data associated with
6 this case filing?**

7 A: Yes. The data in Mr. Normand's testimony is based on the financial data filed in this
8 case.

9 Q: **What methodology did Mr. Normand use in preparing his CCOS study?**

10 A: As with the prior case, Mr. Normand used a methodology often referred to as the Base,
11 Intermediate, Peak ("BIP") method. This methodology allocates costs to classes based on
12 the utilization of production facilities. This is described in detail in Mr. Normand's
13 Direct Testimony. This is the same methodology that the Commission Staff used in the
14 last rate case.

15 Q: **What are the general results and conclusions from the CCOS study?**

16 A: The results of the CCOS study show that each class of customers recovers the cost of
17 service to that class and provides a return on investment. Further, the seasonal rates show
18 the same thing. That is, the summer and winter rates for each class provide recovery of
19 the cost of service and a return on the investment.

20 The CCOS study demonstrates that rates charged during the winter generally
21 provide a lower contribution to the average return on investment than the summer rates,
22 with two exceptions. Those exceptions are Small General Service other and Medium
23 General Service secondary as shown in Table 3 of company witness Paul Normand. The

1 customers who receive service under the all-electric tariff provide a lower return to the
2 Company than a comparable general service rate.

3 **Q: What other observations have you drawn from the CCOS study?**

4 A: The results of the CCOS study show that rates in the Large Power class are providing less
5 revenue than the average rate of return, while the Small General Service and Medium
6 General Service classes are earning well above the average rate of return. One of the
7 Company's primary concerns with shifting revenues between classes is that it will result
8 in customer shifts between classes. This further complicates the rate design necessary to
9 recover the total revenues.

10 VI. ELECTRIC RATE DESIGN

11 **Q: Are you sponsoring the electric tariffs filed in this case?**

12 A: Yes, I am.

13 **Q: Are you recommending changes to the rate design based on the results of the CCOS
14 study filed in this case?**

15 A: Not at this time.

16 **Q: Please describe the proposed rate design recommendation for the electric tariffs and
17 any additional proposed changes to the tariffs?**

18 A: The Company is requesting an increase in rates of \$105.7 million (15.1%). The
19 Company is proposing that the requested increase be spread to all customer classes and
20 all rate components on an equal percentage basis.

21 **Q: Are you proposing any additional tariff changes?**

22 A: Yes, as described in the testimony of Company witness Jimmy D. Alberts, the Company
23 is proposing changes to the Economic Relief Pilot Program (ERPP) tariff. The Company

1 is recommending increasing the number of participants and changing it from a pilot
2 program to Economic Relief Program (ERP).

3 VII. INTERIM ENERGY CHARGE

4 **Q: Does the Company have a Fuel Adjustment Clause ("FAC")?**

5 A: No, it does not. Per the Stipulation and Agreement ("Stipulation") approved in 2005 by
6 the Commission in KCP&L's Experimental Regulatory Plan ("Regulatory Plan") docket,
7 Case No. EO-2005-0329, the Company agreed that it will not seek a FAC prior to June 1,
8 2015. However, the Company is not prohibited from requesting an IEC.

9 **Q: Please explain.**

10 A: As permitted by Section III(B)(1)(c) at pages 7-8 of the Stipulation in Case No. EO-
11 2005-0329, KCP&L can propose an IEC in a general rate case filed before June 1, 2015
12 within the following parameters:

- 13 1. The rates and terms for such an IEC shall be established in a rate case along with
14 a determination of the amount of fuel and purchased power costs to be included in
15 the calculation of base rates.
- 16 2. The rate or terms for such an IEC shall not be subjected to change outside of a
17 general rate case where all relevant factors are considered.
- 18 3. The IEC rate "ceiling" may be based on both historical data and forecast data for
19 fuel and purchased power costs, forecasted retail sales, mix of generating units,
20 purchased power, and other factors including plant availability, anticipated
21 outages, both planned and unplanned, and other factors affecting the costs of
22 providing energy to retail customers.

1 4. The duration of any such IEC shall be established for a specified period of time,
2 not to exceed two years.

3 5. A refund mechanism shall be established which will allow any other over-
4 collections of fuel and purchased power amounts to be returned to ratepayers with
5 interest following a review and true-up of variable fuel and purchased power costs
6 at the conclusion of each IEC. Any uncontested amount of over-collection shall
7 be refunded to ratepayers no later than 60 days following the filing of the IEC
8 true-up recommendation of the Staff.

9 6. During an IEC period, KCP&L shall provide to the Staff, Public Counsel and
10 other interested Signatory Parties monthly reports that include any requested
11 energy and fuel and purchase power cost data.

12 **Q: Is the Company requesting an IEC in this case?**

13 A: Yes, the Company is requesting that the Commission approve an IEC rate as part of this
14 general rate case.

15 **Q: What are the rules for establishing an IEC?**

16 A: While the IEC is specifically addressed in the Regulatory Plan Stipulation with the
17 components expressed above, the Commission has established specific rules pertaining to
18 both FACs and IECs. The rules are contained in the statute and regulations pertaining to
19 the establishment of a Rate Adjustment Mechanism ("RAM"), which are found in
20 Section 386.266, RSMo and in Commission Rules 4 CSR 240-20.090 and 4 CSR 240-
21 3.161(2)(A) through (S). The RAM rules apply to both FACs and IECs. Section
22 20.090(12)(B) specifically states that the provisions of the rules shall not affect any

1 experimental regulatory plan that was approved by the Commission and was in effect
2 prior to the effective date of the rule.

3 **Q: Has the Company met all of the filing requirements to establish the IEC?**

4 A: Yes. The information required to be presented when an electric utility files to establish
5 an IEC is contained in my testimony schedules TMR-1 through TMR-5. The IEC tariff
6 sheet is identified in Schedule TMR-4.

7 **Q: Did the Company also complete a line loss study required in 4 CSR 240-20.090?**

8 A: Yes, it did. A line loss study was completed in October 2009.

9 **Q: What is contained in the IEC that you are proposing in this case?**

10 A: The Company is requesting an IEC rate of \$0.00/kWh (zero). This rate would be in place
11 over a two-year period beginning with the first effective date of rates. The IEC would
12 contain all the variable fuel and purchased power costs consistent with other fuel
13 adjustment clauses approved by this Commission. The proposed IEC would be
14 consistent with the fuel adjustment clause at KCP&L's sister company, KCP&L Greater
15 Missouri Operations Company, as it pertains to retail sales. The proposed IEC will also
16 contain the off-system sales margin variances above or below the amount included in the
17 rates established in this case with some specific sharing properties.

18 **Q: What are the sharing properties you are proposing?**

19 A: The Company proposes to include in base rates the 40th percentile of Off-System Sales
20 Margin. The Company is proposing to include 100% of the OSS Margin as an offset to
21 the fuel and purchased power costs attributable to Net System Input (NSI) when OSS
22 Margin is between the 40th and 60th percentile. If OSS Margin falls below the 40th
23 percentile, the Company proposes to place 25% of the amount of OSS Margin in a

1 deferred account to be recovered in the next rate case. The remaining 75% of the OSS
2 Margin would be included as an offset to the fuel and purchased power costs to meet
3 NSI. If the OSS Margin is greater than the 60th percentile, the Company would retain
4 25% of the amount of Margin and include the remaining 75% as an offset to fuel and
5 purchased power costs.

6 **Q: How would the IEC proposal work during the two-year period proposed in this**
7 **filing?**

8 A: The proposed IEC would be established at zero price and remain at zero for two years.
9 During that time, costs for variable fuel and purchased power costs to meet NSI would be
10 accumulated in a deferred account. The base fuel for NSI established in this case would
11 be an offset to this amount. Each amount would be set on an annual \$ per kWh basis.
12 For example, the base amount for fuel and purchased power costs is set in this case at
13 \$0.01596 per kWh. If during the first twelve-month period of the IEC the fuel and
14 purchased power costs to meet NSI were \$0.01696, then the deferred account would
15 include an amount equal to that difference, i.e., \$0.0010 times the NSI for the period.
16 This amount would be offset by the Off-System Sales Margin during the same twelve-
17 month period, adjusted to reflect the sharing proposal described above.

18 This process would happen each year of the IEC's two-year period. At the end of
19 the two years, if the amount in the deferred account were negative, then the Company
20 would refund that amount to customers. If the amount were positive, then no refund
21 would occur.

1 **Q: How does this proposed IEC mechanism balance the interests of customers and the**
2 **Company?**

3 A: It replaces the current system where the Company bears all of the risks up to the 40th
4 percentile and the customers receive all the benefit of Margin over the 40th percentile,
5 with the Company receiving none. The current system is not a fair or proper balancing of
6 interests. An asymmetric regulatory model of “heads – shareholders lose” and “tails –
7 shareholders break even” is not sustainable. Mr. Schnitzer discusses the Company’s
8 proposal at the end of Sections I and VI of his Direct Testimony. He finds that the
9 alignment of incentives to maximize the realized Margin is good public policy.

10 Company Witness Michael Schnitzer’s testimony provides a picture of how the
11 proposed sharing mechanism of OSS margins would be applied. As Mr. Schnitzer points
12 out in his testimony, the proposed sharing mechanism represents a fair balance to
13 customer and Company interests.

14 **Q: Are there some uncertainties that the Commission needs to be aware of in order for**
15 **the IEC proposal to be effective and acceptable for both the Company and**
16 **customer?**

17 A: Several areas include items that have not been fully captured in Company witness
18 Michael Schnitzer’s probabilistic analysis of off-system sales margins. For instance,
19 Company witness Schnitzer notes that his analysis does not account for certain force
20 majeure events. Force majeure events, should they occur, will likely need to be
21 accounted for in a different recovery mechanism. Another potentially significant issue
22 that needs to be addressed is the new SPP Integrated Marketplace, which is scheduled to
23 go live in April 2014.

1 **Q: Please discuss the SPP Integrated Marketplace.**

2 A: The new market will incorporate a single consolidated balancing authority and
3 centralized unit commitment. Market Participants will bid resources into a day-ahead
4 market with settlement pricing based on a locational marginal price that contains pricing
5 components for energy, losses, and grid congestion. The new market will also include
6 financial settlements for operating reserve products (i.e., Spinning and Supplemental
7 Reserves and Regulation Up and Down) and will provide for Make Whole Payments for
8 the units that are committed by SPP for reliability purposes. In addition, the SPP
9 Integrated Marketplace will include a Transmission Congestion Rights ("TCR") Auction
10 process, which will result in revenues or costs for the buyers and sellers of Auction
11 Revenue Rights ("ARRs") and TCRs as well as revenues or charges for the holders of
12 TCRs during the settlement of the day-ahead market. The new market will also allow for
13 Virtual Transactions and Revenue Neutrality Uplift, which helps SPP keep revenue
14 neutral as it operates the markets.

15 **Q: How will the new market impact the IEC proposals?**

16 A: The new SPP Integrated Marketplace is still in development so it is too soon to know
17 exactly the magnitude and direction of the impact, but the new market will touch both
18 fuel and off-system sales and, as such, will impact the components of the IEC. Because
19 the new market is still in development, the Margin percentiles developed by Company
20 witness Michael Schnitzer may not have fully incorporated the impacts of the new market
21 from either a price or a volume perspective. Because the new market is scheduled to go
22 live April 2014 and the IEC proposal is through January 2015, any significant deviations

1 in fuel costs and Margins resulting from the new market could create a situation similar
2 to that caused by a force majeure event.

3 **Q: How will the costs and revenues related to the new market be booked/accounted for,
4 and will they affect the IEC calculation?**

5 A: The potential accounting for the new market is still being evaluated and has not been
6 finalized. The accounts to which the revenues and costs associated with the new market
7 are recorded, however, are likely to be the same as or similar to the purchased power
8 expense accounts and the sales for resale revenue accounts that will be included in the
9 IEC. As such, it will be imperative as the IEC is implemented, and again as the new
10 market goes live, to make certain that the costs and revenues that will flow to the IEC are
11 consistent with those that are used to establish the various threshold and sharing levels in
12 the establishment of the IEC.

13 **Q: How do you propose to address these concerns?**

14 A: I suggest that throughout the IEC implementation period, the Company, on a regular
15 basis, keep the Staff and other interested parties apprised of the new market changes and
16 how it will impact the IEC. If changes are necessitated by these new market conditions,
17 the Company may need to adjust the IEC to account for these changes.

18 **VIII. ELECTRIC UTILITY RESOURCE PLANNING**

19 **Q: Is the Company preparing its Electric Utility Resource Plan (“IRP”) for filing on
20 April 1, 2012?**

21 A: Yes, it is. The Company is preparing to file its plan in compliance with the
22 Commission’s current Chapter 22 rules adopted on May 31, 2011, as is KCP&L Greater
23 Missouri Operations Company (“GMO”).

- 1 **Q: Are you preparing two plans separate and distinct from each other?**
- 2 A: Yes we are.
- 3 **Q: Are you also analyzing how the plans might change if the two companies were to**
4 **legally merge?**
- 5 A: Yes, we are. While the companies are separate legal entities, in many ways they operate
6 as one. We have not completed the analysis, but anticipate that joint planning could
7 provide benefits to both companies' Missouri customers by delaying the need to build
8 new generation beyond the time frame when the companies will need additional
9 generation on a stand-alone basis.
- 10 **Q: Do the current Chapter 22 rules specifically provide consideration for a combined**
11 **plan for two companies owned by the same parent corporation?**
- 12 A: No. The rules speak only in terms of "the utility".
- 13 **Q: How do you intend to proceed?**
- 14 A: We plan to submit a request for acknowledgment of a plan on behalf of both KCP&L and
15 GMO. The current Chapter 22 rules allow utilities to request acknowledgement of the
16 officially adopted resource acquisition strategy or any element of the resource acquisition
17 strategy including the preferred resource plan. Per 4 CSR 240-22.020 Definitions (1):
- 18 Acknowledgement means that the commission finds the preferred resource
19 plan, resource acquisition strategy, or the specified element of the resource
20 acquisition strategy to be reasonable at a specific date.
- 21 **Q: Should the Commission acknowledge a combined resource plan for KCP&L and**
22 **GMO as reasonable under 4 CSR 240-22.080(17), is that an indication of prudence**
23 **on the part of the Commission?**
- 24 A: No, the rules clearly state acknowledgement does not indicate a finding of prudence, pre-
25 approval, or authorization of any specific project or group of projects.

1 **Q: Then what is the value of an acknowledgement?**

2 **A:** In the companies' view an acknowledgement by the Commission of a combined resource
3 plan for KCP&L and GMO gives us some level of assurance that even absent a merger of
4 the two utilities, it makes sense to plan as one entity.

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

6 **A:** Yes, it does.

