

Exhibit No.: _____
Issue(s): FAC Component Reporting
Witness/Type of Exhibit: Riley/Rebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2016-0285

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

December 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)
)
)
)

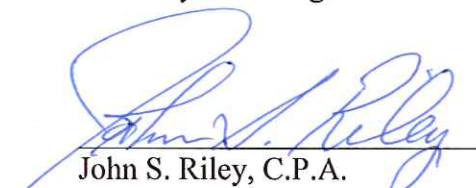
Case No. ER-2016-0285

AFFIDAVIT OF JOHN S. RILEY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John S. Riley, of lawful age and being first duly sworn, deposes and states:


1. My name is John S. Riley. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


John S. Riley, C.P.A.
Public Utility Accountant III

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



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

REBUTTAL TESTIMONY

OF

**JOHN S. RILEY
KANSAS CITY POWER & LIGHT COMPANY**

CASE NO. ER-2016-0285

I. INTRODUCTION

Q. Please state your name and business address.

A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102

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

A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Public Utility Accountant.

Q. Are you the same John Riley that provided direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. This testimony addresses KCPL’s lack of transparency in presenting information for calculating the Company’s FAC Base, specifically its presentation of purchased power costs and off system sales revenues. The Company presents totals that do not conform to Federal guidelines or prior Public Service Commission (“Commission”) decisions so the calculations and account totals presented are confusing and inaccurate.

Q. Are there guidelines as to how an electric utility should present its financial information?

A. Yes. The Federal Energy Regulatory Commission (“FERC”) has issued rulings to provide uniformity in electric utility financial reporting. One of the more focused rulings is

1 commonly known as FERC Order 668. The Commission has also promulgated rules to
2 direct electric utilities to follow the FERC uniform system of accounts (“USOA”)

3 **4 CSR 240-20.030 Uniform System of**
4 **Accounts—Electrical Corporations**

5 *PURPOSE: This rule directs electrical corporations*
6 *within the commission’s jurisdiction*
7 *to use the uniform system of accounts prescribed*
8 *by the Federal Energy Regulatory*
9 *Commission for major electric utilities and*
10 *licensees, as modified herein.*

11 **Q. Please summarize FERC Order 668.**

12 A. The FERC opened Docket No. RM04-12-000; Order No. 668, Accounting and Financial
13 Reporting for Public Utilities Including RTO’s, and issued its final ruling on Dec. 16, 2005.
14 The pertinent section for my testimony is **Section 6. Accounting for Settlement Amounts**
15 where the FERC ordered that public utilities who buy and sell their generation through a
16 Regional Transmission Organization (“RTO”), record their hourly purchases and sales on a
17 net basis in either USOA account 447, Sales for Resale, or account 555, Purchased Power.
18 The FERC also explained that transactions are to be netted based on the RTO market
19 reporting period in which the transaction takes place.¹ In the case of KCPL, transactions
20 would be netted hourly. A copy of the section 6 FERC Commission conclusion is attached
21 to this testimony as JSR Schedule R-1.

22 **Q. Why did the FERC order these financial transactions to be presented on electric utility**
23 **ledgers in this manner?**

24 A. Consistency and comparability were the primary goals.² The FERC was seeking uniformed
25 information so it and others could make informed decisions.

¹ FERC, order 668, paragraph 81

² Please refer to the last sentence of Paragraph 11.

1 **Q. Is KCPL presentation of purchased power expense and off system sales revenues**
2 **consistent with FERC Order 668?**

3 A. No. The Company's purchased power cost and off-system sales revenues as presented in
4 Mr. Tim Rush's direct testimony, Schedule TMR-4 do not conform to the FERC order to net
5 transactions. Since KCPL did not net as required in FERC Order 668, neither the
6 Commission nor the parties to this case can tell what KCPL's estimates of its normalized
7 true purchased power and net system sales are as defined in the Commission Report and
8 Order in the last KCPL rate case.³

9 **Q. How does KCPL present purchased power and off-system sales on its schedules and**
10 **workpapers?**

11 A. The Company starts with accurate test year totals but then presents adjustments that do not
12 correspond to test year totals or true-up figures through the first six months of 2016. The
13 proposed adjustments to these two accounts is where OPC finds the Company is not
14 consistent with FERC Order 668 and the Commission's previous rulings on Purchased
15 Power and Off-System Sales that should be included in the FAC calculations.

16 **Q. Please explain these adjustments.**

17 A. Company witnesses have proposed upward adjustments, within its FAC Base calculations,
18 to both Purchased Power costs and Off-System Sales revenues. These figures represent the
19 purchase and sales of native load within the RTO system. FERC Order 668 is clear on how
20 this should be reported:

21 Recording RTO energy market transactions on a net basis is
22 appropriate as purchase and sales transactions taking place in the
23 same reporting period to serve native load are done in
24 contemplation of each other and should be combined⁴

³ ER-2014-0370, page 34

⁴ Schedule JSR-1, paragraph 10

1
2
3 Though the transactions are recorded on the Company books correctly the admission of
4 these unnetted figures in the Company's testimony and rate case workpapers misrepresents
5 the Company's operations which is exactly what FERC Order 668 was intended to address.

6 **Q. Has the Commission ruled on this type of FAC calculations before?**

7 A. Yes, in Ameren Missouri's last rate case, Case No. ER-2014-0258.⁵ The Commission
8 ruled:

9 **Decision:**

10 The evidence demonstrated that for purposes of operation of the
11 MISO tariff, Ameren Missouri sells all the power it generates into
12 the MISO market and buys back whatever power its needs to serve
13 its native load. From that fact, Ameren Missouri leaps to its
14 conclusion that since it sells all its power to MISO and buys all that
15 power back, all such transactions are off-system sales and purchased
16 power within the meaning of the FAC statute. The Commission does
17 not accept this point of view.

18 The drafters of the FAC statute likely did not envision a situation
19 where a utility would consider all its generation purchased power or
20 off-system sales.

21 Similarly, the Commission quoted this section in its Report and Order in KCPL's last rate
22 case, ER-2014-0370, so this is not something untested by the Company before.

⁵ Report and Order, Page 115

1 **Q. Why is it important that electric utilities, such as KCPL, conform to FERC order 668,**
2 **the USOA, and Commission orders when reporting financial, accounting and FAC**
3 **calculations in a rate case?**

4 A. Uniform accounting requirements are very important to establish accurate information that
5 can be reviewed and evaluated from one rate case to the next. KCPL is required by the
6 Commission to comply with the FERC USOA. Correct reporting is especially important
7 due to the Commission's review of components of a Company's FAC. The OPC does not
8 believe that Mr. Rush's testimony schedules accurately reflect the requirements of FERC
9 Order 668 and the USOA.

10 In this case, KCPL has provided testimony that its purchased power costs have increased.
11 However, it does not provide information in its workpapers that show these costs have
12 indeed increased leaving the Commission and parties to the case to ask for information to
13 support KCPL's assertion.

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes.

16

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Part 101

(Docket No. RM04-12-000; Order No. 668)

Accounting and Financial Reporting for Public Utilities Including RTOs

(Issued December 16, 2005)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Final Rule.

SUMMARY: The Federal Energy Regulatory Commission (Commission) is amending its regulations to update the accounting requirements for public utilities and licensees, including independent system operators and regional transmission organizations (collectively referred to as RTOs). The Commission is also amending its financial reporting requirements for the quarterly and annual financial reporting forms for these entities. These updates to the Commission's Uniform System of Accounts and the financial reporting requirements will allow for better comparability between public utilities and will result in improved transparency of financial information and will facilitate better understanding of RTO costs.

EFFECTIVE DATE: The amended regulations will become effective **[insert date 30 days after publication in the FEDERAL REGISTER]**, with the accounting and financial reporting changes and updates to become effective January 1, 2006.

6. Accounting for Settlement Amounts

i. Accounting NOPR

2. In the NOPR, the Commission proposed that public utilities or licensees that conduct energy transactions through an RTO that requires participants to bid their generation into the market and buy generation to supply their native load report these

⁵⁹ TAPS at 6-8

transactions on a net basis in Account 555, Purchased Power.⁶⁰ The Commission also invited comment as to what circumstances would be appropriate for a public utility or licensee to reflect these types of transactions on a net basis, and under what circumstances would it be appropriate for a public utility or licensee to reflect these types of transactions as distinct purchases and sales.

ii. Commenters

3. Two commenters do not support the netting of transactions that flow through RTO energy markets.⁶¹ One of these commenters argues that for accounting and tax purposes, purchased power should, on financial statements, represent only purchased power. This commenter also asserts that its members that are subject to Rural Utilities Service (RUS) oversight need to be able to report gross amounts of energy sales to RUS. This commenter further asserts that it will be difficult for cooperatives to determine income for income tax purposes if only net transactions are reported.⁶² The other commenter argues that showing only the net position of a market participant may understate the use of RTO energy markets and mask situations where a utility is a net seller during one period but a net buyer in another period. This commenter also notes that netting would

⁶⁰ NOPR at P 75-79.

⁶¹ See APPA at 2, NRECA at 4.

⁶² NRECA at 5.

not reveal the effects of time and location-specific variation in energy prices, yielding only incomplete results that are unlikely to be meaningful.⁶³

4. Most other commenters, however, generally agree that these transactions should be reported on a net basis.⁶⁴ One commenter submits that reporting these types of transactions on a gross basis might give an inaccurate picture of an entity's size and its actual revenue-generating activities.⁶⁵ This commenter suggests that accounting for transactions settled through RTO markets on a net basis more accurately reflects what similarly situated utilities would be doing in the absence of RTO markets. This commenter also suggests that accounting on a gross basis would cause it to incur an artificially large gross receipts tax liability which would act as a deterrent to participation in RTO markets. This commenter further suggests that accounting for these transactions on a net basis is in accord with traditional accounting principles regarding whether to record transactions on a gross or net basis.

5. Some commenters support netting, but believe that it is inappropriate to report net sales in Account 555.⁶⁶ These commenters assert that net sellers of generation should report the transactions in Account 447, Sales for Resale, and that net purchasers should

⁶³ APPA at 2.

⁶⁴ See First Energy at 15, MGE at 2, Wisconsin Electric at 3, EEI at 6, APS at 3, Cinergy at 4, NYTOs at 12, SCE at 1.

⁶⁵ See MGE at 3.

⁶⁶ EEI at 6, First Energy at 16, Wisconsin Electric at 4.

report the transactions in Account 555, Purchase Power. One commenter notes that consistent with the reporting methodology of its RTO it reports sales and purchases of power on an hourly net position basis. For each hour that the company is a net seller of power, the commenter states that it reports the net amount in Account 447; conversely, if it is net buyer of power, it reports the net amount in Account 555. In each monthly reporting period, the commenter notes that the hourly Account 447 and/or Account 555 net amounts are aggregated and separately reported in Account 447 and 555, respectively.

6. Some commenters also recommend that the Commission allow companies flexibility in determining net sales and/or purchases during the relevant reporting period and for using the appropriate account or accounts to display its net sales and/or purchases.⁶⁷ One of these commenters suggests that some companies may choose to net their purchases and sales for the entire reporting period, while others may reflect separately net purchases when the company was a net buyer and net sales when it was a net seller.

7. On the other hand, one commenter suggests that the Commission define a uniform method for the calculation of the gross amount of sales versus purchases, whether it be by the hour, day, week or month.⁶⁸ This commenter argues that, without such a standard, a wide range of interpretation and reporting is likely to result.

⁶⁷ EEI at 7, First Energy at 16.

⁶⁸ NRECA at 3.

8. Another commenter asserts that netting should be allowed for transactions in all RTO markets.⁶⁹ This commenter suggests that the Commission clarify that netting of purchases from and sales into an RTO market is appropriate and allowed not only for transactions in an RTO that requires participants to offer all resources to and buy all power from the RTO, but for transactions in any RTO that offers an energy market in which participants may choose to offer all generation to and buy all power from the energy market. This commenter also suggests that the Commission clarify that purchases from and sales to one or more RTO markets may be netted against one another.

9. Finally, one commenter recommends that the Commission's Electronic Quarterly Reports (EQR) and annual reports be revised to match the accounting methodology using the Commission's USofA with the required reporting format.⁷⁰ While another commenter notes that there is a disconnect between the reporting of transactional data in the EQRs and reporting of the data in the FERC Form 1, stemming from how the data are defined in those two contexts. This commenter recommends that when the Commission next entertains revisions to one or the other of the forms, the Commission should discuss this issue with reporting entities to determine if some clarification aimed at conformity would be appropriate.⁷¹

⁶⁹ MGE at 3.

⁷⁰ Wisconsin Electric at 4.

⁷¹ EEI at 7.

iii. Commission Conclusion

10. Recording RTO energy market transactions on a net basis is appropriate as purchase and sale transactions taking place in the same reporting period to serve native load are done in contemplation of each other and should be combined. Netting accurately reflects what participants would be recording on their books and records in the absence of the use of an RTO market to serve their native load. Recording these transactions on a gross basis, in contrast, would give an inaccurate picture of a participant's size and revenue producing potential. The Commission will, therefore, adopt the proposed accounting for RTO energy market transactions with certain modifications and clarifications as discussed below. The Commission does expect public utilities, however, to maintain detailed records for auditing purposes of the gross sale and purchase transactions that support the net energy market amounts recorded on their books.

11. Additionally, we clarify that transactions are to be netted based on the RTO market reporting period in which the transaction takes place. For example, if the RTO market in which the transaction takes place uses an hourly period for determining energy market charges and credits, then non-RTO public utilities purchasing and selling energy in the market must net transactions on an hourly basis. Requiring participants to net transactions over the RTO market's reporting period leads to consistent and comparable energy market information for decision making purposes by the Commission and others.

12. Further, we clarify that the netting of purchases and sales in an RTO energy market is appropriate not only for transactions where participants are required to bid their

generation into the market and buy generation from the market to supply their native load, but also in cases where an RTO offers an energy market in which participants may choose to offer all generation to and buy all power from the energy market.

13. We also clarify that if a participant is a net seller, rather than a net buyer, during a given market reporting period it must credit such net sales to Account 447, Sales for Resale, instead of Account 555, Purchased Power.

14. Finally, one purpose of this rule is to establish uniform accounting requirements for the purchase and sale of energy in RTO markets. The purpose of reporting of gross information in EQRs, in contrast, is to provide the Commission and the public with a more complete picture of wholesale market activities which affect jurisdictional services and rates, thereby helping to monitor for any market power and to ensure that customers are protected from improper conduct. These are not necessarily the same criteria and principles that should be used in establishing uniform accounting requirements. In any event, the reporting of wholesale market activity in EQRs falls outside the scope of this rule.