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Witness: John R. Carlson
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CASE NO.: ER-2016-0285

REBUTTAL TESTIMONY

OF

JOHN R. CARLSON

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
December 2016**

KCP&L Exhibit No. 114
Date 2-28-17 Reporter RF
File No. ER-2016-0285

REBUTTAL TESTIMONY

OF

JOHN R. CARLSON

Case No. ER-2016-0285

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

2 A: My name is John R. Carlson. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: Are you the same John R. Carlson that provided Direct Testimony on behalf of**
5 **Kansas City Power & Light Company (“KCP&L” or “Company”) in this case?**

6 A: Yes, I am.

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

8 A: Staff’s Cost of Service Report (p. 137) indicated that Staff anticipates KCP&L’s
9 recommendation regarding rate-making treatment for the costs that it will incur under
10 Attachment Z2 (“Z2”) of the Southwest Power Pool’s (“SPP”) Open Access
11 Transmission Tariff (“OATT”) in the Company’s true-up testimony. The Rebuttal
12 testimony of KCP&L witness Don A. Frerking discusses that proposed rate-making
13 treatment. My testimony provides an overview of SPP’s Attachment Z2, discusses why it
14 is impacting the Company now, and reviews the Company’s historical and ongoing
15 Attachment Z2 charges, credits, and revenues.

16 **Q: Can you briefly describe the Attachment Z2 crediting process?**

17 A: Attachment Z2 of the SPP OATT provides for recovery of directly assigned costs
18 incurred by transmission Upgrade Sponsors from those Transmission Customers that
19 subsequently use the transmission upgrade, and whose transmission service would not

1 have been granted “but for” the upgrade that was paid for by the Upgrade Sponsor. If a
2 Transmission Customer was granted transmission service that flowed energy across an
3 upgrade paid for by another entity, and that transmission service would not have been
4 granted “but for” that upgrade, then that transmission customer would pay for a portion
5 of that upgrade.

6 In order for an upgrade to be eligible for recovery under Z2 it has to be classified
7 as a Creditable Upgrade. As stated in the SPP OATT,

8 “Any Network Upgrade¹ which was paid for, in whole or part, through revenues
9 collected from a Transmission Customer, Network Customer, or Generation
10 Interconnection Customer through Directly Assigned Upgrade costs shall be
11 considered a Creditable Upgrade where the Upgrade Sponsor is eligible to receive
12 revenue credits in accordance with...Attachment Z2.”²

13 Sponsored Upgrades, those Network Upgrades that are requested by an entity but
14 are not any other kind of Network Upgrade, are considered Creditable Upgrades provided
15 that SPP determines the upgrade was an integral part of the transmission system.

16 The Upgrade Sponsors of Creditable Upgrades are eligible to receive revenue
17 credits when there is new or increased transmission service that could not have been
18 granted “but for” the existence of that upgrade. Upgrade Sponsors are not guaranteed full
19 recovery of the directly assigned costs that they incurred. Upgrade Sponsors will only
20 receive full recovery if there is sufficient subsequent use from new or increased
21 transmission service. The revenue credits that are paid to Upgrade Sponsors are collected

¹ Network Upgrades are “All or a portion of the modifications or additions to transmission-related facilities that are integrated with and support the Transmission Provider’s overall Transmission System for the general benefit of all Users of such Transmission System.” SPP OATT at Section 1, Definitions.

² SPP OATT at Attachment Z2 Section 1.

1 from Network and Point-to-Point (“PtP”) Transmission Customers through directly
2 assigned charges and/or through Schedule 11 rates. The cost allocation provisions in
3 Attachment J of the SPP OATT dictate whether the charges to Transmission Customers
4 will be directly assigned or included in Schedule 11 rates.

5 **Q: When did KCP&L first learn of SPP’s Attachment Z2?**

6 A: SPP originally filed with the Federal Energy Regulatory Commission (“FERC”) to
7 incorporate Z2 into the SPP OATT in 2008 in FERC Docket No. ER08-746. However,
8 the basic provisions of Z2 were originally present in 2005 when the Aggregate
9 Transmission Service Study (“ATSS”) process, known as Attachment Z, was approved
10 by the FERC and added to the SPP OATT.³ The ATSS process determines required
11 transmission service upgrades as a result of long-term PtP and long-term Network
12 Integration Transmission Service (“NITS”) requests. Also included were provisions for
13 revenue crediting, understanding that subsequent use of an upgrade should result in
14 payments back to the entity that originally paid for the upgrade.

15 KCP&L would have been aware of the original Attachment Z and the
16 development and filing of the splitting out of Attachment Z into Attachment Z1 (the
17 ATSS) and Attachment Z2 (revenue crediting) that was done in 2008.

³ Order Accepting and Suspending Tariff Filing, Case No. ER05-109.

1 **Q: If KCP&L was aware of revenue crediting provisions present in the SPP OATT**
2 **back in 2005, why is this only of concern now?**

3 A: Starting in 2008, SPP made multiple attempts to address revenue crediting. Through
4 tariff revisions, task forces and multiple vendors, it was only in 2016 that SPP was able to
5 implement software and systems that could determine the full scope and potential impact
6 of Z2 payment obligations.

7 In October of 2016 SPP provided the Company with full information regarding
8 the payment obligations required under Z2 for the historical period, from March 2008
9 (the first impact on a Creditable Upgrade for which credits needed to be determined)⁴ to
10 August 2016. In April of 2016, SPP had provided the Company with information about
11 the directly assigned charges that will be applicable to its transmission service requests.
12 The April 2016 information, however, was only for the directly assigned charges and did
13 not yet include any information regarding the Schedule 11 impacts, Transmission Owner
14 PtP revenue claw-backs, or revenue credits that the Company would receive as an
15 Upgrade Sponsor.

16 **Q: Why does KCP&L have payment obligations?**

17 A: KCP&L has payment obligations under Z2 because we have transmission service
18 requests that would not have been granted but for a Network Upgrade paid for by another
19 entity. It is important to note that the Company will also receive credits as an Upgrade
20 Sponsor, and we will have payables as a Transmission Owner (claw-backs of PtP
21 revenue received by the Transmission Owner that should have gone to Upgrade
22 Sponsors).

⁴ Petition of Southwest Power Pool, Inc. for Tariff Waiver, p. 8, Case No. ER16-1341.

1 **Q: What is the overall impact of Attachment Z2 to KCP&L for the historical period**
2 **(March 2008 – August 2016)?**

3 A: The net impact to the Company for the historical period from March 2008 to August
4 2016 is a net payable of \$729,772. This is split between the Transmission Customer side
5 of the business that has a net receivable of \$1,364,756, and the Transmission Owner side
6 of the business that has a net payable of \$2,095,527. The primary driver for KCP&L's
7 Transmission Customer net receivable is credits for KCP&L's LaCygne-West Gardner
8 Sponsored Upgrade. The primary driver for KCP&L's Transmission Owner net payable
9 is the claw-back of PtP revenues discussed previously in this testimony.

10 **Q: How was the payment for the historical period obligation made?**

11 A: The Company made a one-time payment in November 2016 for the historical net
12 payment obligation of \$729,772.

13 **Q: What is the anticipated ongoing impact of Attachment Z2 to KCP&L?**

14 A: In addition to invoicing for the one-time historical period amounts, SPP has also begun to
15 invoice Transmission Customers and Transmission Owners for on-going monthly Z2-
16 related charges, credits, and revenues. The Company will evaluate and utilize these on-
17 going monthly amounts, as well as known future amounts, in the development of the
18 forecasted average 2017-2018 revenues and expenses that it is proposing for the
19 annualization of all transmission-related revenues and expenses. The Company intends
20 to update these forecasted amounts in the context of its True-up filing in this case.

21 **Q: What are the known future amounts that you mentioned?**

22 A: The charges to Transmission Customers are based on the term(s) of the applicable
23 transmission service reservations. The Company has known new transmission service

1 reservations that begin 12/31/2016 and run through 12/31/2037. The known directly
2 assigned costs applicable to these new transmission service reservations will add
3 approximately \$100,000 per month to KCP&L's payment obligations under Z2 beginning
4 12/31/2016. That projection is based on what is currently known. Any future
5 transmission service requests that could not be granted "but for" an existing Creditable
6 Upgrade will result in additional future payment obligations. Future transmission service
7 for entities that could not be granted but for the Creditable Upgrade(s) for which KCP&L
8 is the Upgrade Sponsor will result in additional revenue credits to the Company.

9 **Q: How will payments for future obligations be made?**

10 A: On-going Z2-related charges, credits, and revenues will be reflected on the normal
11 monthly invoices that SPP distributes to Transmission Customers and Transmission
12 Owners. Billing and payments will be made under the normal monthly terms and
13 conditions.

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

15 A: Yes, it does.

