

**Exhibit No.:**

**Issue(s):**

Rebuttal to the Direct Testimony of  
GMO witness Scott Heidtbrink/  
Conclusions of Law and Decision/  
Rebuttal to the Direct Testimony of  
GMO Witness Ron Klote/  
Rebuttal to the Direct Testimony of  
GMO Witness Darrin Ives/  
Rebuttal to the Direct Testimony of  
GMO Witness Kevin Bryant/  
Rebuttal to the Direct Testimony of  
GMO Witness Tim Rush/  
Rebuttal of GMO Witnesses Darrin Ives and  
John Carlson - Regionally-Allocated  
Transmission Expenses/  
Rebuttal to the Direct Testimony of GMO  
Witness Charles Caisley/  
Rebuttal of Staff Witness Keith Majors

**Witness/Type of Exhibit:**

Hyneman/Rebuttal

**Sponsoring Party:**

Public Counsel

**Case No.:**

ER-2016-0156

**REBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

Submitted on Behalf of the Office of the Public Counsel

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

CASE NO. ER-2016-0156

August 15, 2016



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**REBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**CASE NO. ER-2016-0156**

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

2 A. Charles R. Hyneman, PO Box 2230, Jefferson City, Missouri 65102.

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

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

6 **Q. Are you the same Charles R. Hyneman who filed direct testimony in this case?**

7 A. Yes, I am

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The purpose of this testimony is to address some of the statements made and positions  
10 taken in direct testimonies of the following KCP&L Greater Missouri Operations  
11 Company (“GMO”) witnesses:

1	Scott Heidtbink
2	Ron Klote
3	Darrin Ives
4	Kevin Bryant
5	Tim Rush
6	John Carlson
7	Charles Caisley

12  
13 In addition to these GMO witnesses, I will also be addressing the positions taken by Staff  
14 on current income tax expense and executive supplemental pension expense reflected in  
15 the direct testimony of Staff witness Keith Majors.

1 **Q. Should the fact that you do not address a particular issue in this rebuttal testimony**  
2 **be interpreted as approval or agreement with any other comments made or**  
3 **positions taken by GMO, Staff or any other party in their respective direct**  
4 **testimony filings?**

5 A. No, it should not.

6  
7 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS SCOTT HEIDTBRINK**

8 **Q. KCPL witness Scott Heidtbrink discusses GMO's cost control measures at page 9 line**  
9 **17 of his direct testimony. Do you have any comments on this testimony?**

10 A. Yes. One of the basic responsibilities of a utility employee, especially a corporate officer, is  
11 to seek ways to operate the utility in the most efficient way possible. A utility is only  
12 allowed to recover in utility rates reasonable costs incurred in providing utility service. A  
13 reasonable cost is the lowest cost necessary to provide safe and adequate utility service.

14 With that in mind, lowering the cost to provide electric utility service should be a major,  
15 day-day focus of utility management. The list of actions included on pages 9 and 10 of Mr.  
16 Heidtbrink's direct testimony is not special, substantial or noteworthy. If the actions listed  
17 here have actually been taken and have actually have resulted in lower costs to provide  
18 GMO's utility service, then Mr. Heidtbrink is merely telling the Commission that GMO  
19 management is doing what it is expected to do, be efficient.

20 **Q. Mr. Heidtbrink states at page 9 GMO has worked "very hard" to manage the costs**  
21 **that can be controlled, which ultimately reduce the rate increase request. Do you have**  
22 **reasons to disagree with this statement?**

23 A. Yes. While there may be areas where GMO did work hard to manage costs, there are areas  
24 where GMO could have reduced costs and chose not to do so.

1 **Q. Please explain.**

2 A. The first area is related to GMO's insistence on incurring millions of dollars in hedging  
3 losses year after year. GMO's hedging activities is addressed in my direct testimony and in  
4 the direct testimony of OPC witness John Riley.

5 In its test year books and records in account 547, GMO recorded approximately \$1.8 million  
6 in hedging losses, most of which are not related to natural gas hedging but purchased power  
7 (account 555) hedging. In its cost of service in this case, GMO is proposing to charge its  
8 MPS customs over \$4 million in hedging losses. If GMO would just not engage in natural  
9 gas or purchased power hedging in the past and current non-volatile natural gas market, it  
10 could have saved the utility and its customers many millions of dollars in hedging losses.

11 GMO has been consistently incurring millions of dollars in hedging losses when there is no  
12 need to hedge in today's non-volatile and low-price natural gas and purchased power  
13 market. This is not only the position of the OPC but I understand it is also the position of  
14 the Commission Staff in this case. GMO's continued incurrence of millions of dollars in  
15 natural gas and purchased power hedging losses when there is no need to incur such losses  
16 contradicts the testimony of Mr. Heidtbrink that GMO is working hard to reduce costs.

17 **Q. Is GMO and its sister utility KCPL allowed to hedge in all of its service territories?**

18 A. No. GMO and KCPL are two electric utility companies owned and controlled by Great  
19 Plains Energy ("GPE") as a nonregulated holding company. KCPL operates in Kansas as  
20 well as Missouri. The Kansas Corporation Commission will not allow KCPL to include  
21 hedging costs in rates charged to Kansas ratepayers it did not approve KCPL's hedging  
22 policies and procedures in a past Kansas docket. However, KCPL is allowed to charge  
23 hedging costs to Missouri ratepayers.

24 GMO only operates in Missouri and has two service territories, MPS and L&P. In a prior  
25 Missouri rate case GMO agreed not to charge hedging costs to customers in its L&P service  
26 territory. GMO charges all of its hedging costs to its MPS service territory.

1 **Q. Based on your review of GMO's rate case filing, has GMO made an attempt to control**  
2 **the level of capital costs it proposes to charge ratepayers?**

3 A. No. In KCPL's last rate case No. ER-2014-0370 and GMO's last rate case No. ER-2012-  
4 0175, the Commission ordered the use of GPE's consolidated parent company capital  
5 structure for setting rates.

6 In this current GMO rate case, ER-2016-0156, contrary to the assertions by Mr. Heidtbrink  
7 that GMO is working hard to reduce costs, GMO abandoned the lower-cost GPE  
8 consolidated capital structure for setting rates and is now proposing a higher-cost, newly-  
9 designed "GMO specific" capital structure.

10 In addition to proposing a newly designed high-cost capital structure, GMO is proposing an  
11 even higher cost of equity than ordered by the Commission for KPCL, GMO's sister utility  
12 on September 2, 2015 in Case No. ER-2014-0370. This Commission Order was issued less  
13 than 6 months prior to the date GMO filed this rate case on February 23, 2016. These facts  
14 suggest GMO is not working to reduce costs. To the contrary, in the area of capital costs,  
15 they suggest GMO is working hard to increase the costs necessary to provide utility service.

16 **Q. Are you proposing a particular capital structure for GMO in this testimony?**

17 A. No. OPC's proposed capital structure for GMO in this rate case is addressed in the direct  
18 testimony of OPC witness Michael Gorman. My sole purpose in this rebuttal testimony of  
19 GMO witnesses on the issue of capital structure is to rebut GMO's assertion that its  
20 management is working hard to lower its cost of providing utility service.

21 **Q. Please discuss why you believe GMO is attempting to increase its capital costs in this**  
22 **rate case.**

23 A. On September 2, 2015 the Commission determined that a reasonable return on equity for  
24 KCPL was 9.7%. Less than 6 months later, GMO filed this rate case seeking a 9.9% return  
25 on equity. Substantial evidence has been provided in this case by Staff and OPC witness

1 Gorman that equity costs for electric utilities similar to GMO have decreased recently and  
2 not increased as GMO suggests.

3 The Commission concluded on that same day that, in calculating KCPL's cost of capital, the  
4 correct capital structure to use is the actual capital structure of GPE on May 31, 2015, which  
5 included 50.09% common equity. Less than 6 months later, GMO now proposes the  
6 Commission set rates on a newly-created, never before used capital structure dominated by a  
7 high-cost equity ratio of 54.829%.

8 At paragraphs 22-25 of its September 2, 2015 Report and Order in Case No. ER-2014-0370,  
9 the Commission discussed the basis of its decision on the appropriate capital structure to use  
10 to set electric utility rates for KCPL in its 2014 rate case:

11 22. The actual capital structure of Great Plains Energy Incorporated  
12 ("GPE") as of May 31, 2015, was 50.090 percent common equity,  
13 .552 percent preferred stock, and 49.358 percent long-term debt. This  
14 capital structure is consistent with the capital structure of utility  
15 operating companies held by proxy companies.  
16

17 23. In KCPL's last rate case, File No. ER-2012-0174, the  
18 Commission used a consolidated capital structure and embedded  
19 cost of debt for KCPL consistent with that of GPE, KCPL's parent  
20 company.  
21

22 24. In KCPL's most recent retail rate case in Kansas, the Kansas  
23 Corporation Commission approved the use of a capital structure  
24 based on the GPE consolidated capital structure.  
25

26 25. All of the expert witnesses on this issue recommended using  
27 the GPE capital structure for KCPL, except for witness Maureen  
28 Reno. Ms. Reno used KCPL's actual capital structure as of  
29 December 31, 2014, which included short-term debt.  
30

31 In this current GMO rate case filed on February 23, 2016, GMO did not use the authorized  
32 return on equity nor the ordered capital structure from the Commission's September 2, 2015  
33 Report and Order for KCPL. Instead, GMO proposes in this current rate case to charge its  
34 customers millions of dollars more in capital costs than what the Commission very recently  
35 found to be correct and reasonable.



1 **Q. What were the Commission's final conclusions on the appropriate capital structure for**  
2 **GMO's sister utility, KCPL in its September 2, 2015 Report and Order in Case No.**  
3 **ER-2014-0370.**

4 A. The final conclusions reached by the Commission are shown below:

5 **CONCLUSIONS OF LAW AND DECISION**

6 In determining the rate of return, the Commission must first  
7 consider KCPL's capital structure and cost of debt. This  
8 Commission has historically used the actual capital structure of  
9 GPE in determining the capital structure of KCPL, as has the  
10 Kansas Corporation Commission when setting KCPL's rates in  
11 that state. It is appropriate to use a consistent capital structure  
12 across all regulatory jurisdictions to avoid disagreements about one  
13 operating company's capital structure having more or less equity  
14 than another operating company.

15  
16 The Commission concludes that in calculating KCPL's cost of  
17 capital, the correct capital structure to use is the actual capital  
18 structure of GPE as of May 31, 2015, which was 50.090 percent  
19 common equity, .552 percent preferred stock, and 49.358 percent  
20 long-term debt. The use of short-term debt is not appropriate, so  
21 the correct cost of debt for KCPL is its actual cost of long-term  
22 debt as of May 31, 2015, which was 5.557%.

23  
24 **Q. GMO is proposing a GMO-specific capital structure with an equity ratio of 54.829%**  
25 **in this case. For comparison purposes, what capital structure did Ameren Missouri**  
26 **propose in its July 1, 2016 rate case filed with the Commission?**

27 A. According to the direct testimony of Ameren Missouri witness Ryan Martin at page 11,  
28 Ameren Missouri is proposing a Ameren Missouri actual capital structure as of the true up  
29 date in that case of December 31, 2016. The equity ratio of this capital structure is 51.80%.  
30 Ameren Missouri's 51.80% equity ratio is consistent with what the Commission found to be  
31 reasonable in Ameren Missouri's last rate case. While I do not have an opinion on whether  
32 or not this equity ratio is reasonable for Ameren Missouri, I will note that it is significantly  
33 lower than GMO's proposed equity ratio of 54.829% in this rate case.

1 **Q. How does GMO's proposed equity ratio of 54.829% compare with equity ratio**  
2 **proposed by The Empire District Electric Company ("Empire") in its rate case filed in**  
3 **October 2015, Case No. ER-2016-0023?**

4 A. According to the direct testimony of Empire witness Robert W. Sager at page 2, Empire  
5 proposed an actual capital structure as of December 31, 2015 with an equity ratio of  
6 49.01%. Like Ameren, this equity ratio is significantly lower than GMO's proposed  
7 54.829% equity ratio.

8 **Q. Please summarize your conclusion about GMO's efforts to reduce capital costs to**  
9 **ratepayers in this rate case.**

10 A. My conclusion, based on facts and evidence I have reviewed, is that GMO is intentionally  
11 charging its customers higher capital costs than necessary or reasonable. This proposal is  
12 intentional as GMO is abandoning past GMO and past Commission precedent and creating  
13 a new higher-cost methodology as the basis for its capital structure in this rate case.

14 The evidence I present in this testimony directly contradicts the direct testimony of Mr.  
15 Heidtrink and other GMO witnesses who assure the Commission they are trying to keep  
16 utility costs low as possible.

17 **Q. Is there additional evidence that GMO has not made any significant effort to reduce**  
18 **costs it charges to ratepayers?**

19 A. Yes. In my direct testimony I have advised the Commission of the same findings that I've  
20 made concerning KCPL and GMO management expense account charges since KCPL's  
21 2006 rate case. For at least 10 years for KCPL and at least 8 years for GMO, utility  
22 management employees have incurred imprudent, excessive and unreasonable expense  
23 report expenses and charged them to KCPL and GMO customers.

24 I previously addressed GMO's hedging practices and continued incurrence of millions of  
25 dollars in hedging losses in a non-volatile fuel and purchased power market. I also  
26 addressed GMO's new approach to increase capital costs in this rate case through the design

1 of a “GMO specific” capital structure. Finally, as I addressed in my direct testimony, GMO  
2 and KCPL management’s willingness to charge customers over a period of many years what  
3 are easily recognized by any reasonable person as imprudent, excessive, and unreasonable  
4 management expense report expenses. While not as significant in dollar amount as GMO’s  
5 hedging and capital costs, this GMO utility management behavior is actually more  
6 imprudent than it is in these other areas.

7 **Q. Has OPC proposed an adjustment in its direct filing in this case that is intended to**  
8 **protect ratepayers from KCPL and GMO’s excessive expense report charges?**

9 A. Yes. While this adjustment is designed to protect ratepayers from these excessive charges,  
10 the point I am making here goes much further. KCPL and GMO’s “Tone at the Top” – the  
11 spending “tone” set by KCPL officers - reflects a lack of concern about utility customers.  
12 This Tone-at-the Top also paints a clear picture of GMO’s absence of concern about running  
13 its utility operations efficiently and contradicts the direct testimony of GMO witnesses who  
14 advise the Commission of their concert about utility costs.

15 **Q. Are there other areas where the actions taken by GMO in this rate case support your**  
16 **conclusion that GMO management is actually working hard to increase, rather than**  
17 **decrease GMO’s cost of service in this rate case?**

18 A. Yes. As will be discussed below in my rebuttal testimony of GMO witness Ronald Klote,  
19 GMO is proposing to remove from its cost of service utility transmission revenues that are  
20 directly a part of its regulated utility operations and should not be removed from its  
21 regulated utility operations and regulated utility cost of service.

22 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS RON KLOTE**

23 **Q. KCPL witness Ronald Klote discusses GMO’s proposed revenue adjustment R-80-**  
24 **Transmission Revenue ROE at page 29 line 14 of his direct testimony. Do you have**  
25 **any comments on this testimony?**

1 A. Yes. GMO Adjustment R-80 removes regulated utility transmission test year revenues  
2 recorded in GMO's books and records. Removing these revenues from cost of service will  
3 increase GMO's cost of service without any reasonable justification.

4 This proposal by GMO reflects a continued pattern by GMO management of seeking  
5 creative (although unreasonable and unjustified) ways to increase its cost of providing utility  
6 service. In his direct testimony GMO witness Klote provides no reasonable logic or  
7 rationale why a regulated utility such as GMO should exclude regulated utility revenues  
8 from its cost of service. As will be explained below, OPC finds GMO's proposed revenue  
9 adjustment R-80 reaches a special level of unreasonableness.

10 **Q. What is Mr. Klote's stated reason in his direct testimony why he believes GMO's cost**  
11 **of service should be increased by assigning the utility's Missouri transmission revenues**  
12 **to non-utility, non-regulated operations?**

13 A. The only reason put forth by Mr. Klote is that these transmission revenues are charged by  
14 GMO to other entities in the Southwest Power Pool ("SPP") under GMO's FERC Formula  
15 rate. FERC's formula rate currently includes a higher return of equity (11.1%) on  
16 transmission plant than GMO is proposing in this case (9.9%). In explaining why this  
17 adjustment is necessary, Mr. Klote states at page 31 line 5:

18 Absent this adjustment, the effective ROE included in retail rates for  
19 transmission assets would be less than that authorized by the MPSC.  
20

21 **Q. Could this statement by Mr. Klote be true?**

22 A. No. This statement cannot be true. The effective return on equity dollars for GMO in this  
23 rate case will be the return on equity authorized by the Commission multiplied times  
24 GMO's approved net rate base. The regulated utility revenues GMO receives, whether they  
25 are revenues received from Missouri retail customers or transmission revenues received  
26 from other entities in the SPP, have no impact on the return on equity dollars ordered by the  
27 Commission in this rate case. The authorized return on equity for GMO's net utility assets

1 will be set by the Commission in this rate case and is not affected by the inclusion or  
2 exclusion of any GMO revenue or expense.

3 **Q. Would acceptance of Adjustment R-80 by the Commission result in unnecessarily**  
4 **higher rates for GMO's customers?**

5 A. Yes.

6 **Q. What is the inherent inequity in Mr. Klote's proposal to remove actual utility-earned**  
7 **transmission revenue from its cost of service in this case?**

8 A. At page 37 of his direct testimony, Mr. Klote describes GMO adjustment CS-45  
9 *Transmission of Electricity By Others*. In this adjustment, Mr. Klote (and other KCPL  
10 witnesses) seeks special ratemaking treatment in the form of budgeted or projected future  
11 transmission expenses.

12 Included in these future projected transmission expenses is the same higher FERC equity  
13 return charged by other SPP members to GMO and passed on by GMO to its ratepayers.  
14 So, as a part of GMO's proposed special ratemaking treatment, it is asking the Commission  
15 for its permission to charge its customers for future estimated transmission payments to  
16 other SPP entities based on the same FERC return on equity cost that is embedded in the  
17 transmission revenues that it is seeking to exclude from its cost of service.

18 **Q. Should GMO's proposed R-80 revenue adjustment be rejected by the Commission?**

19 A. Yes. The Commission should note the inherent inequity in such an adjustment and reject it  
20 from being included in GMO's cost of service in this rate case.

21 **Q. If the Commission accepts GMO's revenue adjustment R-80, should the Commission,**  
22 **for consistency purposes, make a similar adjustment to GMO's account 565**  
23 ***Transmission of Electricity by Others*?**

24 A. Yes. If the Commission accepts the methodology proposed by GMO for transmission  
25 revenues (adjusting from a FERC revenue requirement to a Missouri revenue requirement

1 basis), then it must apply this same methodology to transmission expenses. Symmetrical  
2 treatment is required for these ratemaking components because they reflect both sides of the  
3 exact same transaction.

4 In this case, the “flip-side” adjustment to Adjustment R-80 that would be necessary for the  
5 Commission to make is an adjustment to GMO’s transmission expense proposal in this case  
6 in CS-45. The Commission should order that GMO’s transmission expense recovery request  
7 in this rate case be adjusted down from a FERC return on equity-based revenue requirement  
8 basis to a Missouri revenue-requirement basis. This is the exact same methodology  
9 proposed by Mr. Klote for transmission revenues.

10 This GMO transmission expense reduction adjustment would be fair and reasonable as it  
11 reflect the same ratemaking treatment proposed by GMO for the exact same revenue  
12 requirement components – regionally-allocated transmission revenues and regionally-  
13 allocated transmission expenses.

14 **Q. Please summarize OPC’s position on Mr. Klote’s proposed revenue adjustment R-80?**

15 A. While Mr. Klote’s proposed R-80 adjustment is creative, it is not reasonable and simply  
16 makes no sense from a regulated utility ratemaking point of view. Revenues received by the  
17 utility from employing its own assets and from the provision of utility management services  
18 belong to the utility and no one else. Any attempt to remove utility revenues from a utility’s  
19 cost of service shows a special contempt for the well being of the utility’s customers.

20  
21 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS DARRIN IVES**

22  
23 **Q. At page 7 of his direct testimony GMO witness Darrin Ives describes the equity ratio  
24 and capital structure requested by GMO in this case. Please summarize this request.**

25 A. GMO is requesting a capital structure with a 54.829% equity ratio based on a projected  
26 GMO capital structure at July 31, 2016. GMO’s proposed capital structure and capital costs  
27 results in a rate of return of 7.7%. In his testimony, Mr. Ives describes how GMO is

1 requesting a change in the structural basis of its capital structure changing from a GPE  
2 holding company “consolidated capital structure” to a GMO-specific capital structure.

3 As I noted above in this rebuttal testimony on GMO witness Heidtbrink, in past GMO rate  
4 cases, including its last rate case in 2012, GMO proposed a GPE holding company  
5 consolidated capital structure. GMO’s proposal in this rate case to set rates on the basis of a  
6 GMO-specific capital structure is a significant departure from past practice.

7 **Q. What capital structure is Staff recommending in this rate case?**

8 A. Staff recommends the use of GPE’s consolidated capital structure as it is consistent with the  
9 capital structure ordered in the last KCPL rate case (Case No. ER-2014-0370) and the last  
10 GMO rate case (Case No. ER-2012-0175). Staff’s proposed GPE consolidated capital  
11 structure at December 31, 2015 includes a 49.01% common equity and results in a rate of  
12 return of 7.16%

13 **Q. What is the reason put forth by GMO in its direct case to support such a departure  
14 in the structural basis of its capital structure for ratemaking purposes?**

15 A. Mr. Ives states at page 7 line 6 of his direct testimony “[t]he reason for this change is the  
16 Company is requesting that rates be set in this case using the GMO specific capital structure  
17 to more closely align the financing of GMO with the investments and costs incurred by  
18 GMO.”

19 **Q. Does OPC believe GMO’s proposed GMO specific capital structure with a 54.829%  
20 equity ratio is unreasonable?**

21 A. Yes. As described in the direct testimony of OPC witness Michael Gorman, OPC believes  
22 an appropriate equity ratio for GMO at this point in time is 51.4%. OPC is recommending  
23 an overall rate of return on GMO’s net rate base of 7.23%.

24 At page 21 of his direct testimony, Mr. Gorman stated GMO’s proposed capital structure:

1 ...contains an unreasonably high common equity ratio of total  
2 capital. A capital structure with too much common equity  
3 unjustifiably inflates the Company's cost of service, and retail rates.  
4 Therefore, I recommend a reasonable capital structure which  
5 contains a balanced amount of debt and equity be used to set rates.  
6

7 **Q. How does OPC define a "reasonable" utility capital structure?**

8 A. OPC's definition of a "reasonable" utility capital structure can be found at page 22 of OPC  
9 witness Gorman's direct testimony:

10 A reasonable capital structure would contain no more common  
11 equity than necessary to support strong credit standing and maintain  
12 the utility's financial integrity, credit rating and, thus, access to  
13 capital.  
14

15 **Q. What GMO capital structure achieves the objective included in the definition of a  
16 reasonable capital structure?**

17 A. For GMO, in this rate case, OPC believes a capital structure for ratemaking purposes in line  
18 with a 50% equity ratio and a 50% debt ratio is reasonable. I believe if GMO's management  
19 is serious about keeping utility costs as low as possible, it would not propose a capital  
20 structure that results in a higher level of capital costs than is reasonable and necessary.

21 **Q. Is OPC proposing a GMO capital structure with a 50% equity ratio and a 50% debt  
22 ratio?**

23 A. No. For the purposes of this rate case, Mr. Gorman made adjustments to GMO's proposed  
24 capital structure resulting in a ratemaking capital structure around 51.4% common equity.

25 **Q. Does the OPC recommend the Commission consider imposing more stringent  
26 requirements on GMO to do a better job of managing its overall cost of capital?**

27 A. Yes. As explained by Mr. Gorman in his direct testimony, GMO's proposed capital structure  
28 is "simply not reasonable." OPC recommends the Commission provide incentives to  
29 GMO's management to modify its capital structure to a reasonable mix of debt and equity.



1 **Q. Have you reviewed electric utility equity ratios in rate cases over the past years?**

2 A. Yes. I reviewed this data in Regulatory Research Associates “Regulatory Focus” Report  
3 dated July 15, 2016. This document includes a high-level view of rate case equity ratios in  
4 utility capital structures in approximately 500 rate case decisions.

5 **Q. How does the average equity ratios of electric utility capital structures included in this**  
6 **study during the period 2002 through June 2016 compare to the equity ratio proposed**  
7 **by GMO in this case?**

8 A. The average ratemaking equity ratio for electric utilities in the U.S. from 2002 through June  
9 2016, based on approximately 500 rate case decisions, was 48.4%. Over the last 5 years, the  
10 average equity ratio for U.S. electric utilities included in this study, based on 176 rate cases,  
11 was 49.5%. This analysis provides additional evidence that GMOs requested 54.829%  
12 equity ratio is excessive and unreasonable.

Year	Equity Ratio (%)	Year	Equity Ratio (%)
2002	46.27	2010	48.63
2003	49.41	2011	48.26
2004	46.84	2012	50.69
2005	46.73	2013	49.25
2006	48.54	2014	50.28
2007	47.88	2015	49.54
2008	47.94	2016	47.74
2009	48.57		

13  
14 **Q. What is your general opinion about the appropriate ratemaking equity ratio in a**  
15 **utility capital structure?**

16 A. My understanding is there is a general presumption in the utility industry that an appropriate  
17 baseline capital structure is one that centers on a 50% equity ratio and a 50% debt ratio. I  
18 have seen evidence where one of the largest electric utilities in the U.S., Duke Energy, seeks  
19 a 50% equity ratio as a management goal.

1           Given this understanding, I believe a range of equity ratios provided in the direct testimonies  
2           of Staff witness Murray of 49% and OPC witness Gorman of 51% is reasonable. OPC does  
3           not believe that GMO's proposed equity ratio of 54.829% is reasonable and, if adopted by  
4           the Commission in setting rates in this case, will cause GMO's ratepayers to pay  
5           significantly higher than necessary and significantly higher than reasonable utility rates.

6           **Q.     What is KCPL's proposed equity ratio in its recently filed 2016 rate case?**

7           A.     KCPL, GMO's sister utility company is proposing a weighted cost of capital based on a  
8           capital structure with 49% equity. This equity ratio appears reasonable and consistent with  
9           average equity ratios of electric utilities in the U.S. over the past 5 years. This equity ratio  
10          also falls within the range supported by Staff and OPC in this concurrent GMO rate case.

11          **Q.     Does OPC witness Gorman express similar views on utility capital structures in his**  
12          **direct testimony in this case?**

13          A.     Yes. At page 3 of his direct testimony Mr. Gorman stated:

14                   I also comment on the reasonableness of the Commission imposing  
15                   restrictions on a capital structure which will preserve GMO's  
16                   financial integrity but minimize the cost to retail customers. From  
17                   this standpoint, I recommend the Commission impose a capital  
18                   structure limit.

19                     
20                   For example, a 50% common equity ratio of total investor capital  
21                   may be an appropriate limit for rate-setting purposes based on  
22                   current market and credit conditions.

23                     
24                   A capital structure with this equity component will support credit  
25                   metrics that will help maintain GMO's current investment grade  
26                   bond rating and support GMO's access to external capital needed to  
27                   fund infrastructure improvements under reasonable terms and prices.

28                     
29                   A capital structure limited to a reasonable common equity ratio of  
30                   total capital will accomplish these objectives at a much lower cost to  
31                   retail customers than GMO's capital structure. (emphasis added)  
32

1 **Q. Have you done an analysis of the revenue requirement increase from GMO's use of a**  
2 **GMO specific capital structure instead of a more reasonable capital structure with**  
3 **50% debt and 50% equity ratios?**

4 A. Yes. Using GMO's requested debt and equity costs rates and GMO's proposed capital  
5 structured with a 54.829 equity ratio, I calculate a pre-tax rate of return on GMO's net rate  
6 base of 11.12%. Substituting only GMO's proposed 54.829% equity ratio with a reasonable  
7 50% equity ratio and keeping all other capital costs at the level proposed by GMO,  
8 including a 9.9% equity costs, I calculate a pre-tax rate of return of 10.58%. The difference  
9 in these pre-tax rates of return of 11.12% and 10.58% is .53%.

10 Multiplying this .53% times GMO's proposed rate base of \$1.9 billion shows that over \$10  
11 million of GMO's proposed revenue increase in this rate case is unreasonable based solely  
12 on GMO's ignoring past Commission precedent and creating a new "GMO specific" capital  
13 structure in this rate case.

14 **Q. Mr. Ives states at page 7 line 8 of his direct testimony that GMO believes its 54.829%**  
15 **equity ratio-based capital structure for GMO is the best long-term approach for GMO**  
16 **and its customers. Do you agree?**

17 A. When Mr. Ives refers to the best long-term approach to "GMO", he cannot be referring to  
18 GMO as a regulated utility. It is not in the best interest of a regulated utility, either in the  
19 long or short run, to be inefficient. Charging utility customers excessive and unnecessary  
20 capital costs, such as the capital costs of an inflated-equity capital structure, is inefficient.

21 If Mr. Ives is referring to "GMO" as GMO's shareholders, then yes, setting rates as high as  
22 possible will result in more revenues and more profit to be passed on to GMO's  
23 shareholders. GMO's shareholders will benefit from higher net income in the form of  
24 potentially higher dividends and higher stock price appreciation. So yes, I agree with Mr.  
25 Ives that GMO's shareholders would benefit if the Commission agreed to abandon its past  
26 practice of using GPE's actual consolidated capital structure and adopt GMO's newly-  
27 created "GMO specific" capital structure in this rate case.

1           However, the statement by Mr. Ives that GMO's proposed capital structure in is in the best  
2           interests of its customers is nonsensical on its face. Clearly, a 50% equity ratio for GMO in  
3           this case is reasonable. The evidence in this testimony and in this rate case leaves little room  
4           to doubt the truth of this statement. If GMO did nothing else but propose a 50% equity ratio  
5           instead of a 54.829% equity ratio, assuming recovery of its proposed rate base amount,  
6           GMO's customers would be better off by approximately \$10 million.

7           Until Mr. Ives can explain how charging GMO's regulated utility customers approximately  
8           \$10 million more than is necessary is the "best long-term approach" for GMO's customers,  
9           his testimony to this point remains baseless and irrelevant.

10       **Q.    At page 7 line 22 of his direct testimony Mr. Ives states that GMO "has worked to**  
11       **reduce the weighted average cost of capital and customers will receive the benefit of**  
12       **that reduction. Is this statement true?**

13       A.    GMO's management may have worked to reduce the cost of its long-term debt. However, as  
14       noted earlier in this testimony, reducing the cost of providing utility service and running  
15       utility operations as efficiently as possible is a very basic responsibility of utility  
16       management.

17           However, GMO has not worked to reduce the cost of equity as it has sought to increase the  
18           cost of equity from 9.7%, found to be reasonable for KCPL just six months ago, to 9.9% in  
19           this rate case. As reflected in the recommended equity cost rates by other non-utility expert  
20           witnesses in this case, equity costs for regulated electric utilities are decreasing and not  
21           increasing as suggested by GMO.

22           Finally, GMO has worked to increase its weighted average cost of capital by significantly  
23           increasing its ratemaking equity ratio in this case from 49% (GPE consolidated actual equity  
24           ratio) to a GMO-specific 54.829%. Again, this change in equity ratio alone has a revenue  
25           requirement impact of approximately \$10 million.

26       **Q.    In addition to Mr. Ives, have other GMO employees provided direct testimony on the**  
27       **issue of GMO's newly-proposed "GMO specific" capital structure in in this case?**

1 A. Yes. GMO witness Mr. Kevin Bryant, like Mr. Ives, is an officer of GMO and KCPL. Mr.  
2 Bryant is also an officer of GPE, which is GMO's non-regulated parent holding company.  
3 Mr. Bryant provided direct testimony on GMO's proposed capital structure. I address Mr.  
4 Bryant's direct testimony below.

5 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS KEVIN BRYANT**

6 **Q. You described above that GMO is proposing a "GMO specific" capital structure**  
7 **that includes an equity ratio of 54.829%. Does KCPL have its own "KCPL specific"**  
8 **capital structure?**

9 A. Yes. KCPL has a capital structure that more defined than GMO's capital structure. In its  
10 combined annual report to the SEC, otherwise known as Form 10-K, both KCPL and  
11 GPE report separate financial statements with separate capital structures. GMO does not  
12 report separate financial statements. GMO's annual financial results are reflected  
13 (embedded) in GPE's income statement and GMO's assets, liabilities and equity are  
14 reflected (embedded) in GPE's balance sheet.

15 **Q. Did KCPL seek a "KCPL specific" capital structure in its last rate case in 2014?**

16 A. No. KCPL proposed that the Commission set its electric utility rates based on its parent  
17 company, GPE's actual consolidated capital structure.

18 **Q. What capital structure did KCPL seek in its 2014 Missouri rate case?**

19 A. As noted at paragraph 60 of its July 22, 2015 "Initial Post-Hearing Brief of KCP&L"  
20 ("Post-Hearing Brief") in Case No. ER-2014-0370, KCPL recommended the following  
21 holding company capital structure as of May 31, 2015:

22 GPE Consolidated Capital Structure May, 31, 2015

23 Long-term debt 49.09%

24 Preferred Stock 0.55%

25 Common Equity 50.36%

1 **Q. In its Post-Hearing Brief, did KCPL note the continued and longstanding use by the**  
2 **Missouri Commission and the Kansas Corporation Commission of GPE's actual**  
3 **consolidated capital structure to set KCPL's regulated electric utility rates in**  
4 **Missouri and Kansas?**

5 A. Yes. At Paragraph 61 of its ER-2014-0370 Post-Hearing Brief, KCPL cited this long  
6 history:

7 The Commission has utilized GPE's capital structure for KCP&L  
8 in the past several rate cases. See Report and Order at 24-26, In re  
9 Kansas City Power & Light Co., Case No. ER-2012-0174 (Jan. 9,  
10 2013); Report and Order at 31-32, In re Kansas City Power &  
11 Light Co., Case No. ER-2007- 0291 (Dec. 6, 2007).

12  
13 The capital structure of the Company has also been set by the  
14 Kansas Corporation Commission using the capital structure of  
15 GPE. See Order, In re Kansas City Power & Light Co., Docket No.  
16 10-KCPE-415-RTS at 41 (Nov. 22, 2010); Order, In re Kansas  
17 City Power & Light Co., Docket No. 12-KCPE-764-RTS (Dec. 13,  
18 2012) (no change in capital structure).

19  
20 **Q. What was GPE's actual consolidated capital structure at December 31, 2015?**

21 A. As reflected in the Staff's Cost of Service Report in this case, GPE's December 31, 2015  
22 actual consolidated capital structure was:

23 GPE Consolidated Capital Structure December, 31, 2015  
24 Long-term debt 49.01%  
25 Preferred Stock 0.52%  
26 Common Equity 50.46%

27  
28  
29 **Q. What is OPC's position on the appropriate capital structure to use for GMO in this**  
30 **rate case?**

31 A. As noted above, OPC's capital structure position in this case is described in the direct  
32 testimony of OPC witness Michael Gorman. Mr. Gorman is proposing a capital structure

1 for GMO of 51.4% but also recommends that the Commission consider a lower equity  
2 ratio for GMO.

3 **Q. Why are you addressing the issue of capital structure in this rebuttal testimony?**

4 A. OPC takes the position that GMO can control its capital structure for ratemaking  
5 purposes but has failed to reasonably manage its capital structure. The fact is confirmed  
6 by GMO proposing a completely different capital structure in this 2016 rate case from the  
7 one GMO proposed in its last general rate case in 2012 and the capital structure proposed  
8 by KCPL in 2014.

9 Given that GMO can control its capital structure for ratemaking purposes, it is OPC's  
10 position that GMO - as any utility - should reasonably manage its capital structure to be  
11 the lowest-cost reasonable capital structure possible. GMO has not done this in this rate  
12 case as it seeks an excessive and high-cost capital structure. Therefore, despite testimony  
13 by several GMO witnesses to the contrary, GMO is not minimizing controllable costs to  
14 retail customers as it should.

15 **Q. Is a subsidiary-specific capital structure such as the one proposed by GMO  
16 consistent with what the Commission found to be the correct capital structure for  
17 KCPL in its Report and Order on September 2, 2015 in Case No. ER-2014-0370?**

18 A. No. Although KCPL had its own subsidiary-specific capital structure at that time, the  
19 Commission found that the consolidated capital structure of GMO's parent holding  
20 company, GPE, was the appropriate capital structure to use to set rates in that 2014 rate  
21 case.

22 **Q. Does GMO believe that it is being managed by GPE as a stand-alone company from  
23 a financing perspective?**

24 A. Yes. According to Mr. Bryant in his rebuttal testimony in Case No. ER-2012-0175 at  
25 page 4, "...GPE is managing GMO and KCP&L as stand-alone entities from a financing  
26 perspective...."

1 **Q. Is GPE actually managing GMO as a stand-alone entity from a financial**  
2 **perspective?**

3 A. No. KCPL is managed as a stand-alone utility, but GMO is not. GMO is managed both  
4 operationally and financially as an electric utility subsidiary under GPE. Unlike KCPL,  
5 GMO has no employees. As a service to GPE, KCPL employees manage all the utility  
6 operations of GMO. In addition, unlike KCPL whose operations and financing are  
7 reported separately in SEC financial statements, all of GMO's operations are combined  
8 with GPE's operations for financial reporting purposes. As disclosed by GPE in its 2015  
9 SEC Form 10-K:

10 This combined annual report on Form 10-K is being filed by Great  
11 Plains Energy Incorporated (Great Plains Energy) and Kansas City  
12 Power & Light Company (KCP&L).

13  
14 KCP&L is a wholly owned subsidiary of Great Plains Energy and  
15 represents a significant portion of its assets, liabilities, revenues,  
16 expenses and operations. Thus, all information contained in this  
17 report relates to, and is filed by, Great Plains Energy.

18  
19 Information that is specifically identified in this report as relating  
20 solely to Great Plains Energy, such as its financial statements and  
21 all information relating to Great Plains Energy's other operations,  
22 businesses and subsidiaries, including KCP&L Greater Missouri  
23 Operations Company (GMO), does not relate to, and is not filed  
24 by, KCP&L. (emphasis added)  
25  
26

27 **Q. Does GPE guarantee any of the financial obligations or liabilities of KCPL?**

28 A. No.

29 **Q. Does GPE guarantee a significant part of the financial obligations or liabilities of**  
30 **GMO?**

31 A. Yes. GPE's significant financial support of GMO in the form of debt guarantees is  
32 disclosed in GPE's 2015 SEC Form 10-K:



1 Great Plains Energy has issued guarantees covering \$97.7 million  
2 of GMO's long-term debt. Great Plains Energy also guarantees  
3 GMO's commercial paper program. At December 31, 2015, GMO  
4 had \$43.7 million of commercial paper outstanding. The  
5 guarantees obligate Great Plains Energy to pay amounts owed by  
6 GMO directly to the holders of the guaranteed debt in the event  
7 GMO defaults on its payment obligations. Great Plains Energy  
8 may also guarantee debt that GMO may issue in the future. Any  
9 guarantee payments could adversely affect Great Plains Energy's  
10 liquidity. (GPE and KCPL SEC Form 10-K 2015 page 16)

11  
12 **Q. Did Mr. Bryant testify in GMO's last rate case, No. ER-2012-0175, that GPE has a**  
13 **desire to maintain a consistent consolidated capital structure for all GPE's entities**  
14 **and regulatory jurisdictions, including Kansas and Missouri?**

15 A. Yes. Mr. Bryant testified to this GPE desire at page 4 of his October 10, 2012 surrebuttal  
16 testimony in Case No. ER-2012-0175:

17 The Company does not oppose using the 6.425% actual  
18 consolidated cost of debt for both GMO and KCP&L ratemaking  
19 purposes. This is based on a desire to maintain a consistent  
20 methodology for all of GPE's regulatory jurisdictions including the  
21 KCP&L Kansas jurisdiction.  
22

23 **Q. Did Mr. Bryant also testify in Case No. ER-2012-0175 that GMO supports the use of a**  
24 **consolidated GPE capital structure?**

25 A. Yes. At page 6 on his rebuttal testimony in Case No. ER-2012-0175 Mr. Bryant stated:

26 Yes. The Staff recommendation appears consistent with the  
27 Company's proposal to use the actual GPE consolidated capital  
28 structure as trued-up through August 2012 for GMO ratemaking  
29 purposes.  
30

31 **Q. At page 7 of his direct testimony GMO witness Bryant states that GMO believes an**  
32 **equity ratio in the 50-55% range is consistent with precedents across the country. Is**  
33 **this statement consistent with your findings?**

1 A. No. As I describe in my rebuttal to the direct testimony of GMO witness Darrin Ives, I  
2 reviewed data in Regulatory Research Associates “Regulatory Focus” Report dated July 15,  
3 2016. This document includes a summary of rate case equity ratios in utility capital  
4 structures in approximately 500 rate case decisions.

5 The average ratemaking equity ratio for electric utilities in the U.S. from 2002 through June  
6 2016, based on approximately 500 rate case decisions, was 48.4%. Over the last 5 years, the  
7 average equity ratio for U.S. electric utilities included in this study based on 176 rate cases  
8 was 49.5%. A summary report of this data, as reported by the RRA, is shown below:

Year	Equity Ratio (%)	Year	Equity Ratio (%)
2002	46.27	2010	48.63
2003	49.41	2011	48.26
2004	46.84	2012	50.69
2005	46.73	2013	49.25
2006	48.54	2014	50.28
2007	47.88	2015	49.54
2008	47.94	2016	47.74
2009	48.57		

9  
10 **Q. At page 5 of his direct testimony does GMO witness Bryant seek to justify a**  
11 **significantly higher equity ratio in this rate case because of GMO’s relatively higher**  
12 **business risk?**

13 A. Yes. GMO is requesting a capital structure with a 54.829% equity ratio. However, both  
14 KCPL as a stand-alone entity and GPE on a holding company basis have equity ratios less  
15 than 50%. Given these circumstances, as well as GMO’s past preference for using  
16 consolidated capital structures for setting GMO’s electric utility rates, GMO has a  
17 significant burden to overcome in order to justify a new position on capital structure and a  
18 significantly higher cost capital structure than the actual capital structures of KCPL and  
19 GPE consolidated.

1 The question that GMO must answer to the Commission, and which it does not sufficiently  
2 answer in its direct filing, is why is it necessary for GMO to have such a significantly higher  
3 cost capital structure than KCPL and GPE's actual capital structure?

4 If GMO has a higher business risk than KCPL, this just did not happen overnight. GMO's  
5 history is filled with significant financial problems when it was acquired by GPE in 2008.  
6 GMO's higher business risk was certainly in existence in 2012 when GMO was able to use  
7 the same capital structure that KCPL used in 2014, GPE's actual consolidated capital  
8 structure, on which its rates were set.

9 If GMO's relatively higher business risk is a legitimate reason why GMO must have more  
10 equity in its capital structure than KCPL, GMO must explain to the Commission, in detail,  
11 why it has such a higher business risk. It must also explain each of the factors that caused  
12 GMO – a sister utility of KCPL since 2008, operating under the same holding company  
13 structure, to have a higher business risk than KCPL that justifies such a significantly higher  
14 equity ratio.

15 Finally, even if this GMO has a higher business risk and it has this increased risk through no  
16 fault of its own, the Company must explain why its past practice (and the Commission's  
17 past practice) of using GPE's consolidated capital structure is no longer prudent and  
18 reasonable and in the best interests of GMO's ratepayers.

19 **Q. In addition to explaining and justifying the reasons why GMO has such a high equity**  
20 **ratio in its capital structure compared to KCPL or GPE, must GMO also justify why**  
21 **its equity ratio is significantly higher than the average electric utility capital structure**  
22 **for U.S. electric utilities as reflected in the chart above?**

23 A. Yes. The equity ratio in GMO's capital structure is significantly higher than other U.S.  
24 electric utilities. This needs to be explained to the Commission as well. The burden to  
25 justify its very high equity ratio and its high-cost capital structure is on GMO and GMO  
26 alone. In my opinion, because GMO is making such a drastic change from past practice, the  
27 burden on GMO to show that its proposed equity ratio and capital structure is the most

1 efficient and least cost for its current ratepayers is significantly high. GMO has made very  
2 feeble attempt to meet this burden in its direct testimony in this rate case.

3 **Q. How has Mr. Bryant attempted to justify GMO's new ratemaking position on its**  
4 **capital structure?**

5 A. Mr. Bryant asserts that GMO's higher equity ratio is caused by Standards & Poors ("S&P")  
6 rated business risk profile. According to Mr. Bryant, because KCPL has an "excellent"  
7 business risk profile and GMO has a "strong" business risk profile, GMO is not able to  
8 maintain as much debt its capital structure as KCPL.

9 Since GMO's capital components are not reported separately but are combined with GPE in  
10 its financial statements, there is no support for Mr. Bryant's statement that GMO is not able  
11 to maintain as much debt in its capital structure as KCPL. Moreover, even if this statement  
12 is true, it is also true that for ratemaking purposes in this case, GMO is able to maintain as  
13 much debt as is reflected in GPE's actual 2015 year-end consolidated capital structure and  
14 this debt ratio is 50.46%.

15 **Q. Is Mr. Bryant's testimony about KCPL's "better" risk profile responsive to his need to**  
16 **address the burden on GMO to support its newly-created position and high-cost equity**  
17 **ratio?**

18 A. No. As reflected in the Staff's Cost of Service Report filed in this case on July 15, 2016,  
19 Staff has found that GPE's December 31, 2015 holding company capital structure includes a  
20 reasonable debt ratio of 50.46%, a reasonable preferred stock ratio of .52% and a reasonable  
21 equity ratio of 49.01%.

22 These reasonable capital structure ratios are available for GMO to use in this rate case and  
23 have been used by GMO in past rate cases. Mr. Bryant can assert all the different risk  
24 profiles for GMO as he can, but it still does not change this fact. GMO has a reasonable  
25 capital structure available to it, a capital structure it has preferred to use in past rate cases  
26 and a capital structure that GMO found to be reasonable.

1           However, for some reason that is not really clear in this rate case, GMO's management is  
2           making the intentional decision to choose a higher-cost capital structure than is available for  
3           GMO to use. No reasonable person familiar with utility management obligations and  
4           responsibilities would consider this a prudent business decision.

5           **Q.    By being consistent and adopting the use of GPE's consolidated capital structure**  
6           **would GMO be insulating its customers from its past significant financial problems**  
7           **caused by its ventures into non-regulated business ventures?**

8           A.    Yes. By setting rates on GPE's holding company capital structure, GMO's customers are  
9           somewhat insulated from past imprudent decisions and failed nonregulated operations of  
10          GMO's management.

11          **Q.    In his direct testimony did GMO witness Bryant provide a list of reasons why he**  
12          **believes GMO has a higher risk profile than KCPL?**

13          A.    No.

14          **Q.    Are you aware of some of the past GMO events and transactions that may very well**  
15          **have caused GMO to have a higher risk profile than KCPL?**

16          A.    Yes. KCPL has historically been a financially successful utility. In past KCPL rate cases, I  
17          have performed an analysis of KCPL's operations showing on average that KCPL's actual  
18          earned returns on equity have exceeded average equity costs of utilities for a 20-year period.  
19          To my knowledge, KCPL has never experienced any of the significant financial problems  
20          experienced by GMO in the period prior to being acquired by GPE in 2008.

21          **Q.    Were some of the past problems experienced by GMO related to its ownership of its**  
22          **former non-regulated Merchant plant, Crossroads Energy Center in Clarksdale,**  
23          **Mississippi?**

24          A.    Yes. In a past rate case, the Commission found that GMO's valuation of this plant was  
25          overvalued to a significant extent. The Commission's revaluation of this plant for

1           ratemaking purposes caused the Commission exclude approximately \$50 million of this  
2           plant from its rate base and its cost of service.

3   **Q.    Please provide some background on the Commission’s Crossroads Energy Center**  
4   **plant disallowance.**

5   A.    The Commission found GMO’s Mississippi-based Crossroads Energy Center, a Merchant  
6    gas generation station acquired from GMO’s nonregulated Merchant operations, was  
7    reflected on GMO’s books at a significantly inflated amount.

8           The Commission did not allow approximately \$50 million of this Merchant plant to be  
9           included in GMO’s regulated rate base. GPE explained this issue at page 26 of its SEC  
10          Form 10-Q, Quarterly Report, filed on November 3, 2011:

11                   Additionally, with respect to GMO’s Missouri Public Service  
12                   division, the MPSC concluded that GMO’s decision to add  
13                   Crossroads Energy Center (Crossroads) to its generation asset  
14                   resources was prudent and reasonable; however, the order disallowed  
15                   from rate base approximately \$50 million for Crossroads, disallowed  
16                   \$4.9 million in associated annual transmission expense and offset  
17                   rate base by approximately \$15 million to reflect accumulated  
18                   deferred taxes associated with Crossroads. GMO’s request included  
19                   a net plant amount of approximately \$104 million for Crossroads.

20  
21                   In assessing the impact of the Crossroads disallowances,  
22                   management considered that KCP&L’s and GMO’s generation asset  
23                   resources include a diverse fuel mix consisting primarily of coal and  
24                   nuclear fuel providing base load generation with natural gas facilities  
25                   such as Crossroads to provide critical peaking and capacity support.  
26                   This combined collection of generating assets meets KCP&L’s and  
27                   GMO’s service obligations and produces joint cash flows based on  
28                   system-wide average costs.

29  
30                   Great Plains Energy conducted an analysis to assess the  
31                   recoverability of the combined collection of generation asset  
32                   resources and determined that no potential impairment exists.

33  
34   **Q.    In your view, how should GMO have accounted for this plant disallowance?**

1 A. In my view, the appropriate accounting for plant costs that are record on a financial  
2 statement balance sheet as an asset, but no longer retains the qualities of an asset, should be  
3 “written off” the balance sheet and charged to as a loss in the year the asset or a portion of  
4 the asset cost, is written off.

5 An appropriate write off adjustment to GMO’s books would be to remove equal amounts  
6 from both the asset and equity sections of the balance sheet. GMO, however, has decided  
7 not to make this writeoff and carry on its books and records \$50 million of non-revenue  
8 producing costs.

9 **Q. Is this \$50 million Crossroads plant disallowance still recorded on GMO’s balance**  
10 **sheet as an asset?**

11 A. Yes.

12 **Q. Does this \$50 million in disallowed plant cost meet generally accepted accounting**  
13 **principles (“GAAP”) requirements of an asset?**

14 A. No, and that is a problem. GMO, however, apparently may have found a way under GAAP  
15 where it believes it is not required to write off this \$50 million in disallowed plant costs and  
16 has decided to continue to reflect this non-revenue producing cost on its balance sheet.

17 **Q. Has GMO’s decision to retain and reflect approximately \$50 million dollars in**  
18 **disallowed plant costs on its books potentially led to a lower risk profile than would**  
19 **otherwise exist?**

20 A. Yes. Having \$50 million in non-revenue producing asset costs on its balance sheet puts  
21 pressure on GMO to secure earnings higher than necessary to earn a reasonable return on  
22 equity on its rate base.

23 **Q. Does it make sense to you from an accounting standpoint that GMO would retain on**  
24 **its books \$50 million in disallowed plant costs?**

1 A. No. Even if GMO has found some technical justification under GAAP why it is able to  
2 retain plant that is not being recovered in rates on its balance sheet, this plant disallowance  
3 should be charged to expense in the year the disallowance was made and removed from  
4 GMO's balance sheet. That is the correct accounting for the Commission's Crossroads plant  
5 disallowance.

6 In its filing with the SEC, GPE stated it conducted an analysis to assess the recoverability of  
7 all of its generation assets and determined that no potential impairment exists. What this  
8 means is that GPE is asserting GMO's and KCPL's current utility rates are sufficient to  
9 recover all of its cost of providing utility service (including the depreciation and operation  
10 and maintenance cost of its Crossroads plant) and still earning a reasonable return on its rate  
11 base assets, including the \$50 million disallowed Crossroads plant on GMO's balance sheet  
12 that GPE still classifies as an asset.

13 **Q. Why do you state that the Crossroads disallowance should be written off and not**  
14 **reflected on GMO's balance sheet?**

15 A. The Financial Accounting Standards Board ("FASB") has defined assets as "probable future  
16 economic benefits obtained or controlled by a particular entity as a result of past transactions  
17 or events." This has been the definition of an asset and the standard for recording and  
18 retaining an asset on a balance sheet for many years under GAAP.

19 It is very hard to imagine how \$50 million in disallowed plant costs reflected on GMO's  
20 balance sheet can be considered as a "probable future economic benefit when the only  
21 "benefit" of a utility plant asset to a utility is that it generates revenues. These \$50 million in  
22 disallowed plant costs do not generate any revenues since they were excluded from GMO's  
23 cost of service by the Commission.

24 **Q. Are you asserting that GPE is violating GAAP by not writing off the \$50 million in**  
25 **disallowed Crossroads plant?**

26 A. Not at this time. In preparing for this rebuttal testimony, I have not performed the research  
27 necessary to reach such a final conclusion. I can state confidently, however, that it is



1 difficult to understand how GAAP would allow for these costs to be reflected in financial  
2 statements filed with the SEC. These costs clearly do not meet the definition of an asset but  
3 it appears they are still being presented as an asset on GPE's balance sheet that is reported to  
4 the SEC.

5 **Q. If GMO did write-off the Crossroads plant disallowance, would this reduce the current**  
6 **level of equity on GPE's balance sheet?**

7 A. Yes. A simplified journal entry to reflect this plant disallowance would be to reduce plant  
8 by \$50 million (credit) and also reduce equity by \$50 million (debit):

9 Debit – Loss on Plant Disallowance (Retained Earnings equity) \$50 million

10 Credit - Crossroads disallowed Plant \$50 million

11  
12  
13 **Q. If GPE made this journal entry to remove the disallowed Crossroads plant from its**  
14 **balance sheet, would GPE presumably assign a lower equity amount to GMO which**  
15 **would result in a lower equity ratio for GMO in this rate case?**

16 A. Yes. In addition, continuing to show \$50 million in disallowed plant costs on its balance  
17 sheet decreases the actual earned return on equity and return on asset financial ratios for  
18 GMO. This is an additional problem of retaining \$50 million in non-revenue producing  
19 costs on a balance sheet. These costs effectively distort GMO's reported return on equity  
20 and return on asset ratios.

21 **Q. Have you reviewed GMO's reasons why it has not written off the \$50 million in**  
22 **Crossroads plant disallowance?**

23 A. Yes. In response to Staff Data Request ("DR") No. 385 in this case, GMO provided the  
24 rationale why it did not write-off the \$50 million in disallowed Crossroads plant cost. What  
25 is notable in GMO's response is its assertion that GPE has one reportable segment, "Electric  
26 Utility". GMO's response to DR 385 appears to be the basis of what GPE reported at page  
27 26 of its November 3, 2011 SEC Form 10-Q described above.

1 GMO's response to DR 385 states that GMO's utility operations are "combined" with  
2 KCPL electric utility operations and KCPL and GMO's utility generation plant are  
3 interdependent and the generation assets are grouped together.

4 These statements by GMO are noteworthy and reflect a significantly inconsistent position  
5 on the part of GMO when it comes to how GMO views its generation plant and KCPL's  
6 generation plant assets as one entity but considers the financing ("capital structure") of these  
7 "one entity" assets on a separate subsidiary basis.

8 GMO makes the following assertions about the "one utility" nature of KCPL and GMO in  
9 DR 385:

- 10 • Great Plains Energy has one reportable segment, Electric Utility.
- 11 • GMO's electric utility operations in GPE's segment disclosure
- 12 are combined with GPE's KCP&L electric utility operations.
- 13 • The electric utility segment is comprised of multiple jurisdictions
- 14 subject to traditional, cost-based rate regulation.
- 15 • The utility is comprised of a generation fleet with a diverse fuel
- 16 mix consisting primarily of nuclear and various types of fossil
- 17 fuels providing peaking and base load generation.
- 18 • This group/collection of assets combined meet the electric
- 19 utility's service obligation and produce joint cash flows.
- 20 • These plants are interdependent and necessary to appropriately
- 21 meet the needs of the Company's customers; therefore, the
- 22 generation assets are grouped. (Q0385\_2011 2Q Generation
- 23 Assets Impairment Test.docx)
- 24

25 **Q. How does this DR 385 response reflect an inconsistent position on the part of GMO?**

26 A. In this DR response, GMO asserts that utility generation plant assets of GMO and KCPL are  
27 interdependent and must be grouped as one utility for financial reporting purposes and for  
28 utility operations purposes. However, when it comes to the capital cost structure that  
29 financed these same generation assets, they are not interdependent at all and must be  
30 separated into two separate utilities – "GMO specific" and "KCPL specific".

1 GMO's position that the capital structure that financed a utility asset must be separate and  
2 distinct from how that asset is employed operationally and how that asset is reflected in the  
3 financial statements is blatantly inconsistent.

4 Such an argument reflects the self-serving purpose and lack of substance behind GMO's  
5 decision to increase costs by selecting a higher-cost GMO- specific capital structure over a  
6 lower cost GPE holding company capital structure.

7 To be consistent and to be fair to its ratepayers, GMO should adopt the same philosophy for  
8 the costs of the generation assets (capital structure that financed the assets) as it does for the  
9 operational employment of the assets – "one utility nature of KCPL and GMO". To argue  
10 that the financing of the assets must be treated separately from how the assets are combined  
11 operationally in the service to customers is not a good faith argument.

12 The lack of a good faith argument indicates why GMO is seeking a higher equity ratio than  
13 is justified by the combined utility equity ratio reflected in GPE's holding company capital  
14 structure: the Commission's approval of GMO's subsidiary-specific capital structure will  
15 result in higher profits to shareholders.

16 **Q. At page 5 of his direct testimony Mr. Bryant states that, even with GMO's higher**  
17 **equity ratios, Moody's credit rating for GMO remains one notch lower than KCPL.**  
18 **He attributes this credit rating, in part, due to the lower market position rating Moody**  
19 **assigns to GMO. Does Mr. Bryant give any reasons why GMO's market position**  
20 **rating by GMO may be lower than the rating Moody assigns to KCPL?**

21 A. No, he does not state any specific reasons. However, he indicates at page 6 of his direct  
22 testimony that GMO's high equity ratio is based on GMO's previous "credit challenges".  
23 Mr. Bryant's testimony also indicates that GMO is striving to lower its equity ratio and has  
24 made progress toward that goal.

25 **Q. What are these previous GMO "credit challenges"?**

1 A. When GPE acquired GMO in 2008, it acquired not only Aquila, Inc.'s Missouri utility  
2 operations (now known as GMO) but also Aquila's financially distressed nonregulated  
3 Merchant operations. GMO continues to own some of the legacy merchant assets it owned  
4 when it was a financially-distressed company.

5 In GPE's 2015 Annual Report to the Securities and Exchange Commission ("SEC") Form  
6 10-K, at page 6, GPE describes GMO as follows:

7 GMO is an integrated, regulated electric utility that provides  
8 electricity to customers in the state of Missouri. GMO also provides  
9 regulated steam service to certain customers in the St. Joseph,  
10 Missouri area. GMO has two active wholly owned subsidiaries,  
11 GMO Receivables Company and MPS Merchant Services, Inc.  
12 (MPS Merchant). MPS Merchant has certain long-term natural gas  
13 contracts remaining from its former non-regulated trading operations.  
14 (emphasis added)

15  
16 At page 95 of its 2015 SEC Form 10-K GPE described MPS Merchant's operations it states:

17  
18 MPS Merchant, which has certain long-term natural gas contracts  
19 remaining from its former non-regulated trading operations....  
20

21 **Q. Has Moody's recognized the serious negative financial consequences of GMO's**  
22 **association with its nonregulated Merchant operations?**

23 A. Yes. Moody's concerns are reflected in its November 2, 2005 press release:

24 Rating Action: MOODY'S ASSIGNS RATING OF Ba3 TO  
25 AQUILA INC.'S \$300 MILLION SENIOR SECURED CREDIT  
26 FACILITY AND AFFIRMS THE OTHER RATINGS  
27 (CORPORATE FAMILY RATING B2); OUTLOOK REMAINS  
28 POSITIVE

29  
30 Global Credit Research - 02 Nov 2005 Approximately \$2.3 Billion  
31 of Debt Securities Affected

32  
33 New York, November 02, 2005 -- Moody's Investors Service  
34 assigned a rating of Ba3 to Aquila Inc.'s \$300 million five year  
35 multi-draw credit facility maturing in August 2010 and affirmed

1 the company's B2 Corporate Family Rating and B2 rating of its  
2 senior unsecured notes. The rating outlook remains positive.  
3 Aquila's B2 Corporate Family and rating of its senior unsecured  
4 notes reflect the reduced level of business risk following the  
5 company's strategy to exit its non regulated investments and  
6 energy trading activities and focus on its core regulated electric  
7 and gas distribution businesses.

8  
9 The ratings also consider that while the company's recent financial  
10 performance has been weak largely due to its unprofitable legacy  
11 merchant energy businesses, the company has core regulated utility  
12 assets that produce stable and consistent cash flows. To date, the  
13 company has made significant progress towards its back to basics  
14 strategy, including the resolution of several large long-term gas  
15 supply contracts, the exit of tolling arrangements, and the sale of  
16 merchant and international businesses. (emphasis added)  
17

18 **Q. Prior to being acquired by GPE did GMO institute ratepayer protection procedures in**  
19 **an attempt to insulate GMO's ratepayers from Aquila's nonregulated credit issues?**

20 A. Yes. At page 8 of his direct testimony in Case No. ER-2007-0004 filed on April 27, 2007,  
21 Mr. Jon R. Empson, Aquila Inc.'s former Senior Vice President, Regulated Operations,  
22 described the ratepayer protections enacted by Aquila to protect regulated utility  
23 ratepayers:

24 **Q. Please explain.**

25 A. Aquila has maintained a capital assignment process since 1988  
26 that was specifically designed to insulate and separate each of its  
27 utility divisions from the other activities of the Company. Aquila  
28 has not changed this practice. Aquila's regulated utility operating  
29 units are assigned and receive capital based upon what a  
30 comparable utility would receive, and this process has been  
31 presented to the Commission in every rate case since 1988. The  
32 intent has always been to financially and operationally "ring-  
33 fence" the utility operations from Aquila's non-utility business.

34  
35 **Q. Why does Aquila "ring-fence" in this manner?**

36 A. Very simply, "ring-fencing" enables one entity within a  
37 corporation to be isolated from the impacts of its parent or another  
38 entity within the same corporation.  
39

1                   **Q. How was the financial “ring-fencing” achieved?**

2                   A. Each business unit is internally financed with the proper mix of  
3                   capital reflecting economic activities, profiles, and market-based  
4                   comparative capital structures. For electric distribution, the  
5                   assigned capital structure was 47.5% equity/52.5% long-term debt,  
6                   and for gas distribution, 50% equity/50% debt. UtiliCorp United  
7                   (“UCU”) and later Aquila assigned, based upon need, specific debt  
8                   issuances to those business units receiving the proceeds of the  
9                   issuance and that assignment is not changed until corporate retires  
10                  the series. In essence this assignment process results in a  
11                  “hypothetical” capital structure for each business unit.

12  
13 **Q. In the past did the Commission Staff address the issue of protecting GMO’s**  
14 **ratepayers from the detrimental financial impact of GMO’s nonregulated Merchant**  
15 **operations?**

16 A. Yes. The Staff addressed this identical issue in it “Staff Report on Aquila, Inc.” (“Staff  
17 Aquila Report”), dated December 2002:

18                  To prevent or mitigate Aquila’s higher cost of capital from being  
19                  charged to Missouri’s ratepayers, the Commission can order the  
20                  use of a hypothetical capital structure for rate making purposes to  
21                  determine the mix of debt and equity that is appropriate for MPS  
22                  and for L&P.

23                  The capital structure would not be dependent on the capital  
24                  structure currently in effect for Aquila. Instead of using Aquila’s  
25                  actual cost of debt and equity, the Commission could impute debt  
26                  and equity rates that it considers reasonable for Aquila’s Missouri  
27                  utilities.

28                  Specific examples of mechanisms that can be used to help prevent  
29                  increased capital costs being passed onto the MPS and SJLP rate  
30                  payers are: use of a hypothetical capital structure, adjustments to  
31                  embedded costs of debt and preferred stock, adjustments to cost of  
32                  equity estimates, use of comparable companies (to more closely  
33                  reflect the cost of capital for a regulated utility versus a diversified  
34                  energy company).

35 **Q. Were these ratepayer protection measures proposed by the Staff supported by**  
36 **GMO?**

1 A. Yes. These measures were recognized by GMO as necessary and appropriate.

2 **Q. Are these measures as necessary today as they were in 2002?**

3 A. Yes. GMO justifies a higher equity ratio based on its higher business risk. GMO has not  
4 adequately explained all the reasons why it has a higher business risk. Until GMO  
5 clearly and convincingly demonstrates that none of the very serious credit issue related to  
6 its nonregulated Merchant operations are contributing to its current higher business risk,  
7 the Commission should keep the ring fencing provisions in place in 2002 in mind when it  
8 is making its capital structure decision in this rate case. One very simple ring fencing  
9 measure the Commission can take is just to keep doing what it has been doing with GMO  
10 – basing its rates on a GPE consolidated capital structure.

11  
12 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS TIM RUSH**

13 **Q. Schedule TMR-5 attached to the direct testimony of GMO witness Tim M. Rush**  
14 **shows in the account titled “Purch Pwr-Energy & Cpcty Pur-AI.” This schedule also**  
15 **shows an account labeled “SFR Off System Sales (bk20)”. Is GMO’s reflection of**  
16 **different amounts and different accounts for purchased power and off-system sales**  
17 **in this schedule consistent with the accounting and financial reporting requirements**  
18 **for RTO transactions required by the Federal Energy Regulatory Commission**  
19 **(“FERC”) Uniform System of Accounts (“USOA”)?**

20 A. No.

21 **Q. Does FERC define how generation and load that is cleared on an hourly basis in**  
22 **regional transmission organization (“RTO”) markets such as the Southwest Power**  
23 **Pool (“SPP”) should be classified?**

24 A. Yes. FERC Order No. 668 specifies how the hourly clearing in RTO markets of load and  
25 generation should be accounted for under the FERC’s USOA.

1 **Q. Would you summarize the portion of FERC Order No. 668 that applies to how**  
2 **utilities are to record the hourly clearing in an RTO market such as the SPP**  
3 **integrated market?**

4 A. Yes. One purpose of FERC's order is to establish uniform accounting requirements for  
5 the purchase and sale of energy in RTO markets. Under FERC Order No. 668 accounting  
6 rules, in each hour, a public utility has either an off-system sale to RTO or a power  
7 purchase from a RTO. Utilities must net their revenue received for generation and  
8 charges for cleared load in each hour and report the net amount for each hour as either;  
9 (1) an off-system sale under Account 447 when the revenues are greater than the charges  
10 or (2) a power purchase under Account 555 when the charges exceed the revenue  
11 received for generation.

12 **Q. Why did FERC's change its accounting for accounts 447 and 555?**

13 A. In 2004, FERC recognized that the formation of RTOs created the need to update its  
14 accounting and financial reporting requirements to reflect the role of RTOs and to  
15 provide more transparent and uniform accounting not previously addressed in its USOA  
16 and to establish uniform accounting requirements for the purchase and sale of energy in  
17 RTO markets to allow for a better comparability between public utilities.

18 FERC responded to this need by creating Docket No. RM-04-12 in 2005. In this docket  
19 Order No. 668 to update the accounting requirements for public utilities and RTOs. One  
20 purpose of Order No. 668 was to establish uniform accounting requirements for the  
21 purchase and sale of energy in RTO markets.

22 **Q. Please list the main conclusions reached by the FERC in its Order 668.**

23 A. FERC's conclusions on the reasons for its changes to RTO energy market transactions  
24 are listed below. This information can be found in FERC Docket No. RM04-12-000;  
25 Order No. 668 *Accounting and Financial Reporting for Public Utilities Including*  
26 *RTOs* issued on December 16, 2005:



1 Commission Conclusion

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

17  
18 81. Additionally, we clarify that transactions are to be netted based  
19 on the RTO market reporting period in which the transaction takes  
20 place. For example, if the RTO market in which the transaction  
21 takes place uses an hourly period for determining energy market  
22 charges and credits, then non-RTO public utilities purchasing and  
23 selling energy in the market must net transactions on an hourly  
24 basis. Requiring participants to net transactions over the RTO  
25 market's reporting period leads to consistent and comparable  
26 energy market information for decision making purposes by the  
27 Commission and others.

28  
29 82. Further, we clarify that the netting of purchases and sales in an  
30 RTO energy market is appropriate not only for transactions where  
31 participants are required to bid their generation into the market and  
32 buy generation from the market to supply their native load, but also  
33 in cases where an RTO offers an energy market in which  
34 participants may choose to offer all generation to and buy all  
35 power from the energy market.

36  
37 83. We also clarify that if a participant is a net seller, rather than a  
38 net buyer, during a given market reporting period it must credit  
39 such net sales to Account 447, Sales for Resale, instead of Account  
40 555, Purchased Power.

1 **Q. Is it important that Missouri utilities such as GMO comply with the FERC's USOA**  
2 **and Order No. 668 both in its financial reporting, accounting, and FAC**  
3 **documentation in this rate case?**

4 A. Yes. First of all, GMO is required by Commission rule to comply with the FERC USOA.  
5 In addition, correct reporting is important to Missouri utilities because there is a statute  
6 allowing the Commission to grant an FAC for purchased power. Incorrect reporting  
7 results in confusion regarding the appropriate costs to flow through the FAC. OPC  
8 witness Lena Mantle describes some of the issues OPC has encountered with GMO's  
9 FAC documentation, including the documentation reflected on Schedule TMR-5 attached  
10 to the direct testimony of GMO witness Tim M. Rush. OPC does not believe this  
11 Schedule reflects the FERC USOA accounting for RTO transactions.

12 **Q. Do you have a recommendation for the Commission regarding the recording of off-**  
13 **system sales and purchased power?**

14 A. Yes. OPC recommends the Commission order GMO to record its off-system sales and  
15 purchased power as required by FERC Order No. 668.

16 **Q. At page 8 line 9 of his direct testimony Mr. Rush states that rate case procedures**  
17 **normally used in Missouri do not provide a sufficient mechanism for GMO to**  
18 **recover costs and still earn a fair return on equity. Does Mr. Rush provide any**  
19 **evidence to support this statement?**

20 A. No, he provides no evidentiary support for this statement. In fact, there is significant  
21 evidence to the contrary and that GMO has been earning a fair return on equity over the  
22 past several years under Missouri rate case procedures.

23 First, GMO last filed its rate case in 2012. KCPL also filed a rate case in 2012 and again  
24 in 2014. If GMO was not recovering all of its costs and still earning a fair return on  
25 equity then why did GMO not file for a rate increase in 2014 with KCPL? The strong  
26 presumption is that GMO was recovering all of its costs and earning a fair return on  
27 equity during the period 2012 through 2016.

1 To overcome this presumption, Mr. Rush should produce evidence GMO's return on  
2 equity during this period was not fair and he should explain why GMO did not take the  
3 opportunity as did KCPL to increase this return on equity.

4 Secondly, additional evidence that GMO has been earning a fair return on equity is  
5 reflected in the testimony of witnesses who state that GMO had to file for this rate case  
6 due to the requirements of the Fuel Adjustment Clause rule which requires a rate case  
7 every four years.

8 A final indication of the level of earnings experienced by GMO is the Staff's direct  
9 revenue requirement shows that GMO is earning above a fair return on equity by an  
10 amount in excess of \$30 million.

11 Given these facts, and given the fact that Mr. Rush provided no evidence at all to support  
12 his assertion that GMO is not earning a fair return on equity, I conclude that Mr. Rush's  
13 testimony is not correct and should be rejected by the Commission.

14 **REBUTTAL OF GMO WITNESSES DARRIN IVES AND JOHN CARLSON - REGIONALLY-**  
15 **ALLOCATED TRANSMISSION EXPENSES**

16 **Q. At page 10 line 17 through page 11 line 8 of his direct testimony, GMO witness John**  
17 **R. Carlson describes SPP transmission system upgrade projects that are allocated to**  
18 **all SPP members on a region-wide cost allocation basis. These projects include what**  
19 **SPP termed "Balanced Portfolio projects" and "Priority Projects". Are you**  
20 **familiar with these types of projects?**

21 **A.** Yes. At pages 10 through page 13, Mr. Carlson provides a good description of the SPP's  
22 regionally-allocated transmission projects and costs included in SPP's Base Plan  
23 Regional charge. At page 13, Mr. Carlson states "Base Plan Funding expenses have been  
24 rising, and projections from SPP show that these expenses will continue to increase  
25 through 2021."

1 **Q. Did Mr. Carlson provide rebuttal testimony on SPP Transmission Fees in KCPL**  
2 **rate case ER-2014-0370?**

3 A. Yes, he did. In Case No. ER-2014-0370, a KCPL rate case, Mr. Carlson addressed the  
4 issue of SPP transmission expenses allocation in his rebuttal testimony. That rebuttal  
5 testimony, filed on June 26, 2016, was marked as Exhibit 107HC. I have attached that  
6 testimony as Schedule CRH-R-1 to this testimony.

7 Mr. Carlson testifies in his direct testimony in this current GMO rate case that SPP  
8 anticipates that its transmission expenses that will be allocated to SPP members including  
9 KCPL and GMO will increase. However, he also expressed concerns about the reliability  
10 of similar SPP projections in his rebuttal testimony in Case No. ER-2014-0370, KCPL, at  
11 page 7 of his rebuttal testimony.

12 In his 2014 KCPL rebuttal testimony Mr. Carlson stated that the SPP provides annual  
13 projections of base plan funding expenses, and these are only projections which have no  
14 bearing on actual expenses. Mr. Carlson then pointed to a chart at page 8 of his 2014  
15 rebuttal testimony and stated:

16 Staff pointed to the Direct Testimony of Tim M. Rush in which he  
17 provided a calculation of the "projected" annualized increases in  
18 Schedule 11 charges for 2013-2022. Staff somehow  
19 mischaracterized these "projected" Schedule 11 charges as known  
20 and measurable. Such costs are more accurately described as  
21 "expected and projected".  
22

23 While SPP provides annual projections of base plan funding  
24 expenses, these are only projections and have no bearing on actual  
25 expenses.  
26

27 The following chart shows how SPP projections vary drastically  
28 from projection to projection. Projections for calendar year 2013  
29 vary by approximately \$7.0 million when comparing the projection  
30 from July 10, 2012 to the projection from July 8, 2013. Similarly,  
31 projections for calendar year 2015 vary by approximately \$8.0  
32 million dollars between the various projections. (emphasis added)

1 **Q. At page 9 of his direct testimony in this case, GMO witness Darrin Ives states that**  
2 **SPP regional transmission upgrade projects are being planned, constructed, and**  
3 **billed to SPP members in order to expand and enhance the ability for the SPP**  
4 **transmission footprint. He also states that as these projects are placed in service,**  
5 **GMO is continuing to receive its share of the costs of the expansion. What is a main**  
6 **cause of GMO's increased transmission charges from the SPP?**

7 A. GMO's transmission cost increases are, to a significant extent, a direct result of the high  
8 number of SPP regional transmission projects that have been and are being constructed  
9 by utilities and other entities in the SPP footprint. A number of these projects include  
10 increased costs due higher FERC-allowed equity returns and incentives as well as other  
11 extraordinary ratemaking mechanisms granted by FERC. For example, FERC allows a  
12 50 basis point ROE adder solely for an entity being a member of a Regional  
13 Transmission Organization, such as SPP. Some of these regional projects also have been  
14 awarded a 100 basis point incentive ROE adder by FERC.

15 **Q. How does GMO propose to treat transmission expenses for ratemaking purposes in**  
16 **this case?**

17 A. Mr. Ives describes GMO's primarily proposal at page 10 line 1 of his direct testimony  
18 that, due to the increase in transmission costs, GMO is requesting that certain  
19 transmission costs be included in GMO fuel adjustment clause. OPC's position on the  
20 issue of including transmission expenses in GMO's fuel adjustment clause is addressed  
21 by OPC witness Lena Mantle.

22 **Q. Does GMO have a back up proposal if the Commission does not allow these**  
23 **transmission expenses to be included in GMO's FAC?**

24 A. Yes. Mr. Ives states at page 10 line 3 that, if any of the transmission of electricity by  
25 others is not included in the FAC in this case, then the forecasted annual average of SPP-  
26 billed transmission costs for 2017 and 2018 be used in GMO's cost of service in this  
27 case.

1 **Q. Does OPC have any concerns about GMO's proposal to obtain special ratemaking**  
2 **treatment for transmission costs in this case?**

3 A. Yes. While there are potentially many more problems with this proposal, OPC has three  
4 primary concerns about GMO's use of projected/estimated future transmission expenses.  
5 Based on these concerns, OPC recommends the Commission reject GMO's projected  
6 transmission expense ratemaking methodology.

7 **Q. What is OPC's first concern about GMO's proposal for special ratemaking**  
8 **treatment for its transmission expenses?**

9 A. The first concern is that the Commission only allows recovery of expenses in a utility's  
10 cost of service that are "known and measurable". The known and measurable standard is  
11 a ratemaking standard long applied and enforced by the Commission. Basically, this  
12 standard requires that a cost or revenue in a rate case be known to exist and, if it is known  
13 to exist, the cost or revenue must be able to be measured with a high degree of accuracy.

14 Clearly, "projected" or estimated future transmission expenses for GMO are not known  
15 and measurable. I am only aware of one time when projected costs were considered an  
16 option in setting rates and that was during the 1970s when fuel costs were rising  
17 significantly and were extremely volatile. My understanding is that projected fuel costs  
18 were considered in lieu of a fuel adjustment clause. I am not aware of any of time when  
19 projected future costs were seriously considered in a Missouri rate case proceeding.

20 For the Commission to abandon its known and measurable standard, I believe GMO  
21 would have to provide significant evidence that - due to this one expense - it is  
22 experiencing significant financial problems. GMO has not done that in this rate case. In  
23 fact, as I describe below in this rebuttal testimony to GMO witness Rush, all indications  
24 are that even with GMO's increasing transmission expenses, it has continues to earn at  
25 least a fair return on equity.

26 **Q. What is OPC's second concern about GMO's proposal to set electric utility rates in**  
27 **this case based on estimated or projected future transmission expenses?**

1 A. The second concern is related to the accuracy of projecting future costs and events. OPC  
2 does not believe this can be done with any reasonable degree of accuracy. In addition,  
3 GMO's own witness on SPP transmission expense in this rate case, Mr. John Carlson,  
4 testified before this Commission in KCPL's 2014 rate case to the same effect. GMO  
5 witness Carlson testified that SPP costs projections are not reliable and SPP cost  
6 projections "vary drastically" from projection to projection.

7 To summarize this concern, future costs projections are not accurate and are not reliable.  
8 Setting rates on inaccurate and unreliable costs projections is not something that the  
9 Commission should agree to do in this rate case.

10 **Q. Describe OPC's third concern about GMO's transmission expense proposal.**

11 A. OPC's third concern is that GMO had, in the past, a great opportunity to eliminate or at  
12 least mitigate, increased transmission costs. The ability to increase transmission revenues,  
13 when netted against transmission expenses, results in lower net transmission expense.  
14 GMO had an opportunity to significantly increase its transmission revenues and thus  
15 reduce its transmission expense but decided to transfer this opportunity to GPE and  
16 GPE's nonregulated ventures.

17 GMO had the opportunity to build, own and include in its rate base two SPP regional  
18 transmission projects. These projects are the GMO's Iatan-Nashua transmission project  
19 and GMO's Sibley-Nebraska City transmission project. ("GMO's Transmission  
20 Projects").

21 Instead of building and owning these very valuable regional transmission assets, GMO's  
22 nonregulated parent company GPE made the decision to transfer the ownership rights of  
23 these projects to a nonregulated joint venture with another entity named Transource.

24 **Q. What do you know about Transource based on your research and knowledge?**

1 A. Transource is a joint venture of GPE and American Electric Power Company, Inc  
2 (“AEP”). AEP owns 86.5% of Transource with GPE owning the remaining 13.5% of the  
3 company. AEP is a multi-state electric utility holding company headquartered in Ohio.

4 **Q. Were you involved in the docket where the Commission approved the transfer of the**  
5 **ownership rights of these projects from GMO to Transource?**

6 A. Yes, I was. I filed testimony in Rebuttal Testimony Case No. EA-2013-0098 on January  
7 30, 2013 as a member of the Commission Staff.

8 **Q. Did Staff initially oppose the transfer of GMO’s Transmission Projects to**  
9 **Transource and found this proposal to be detrimental to the public interest?**

10 A. Yes. That was the Staff’s finding that I sponsored and supported in my rebuttal  
11 testimony. The Staff’s initial recommendation was that the Commission deny the  
12 application to transfer the ownership of the transmission projects from GMO to  
13 Transource.

14 The Staff has concluded that (1) there is not a need for Transource Missouri to build the  
15 Transmission Projects (the Staff did not dispute the need for the Transmission Projects),  
16 (2) the construction of the Transmission Projects by Transource Missouri does not  
17 promote the public interest, and (3) the transactions, as proposed are detrimental to the  
18 public interest. Staff’s position in rebuttal testimony was the Applications should be  
19 denied.

20 The Staff, however, for reasons unknown to me ultimately changed its position and  
21 recommended the Commission approve the transfer of GMO’s Transmission Projects to  
22 Transource.

23 **Q. What was your primary concern with GPE’s proposal to transfer the ownership of**  
24 **GMO’s Transmission Projects to Transource?**



1 A. My testimony focused mainly on the fact that the transfer of GMO's Transmission  
2 Projects from GMO to Transource was detrimental to the public interest from a  
3 ratemaking standpoint.

4 Not placing GMO's Transmission Projects in GMO's rate base when the Transmission  
5 Projects became "fully operational and used for service" results in a loss of a significant  
6 amount of regional transmission revenues from the Southwest Power Pool ("SPP") to  
7 GMO. These transmission revenues that other members of the SPP would have paid to  
8 GMO (collected by SPP acting as a clearinghouse) would have directly offset the exact  
9 increased transmission expenses that GMO is complaining about to the Commission in  
10 this case and in past rate cases.

11 **Q. Was this a conclusion reached by the Staff in Case No. EA-2013-0098?**

12 A. Yes it was. At page 6 of my rebuttal testimony in Case No. EA-2013-0098, testifying as  
13 a member of Staff, I advised the Commission:

14 The loss of these regulated transmission revenues is significant to  
15 GMO's ratepayers as the revenues would offset rapidly increasing  
16 GMO transmission expenses. The removal of the Transmission  
17 Projects from Missouri Commission regulation by transferring  
18 them to an affiliate will result in a significantly higher cost of  
19 service and electric utility rates for the foreseeable future.  
20

21 **Q. Was there an indication at the time of the transfer of GMO's Transmission Projects**  
22 **to Transource that the financial community believed that transmission projects such**  
23 **as the Iatan-Nashua and Sibley-Nebraska City Projects would be beneficial to the**  
24 **regulated utilities that construct these projects, given the FERC ratemaking ROE**  
25 **incentives and other ratemaking mechanisms?**

26 A. Yes. In an April 12, 2012 Standard and Poors (S&P) Report, S&P described its view of  
27 the 2012 utility merger of Northeast Utilities ("NU") and NSTAR indicating the  
28 "attractive" ROEs and other ratemaking incentives will enhance NU's cash flow and

1 provide earnings stability to the utility. This document is attached as Schedule CRH-2 to  
2 my rebuttal testimony in Case No. EA-2013-0098.

3 There is no reason to believe that the same financial benefits that, according to S&P  
4 accrued to Northeast Utilities, would not also accrue to GMO and lessen the impact,  
5 potentially to a significant extent, the burden of regional transmission expenses now  
6 faced by GMO.

7 **Q. Did you perform a financial analysis of the revenue detriment that would be**  
8 **suffered by GMO and its customers a result of GPE's decision to transfer GMO's**  
9 **Transmission Projects to Transource?**

10 A. Yes. This analysis indicated a detriment to GMO's customers in nominal dollars of \$27  
11 million after 5 years, \$48 million after 10 years and \$76 million after twenty years. The  
12 calculation of this detriment, by year, is reflected as the attached Schedule CRH-1 to my  
13 rebuttal testimony in Case No. EA-2013-0098.

14 **Q. Was your analysis based on the fact that GMO would put these GMO Transmission**  
15 **Projects in its rate base and allocate the costs of these projects, as regionally-**  
16 **allocated projects, to all members of the SPP on a load-ratio share allocation basis?**

17 A. Yes. Just as GMO is paying other SPP members higher FERC-tariff rates for other SPP  
18 entity's owned regionally-allocated transmission projects, these same entities would in  
19 kind be paying GMO for its owned regionally-allocated transmission projects – the GMO  
20 Transmission Projects.

21 GMO customers would have benefited to a great extent because the FERC tariff rates for  
22 the GMO Transmission Projects would be higher than GMO's actual cost of the GMO  
23 Transmission Project in its Missouri rate base. These higher FERC tariff rates for the  
24 GMO Transmission Projects would have been translated into higher regionally-allocated  
25 transmission revenues for GMO. These higher GMO regionally-allocated revenues  
26 would have then been used to offset its regionally-allocated transmission costs that were  
27 also addressed by Mr. Ives in his direct testimony.

1 **Q. Is it your position that GMO had an opportunity to significantly reduce its SPP**  
2 **regionally-allocated transmission expenses by rate basing the GMO Transmission**  
3 **Project but decided not to take this action?**

4 A. Yes. If GMO as a Missouri regulated utility had an opportunity to reduce its costs to a  
5 significant extent, it would do so if it acted prudently. However, GMO did not control  
6 this decision. The decision to remove these GMO Transmission Projects from being  
7 included in GMO's rate base was made by GMO's non-regulated parent company, GPE.  
8 It is GPE that has an ownership interest in Transource.

9 **Q. What was GMO's response to the analysis you presented in your rebuttal testimony**  
10 **in Case No. EA-2013-0098.**

11 A. GMO's response was provided in the surrebuttal testimony of KCPL witness Charles  
12 Locke at pages 4 and 5 where he stated:

13 Not only does Mr. Hyneman's analysis produce an unwarranted  
14 windfall for GMO customers, it also constitutes improper  
15 ratemaking by reasonable standards.

16  
17 With these substantial regional benefits in mind, the Projects  
18 should not produce a windfall to GMO customers through the  
19 application of historical retail ratemaking simply because they are  
20 built in GMO's service area.  
21

22 Mr. Locke is a former KCPL Manager of Regulatory Affairs who was testifying on the  
23 part of KCPL and GMO in this case. In these statements Mr. Locke characterizes the  
24 Commission's historical retail ratemaking as "improper ratemaking" for the GMO  
25 Transmission Projects that were given to GMO, a Missouri regulated utility, by the SPP  
26 to construct in GMO's Missouri regulated service territory.

27 It is not easy for me to understand, from a utility management prudence standpoint, how  
28 classifying an opportunity for GMO, as a regulated utility, to reduce GMO's regulated

1 expenses as a “windfall for GMO customers”. There is absolutely no logic in that  
2 statement.

3 What would be logical and prudent for a utility manager would be to take advantage of  
4 every opportunity to reduce costs to your customers. That is what a utility manager is  
5 supposed to do. However, that is not what KCPL and GMO’s utility managers did in this  
6 Transource case.

7 **Q. While you are critical of Mr. Locke and KCPL and GMO management for not**  
8 **taking advantage of this SPP transmission expense reduction opportunity, is there a**  
9 **chance that KCPL and GMO utility management were not allowed to take this**  
10 **prudent course of action?**

11 A. Yes. GPE as a utility holding company has no employees. GMO as a regulated utility  
12 has no employees. Only KCPL has employees. The decision to transfer these very  
13 valuable GMO Transmission Projects from GMO’s Missouri regulated operations to a  
14 non-regulated affiliate, Transource, is not a decision an employee of a regulated entity  
15 would make. It is likely this decision was made by KCPL employees acting in the  
16 interest of GPE and its non-regulated ventures.

17 **REBUTTAL TO THE DIRECT TESTIMONY OF GMO WITNESS CHARLES CAISLEY**

18 **Q. At page 3 of his direct testimony Mr. Caisley states he has been serving on the J.D.**  
19 **Power and Associates Utility Customer Executive Advisory Board on Customer**  
20 **Experience since 2012. Have you measured GMO and KCPL’s J.D. Power and**  
21 **Associates (JD Power”) residential customer survey results since Mr. Caisley’s**  
22 **association with JD Power in 2012?**

23 A. Yes. I performed an analysis of how GMO and KCPL scored in relation to peer group  
24 electric utilities in the JD Power residential customer surveys from 2006 through 2016. In  
25 the four years prior to Mr. Caisley’s involvement with JD Power, KCPL and GMO  
26 consistently ranked in the top 4 of the 16 utilities in the peer group. Since Mr. Caisley’s

1 association with JD Power, GMO and KCPL rankings - relative to other electric utilities in  
 2 the peer group - have gotten significantly worse.

3 From 2009 through 2011, KCPL and GMO ranked no lower than 3<sup>rd</sup> in the group of 16  
 4 utilities. In the last three years, GMO and KCPL have scored no higher than 9<sup>th</sup> out of 16  
 5 electric utilities in the peer group. These results are below:

JD Power Residential Customer Survey	Utilities in Peer Group	Midwest Large Utility Avg	KCPL Score	KCPL Rank in Peer Group	Relative to Average Score	Points Above (below) Average Score	Percent Above/ Below Average Score
2006	15	663	679	8/15	Above	16	2.4%
2007	17	651	697	5/17	Above	46	7.1%
2008	12	623	667	4/12	Above	44	7.1%
2009	16	609	646	2/16	Above	37	6.1%
2010	16	624	655	3/16	Above	31	5.0%
2011	16	621	644	3/16	Above	23	3.7%
2012	16	617	625	7/16	Above	8	1.3%
2013	16	631	640	6/16	Above	9	1.4%
2014	16	644	641	9/16	Below	(3)	-0.5%
2015	16	661	660	11/16	Below	(1)	-0.2%
2016	16	678	678	9/16	Equal to	0	0.0%

6  
 7 **Q. Did Mr. Caisley address GMO and KCPL’s JD Power residential customer service**  
 8 **survey scores in his direct testimony?**

9 **A.** Yes. At page 13 of his direct testimony, he states that JD Power raw scores with residential  
 10 customers have improved but he also recognizes that GMO’s and KCPL’s residential survey  
 11 utility rankings have decreased “in the last couple of years.”

1 **Q. Have GMO and KCPL's JD Power residential survey ranking among the peer group**  
2 **utilities only been decreasing over the last couple of years?**

3 A. No. This decrease in ranking among its peers in the residential customer service survey has  
4 occurred over the last five years, starting in the year 2011 to 2012 and continuing through  
5 2016.

6 **Q. Has GMO and KCPL, in the past, considered it important to look at the relative**  
7 **rankings of the individual companies in a JD Power survey and compare the ranking**  
8 **with the other electric utilities in the peer group?**

9 A. Yes. In the rebuttal testimony of Jimmy Alberts, KCPL and GMO's former Vice President  
10 of Customer Service stated in Case No. ER-2010-0355, pages 9-10,

11 Q: Looking beyond the errors in Staff's interpretation of the business  
12 studies, do you have concerns regarding Staff's interpretation of the  
13 JD Power residential data?  
14

15 A: Yes. Staff makes reference to our good performance in the 2010  
16 JD Power Residential study but fails to mention KCP&L's  
17 residential satisfaction scores rank among the best in the Midwest  
18 Large utilities categories in previous years.  
19

20 Even beyond the scores, **I believe it is important to look at the**  
21 **ranking of the Company among its peers.**  
22

23 For example, just prior to the Aquila acquisition, the 2008 JD Power  
24 Residential study was completed. KCP&L was ranked among the top  
25 four Midwest utilities and Aquila was ranked as one of the bottom  
26 four utilities. Since the acquisition, the combined company results  
27 are consistently ranked among the top four Midwest Large utilities.  
28

29 This would seem to indicate a grand improvement for Aquila/GMO  
30 customers and a continuing excellent customer experience for  
31 KCP&L customers. (emphasis added)

1 **Q. In his rebuttal testimony in Case No. ER-2010-0355 did Mr. Alberts, who was GMO**  
2 **and KCPL's senior customer service representative, provide a list of events outside of**  
3 **a utility's control that may impact a JD Power customer satisfaction score?**

4 A. Yes. He said that some of the "factors that can impact utility index scores include, but are  
5 not limited to: Temperature differences from year to year; significant disruption to  
6 operations, like storms; upheaval and uncertainty in economic security, like that experienced  
7 during the past two-and-a-half years; rate cases; media coverage; and, public  
8 communication channels like blogs."

9 **Q. Did Mr. Caisley state in his direct testimony at page 13 line 22 what he believes are the**  
10 **reasons why GMO and KCPL's JD Power scores have decreased relative to its peer**  
11 **group electric utilities?**

12 A. Yes. He attributes this decline to the high number of GMO and KCPL rate cases, which he  
13 states are more than almost of all the Company's regional peers. He also attributes the  
14 decline in GMO and KCPL customer service utility rankings to spending significantly less  
15 on advertising "the KCP&L brand" relative to other utilities in the peer group.

16 **Q. Is your experience that when the Company's JD Power scores are high, like they were**  
17 **prior to 2012, the Company attributes the high scores and high ranking among its**  
18 **peers to its management's activities to improve customer service?**

19 A. Yes.

20 **Q. Is your experience that, when GMO and KCPL's JD Power scores decrease relative to**  
21 **its peers, like they have since 2012, the Company attributes the decrease in peer**  
22 **rankings to elements outside the control of utility management?**

23 A. Yes. GMO and KCPL often praise themselves for high scores and high peer rankings in JD  
24 Power surveys, but they then disavow any responsibility for lower scores and peer rankings.

1 This attitude of taking credit for the good but not taking responsibility for the bad, as  
2 reflected in this and past GMO and KCPL testimonies, significantly decreases the value of  
3 any JD Power survey results to the Commission. This attitude on the part of GMO and  
4 KCPL only allows for misleading and “less than transparent” customer service measurement  
5 information being presented to the Commission.

6 **Q. Other than Mr. Caisley’s direct testimony in this case, what is the most recent**  
7 **document filed with the Commission where GMO and KCPL disavow any**  
8 **responsibility for decreased JD Power scores or peer rankings?**

9 A. Below is the rationale for GMO and KCPL’s lower JD Power peer rankings as reflected at  
10 the bottom of page 7 of GMO and KCPL’s February 25, 2016 Reply Brief in Case No. EC-  
11 2015-0309, Staff’s Allconnect Complaint Case against GMO and KCPL (“Allconnect  
12 Complaint”). Mr. Caisley was the GMO and KCPL witness on this issue in that complaint  
13 case.

14 In absolving GMO and KCPL management from any responsibility for the JD Power  
15 decreased peer group rankings, counsel for GMO and KCPL advised the Commission to  
16 ignore the actual survey results or relative peer group rankings.

17 GMO and KCPL argued that, despite the decline in peer group rankings, there has been no  
18 slippage in customer service and the Commission should ignore the slippage in peer group  
19 rankings. GMO and KCPL indicated the Commission should focus only on the raw scores  
20 as the peer group rankings are affected solely by events and circumstances GMO and KCPL  
21 cannot control:

22 It is possible that Public Counsel or Staff will argue that JD Power  
23 results show that the Company’s customer satisfaction has slipped  
24 recently. These arguments are wrong, and should therefore be  
25 ignored, for a number of reasons.

26  
27 Despite higher raw scores in nearly all areas of the JD Power  
28 residential customer satisfaction index, our rank has fallen relative to  
29 peer utilities in the last couple of years.



1 For the calendar year of 2015, in the JD Power Residential Customer  
2 Study, KCP&L scored just below the median in eleventh place out of  
3 sixteen large Midwestern utilities. (Ex. 115)  
4

5 We believe that there are a number of drivers behind our drop  
6 relative to other utilities. Chief among them is a high number of rate  
7 cases in recent years, more than almost all of our regional peers, as  
8 well as spending significantly less on advertising the KCP&L brand  
9 relative to other utilities in our peer group. (Tr. 485- 87)  
10

11 That said, we are seeing improvement in our ranking over the last  
12 two quarters and our customer satisfaction ranking is now ranked  
13 above the average for large utilities in the Midwest. (Ex. 117)  
14

15 **Q. In his rebuttal testimony in Case No. ER-2010-0355 did Mr. Alberts, who was GMO  
16 and KCPL's senior customer service officer at the time, indicate that utility image  
17 advertising had any impact on JD Power survey scores?**

18 A. No. The list of events that may affect customer service scores included in his testimony,  
19 while not all inclusive, did not include a relative spending on image advertising as suggested  
20 by Mr. Caisley.

21 **Q. Does OPC believe that JD Power surveys are a good indicator of a utility's actual level  
22 of customer service?**

23 A. No. There are just too many variables that can affect a given utility's score in a given year  
24 even with the assumption that the number of customers contacted in the survey is  
25 statistically significant. However, it appears that KCPL and other utilities in Missouri  
26 believe JD Power survey results are relevant to customer service performance. Therefore, I  
27 have included an analysis of GMO and KCPL's JD Power survey results in this testimony.

28 **Q. In your experience, does the Commission Staff put any value in JD Power scores?**

29 A. No. Staff, correctly so, has taken the position that JD Power scores are not strongly  
30 correlated with an individual utility's performance.

1 Staff witness Lisa Kremer stated in her rebuttal testimony in Case No. ER-2010-0355,  
2 Kansas City Power & Light Company, Staff's position on the value it places on JD Power  
3 surveys:

4 Q. What value does the Staff attribute to KCPL/GMO's  
5 participation in JD Power to the extent the Company pays for  
6 detailed reporting, the opportunity to ask additional survey questions,  
7 receive recognition in the form of trophies and other aspects of JD  
8 Power?

9 A. In the Staff's opinion, the value of customer surveys to  
10 utilities and to the customers they serve is when they are used by the  
11 utility as a tool to identify deficiencies, take corrective action to  
12 address these deficiencies, and measure the Company's progress by  
13 developing benchmarks for improvement. While Staff is opposed to  
14 customer survey results being used as a justification for an increased  
15 ROE, Staff does recognize such surveys can be beneficial to the  
16 Company in improving its operations.  
17

18 **Q. Do you agree with this Staff testimony?**

19 A. Yes. OPC supports GMO and KCPL doing customer surveys that are highly efficient, low  
20 cost, and specifically targeted to identify customer service problems as Staff suggests. OPC  
21 is concerned about the significant level of expenses KCPL and GMO are incurring (and  
22 charging to ratepayers) to have its consultants perform numerous customer surveys with  
23 little or marginal benefit.

24 **Q. Does GMO and KCPL use the JD Power surveys result in the manner suggested by  
25 Staff, that is to identify and improve specific customer service issues?**

26 A. No. It has been my experience that GMO and KCPL only use the JD Power survey results  
27 when the utilities want to promote its level of customer service and seek higher utility rates  
28 from ratepayers.

29 **Q. When did GMO and KCPL seek to increase utility rates to its customers as a result of  
30 its JD Power customer survey results?**

1 A. In his surrebuttal testimony in GMO's 2010 rate case, No. ER-2010-0356, GMO's  
2 Customer Service witness Alberts made the following statement seeking higher utility rates  
3 based on JD Power survey results:

4 What is missing from Staff's analysis? Not only did KCP&L  
5 perform well within the Midwest Region for large utilities, third  
6 highest of sixteen, but KCP&L's performance was consistent across  
7 all large utilities within the United States.

8  
9 KCP&L's score was superior to 49 of the 58 other large utilities. This  
10 demonstrates KCP&L not only ranks in the top quartile within the  
11 Midwest, but ranks in the top quartile across all large utilities  
12 surveyed by JD Power. See LAK Schedules 3-4, 3-6, 3-8 and 3-10.

13  
14 KCP&L believes that the Staff and Commission should recognize  
15 the outstanding performance by KCP&L by awarding an ROE above  
16 the mid- point range offered by the Company. (emphasis added)  
17

18 **Q. Did GMO witness Alberts state in his surrebuttal testimony in Case No. ER-2010-0356**  
19 **that GMO has no incentive to provide excellent service without receiving benefits like**  
20 **a higher return on equity in a rate case?**

21 A. Yes. Mr. Alberts, in a moment of insightful candor, revealed the likely true motivation  
22 behind GMO and KCPL's efforts to promote itself with JD Power survey results. At page 3  
23 line 3 of his surrebuttal testimony in Case No. ER-2010-0356, GMO's highest ranking  
24 customer service management employee at that time stated:

25 Without a hope of receiving any benefit-like a higher ROE-for  
26 excellent customer service, there is little incentive to offer but just  
27 enough customer service to avoid a formal complaint.  
28

29 **Q. With the understanding that you do not believe JD Power survey results are in any**  
30 **way a reliable reflection of utility customer service, if you did have such a belief, what**  
31 **do the historical results of GMO and KCPL's JD Power residential customer survey**  
32 **responses indicate?**

1 A. They survey responses indicate that prior to 2014 GMO and KCPL provided above average  
2 residential customer service. For the years 2014 and 2015, GMO and KCPL provided  
3 below average customer service and for 2016, GMO and KCPL provided average customer  
4 service compared to its peers.

5 **Q. At page 4 line 9, Mr. Caisley states that KCPL continually strives to improve customer**  
6 **service scores and metrics. As it relates to JD Power results, has KCPL failed in this**  
7 **area?**

8 A. Yes, when you view the JD Power survey results as a benchmarking tool and evaluate how  
9 GMO and KCPL have scored relative to the other 15 utilities in the peer group.

10 **Q. Given this failure on the part of GMO and KCPL, does that mean OPC believes that**  
11 **GMO and KCPL are not providing adequate or reasonable customer service?**

12 A. No. As noted above, OPC does not accept JD Power results as a valid and reliable measure  
13 of customer service performance.

14 With the exception of GMO and KCPL's mistreatment of certain customers related to its  
15 relationship with Allconnect, Inc. described below, I am not aware of any current concerns  
16 about the overall level of customer service provided by GMO and KCPL. Therefore, despite  
17 GMO and KCPL's below average JD Power customer service rankings, OPC is not  
18 asserting in any sense that GMO and KCPL's customer service is less than satisfactory.

19 In fact, if the customer service metrics included as attachments to Mr. Caisley's testimony  
20 are true and correct, it appears that GMO and KCPL are providing satisfactory customer  
21 service and these metrics, which do not appear to be at or below average, may even call into  
22 question the validity and reliability of JD Power customer survey results. Therefore, the  
23 metrics provided in Mr. Caisley's testimony reinforced OPC's belief that these survey  
24 results have no relevant evidentiary value before the Commission.

25 **Q. At page 13 line 8 Mr. Caisley states that GMO and KCPL have a solid residential**  
26 **customer experience. Do you agree with this statement?**

1 A. Yes. It has been my personal experience that with the exception of GMO and KCPL's  
2 recent imprudent and detrimental relationship with Allconnect, Inc., KCPL and GMO have  
3 provided KCPL solid customer service.

4 Given his solid track record, OPC does not see the need or the prudence in GMO and KCPL  
5 each year spending thousands of dollars on consultants doing continuous surveys. These  
6 "customer service" consultant companies, such as WPA Research, appear to act more like  
7 marketing companies than objective customer survey consultants.

8 OPC also does not see the need for GMO and KCPL to promote itself through image-  
9 building advertising and charging these costs to ratepayers. GMO and KCPL must  
10 remember that they are regulated monopolies and not competitive companies that have to  
11 compete for customer dollars.

12 **Q. Do you believe GMO and KCPL's customer service consultant surveys require a**  
13 **thorough review?**

14 A. Yes. I noted in Staff Data Request No. 426 in this rate case where KCPL and GMO's  
15 consultants are conducting surveys of KCPL and GMO's regulated electric utility customers  
16 asking them very pointed and specific questions about their political affiliation and political  
17 preferences. This is an absurd action on the part of a regulated electric utility and is not only  
18 a waste of ratepayer's money, but also borders on customer harassment.

19 **Q. As an electric utility customer, would you personally be concerned if you were**  
20 **contacted by a polling company acting on behalf of the electric utility asking you about**  
21 **your personal political preferences?**

22 A. Yes I would and I would question the pollster why are they asking me this question. I  
23 would even be more offended and disappointed if I found out that the utility was charging  
24 me in utility rates for the expense of this polling or surveying consultant. OPC intends to  
25 look closely into KCPL and GMO's marketing/customer service surveys in the near future  
26 and take action to prevent this type of utility behavior from recurring, or at a minimum, for  
27 the costs to be recovered in utility rates.

1 **Q. At page 4 line 9 Mr. Caisley states that KCPL takes customer experience very**  
2 **seriously. Do you believe that to be a true statement?**

3 A. No. At page 3 line 19 of his direct testimony, Mr. Caisley states he was involved in Case  
4 No. EC-2015-0309, the Allconnect complaint case filed by the Commission Staff. I was  
5 also a participant and an expert witness in that Staff complaint case as a member of the  
6 Commission Staff and subsequently as a member of the OPC .

7 There is substantial evidence in the record in that complaint case to support a conclusion that  
8 not only does GMO and KCPL not take the “customer experience” seriously, they also  
9 intentionally violated the Commission’s electric affiliate transaction rule by releasing  
10 customer information without the customer’s consent. OPC has reason to believe that GMO  
11 and KCPL continued to violate the affiliate transaction rule after the Commission found  
12 GMO and KCPL in violation in its Report and Order in that case.

13 **Q. In its relationship with Allconnect Inc., how could GMO have acted like it actually had**  
14 **an interest in the “customer experience”?**

15 A. First, it could have provided its customers with a basic courtesy of not being transferred  
16 Allconnect, a high-pressure marketing company. Without any say in the matter, GMO  
17 customers were transferred Allconnect, which provided no utility service, when all the  
18 customer wanted was help with their electric services. No one could realistically say a  
19 utility that treated its customers in this manner actually cared about its “customer  
20 experience.”.

21 Secondly, GMO could have obtained its customer’s permission, as required by the  
22 Commission’s affiliate transaction rule, before it released customer information to  
23 Allconnect. GMO not only ignored the clear meaning of the affiliate transaction rule but  
24 continued to violate this rule after the Commission ordered them in violation. This, again,  
25 does not indicate GMO cares about its “customer experience” or even complying with  
26 governing regulations.

27 **Q. Can you provide further evidence as to this assertion?**

1 A. In the complaint case, I listened to several audio recordings of telephone calls between  
2 GMO and KCPL regulated utility customers and Allconnect marketing representatives  
3 where Allconnect personnel treated KCPL customers badly and offensively. GMO and  
4 KCPL were aware of this behavior, or reasonably should have been aware of this behavior,  
5 and took no decisive action to stop this behavior from recurring.

6 In my opinion, a utility that cared about its customer's experience would never put its  
7 customers through such an abusive experience by transferring them to a high-pressure  
8 marketing company without consent. GMO and KCPL have a long way to go to overcome  
9 this dark stain on its customer service record.

10 **Q. Do you have additional evidence why you do not believe that GMO and KCPL**  
11 **management care about their customer experience?**

12 A. Yes. In addition to Allconnect, I have personally found that GMO and KCPL officers, such  
13 as Mr. Caisley, continue to incur expense report type charges that are imprudent, excessive,  
14 unreasonably and detrimental to customers and their experience.

15 OPC believes that, if what Mr. Caisley says in his testimony about the "customer  
16 experience" is true, GMO and KCPL would have ceased its imprudent, excessive, and  
17 unreasonable expense account spending habits in 2006 when the issue of excessive expense  
18 account spending was first raised by the Staff. The issue of excessive management expense  
19 report expenses has been raised in many, if not all, GMO and KCPL rate cases since 2006,  
20 yet the same irresponsible behavior continues.

21 Even in this current rate case test year, and subsequent to the test year, GMO and KCPL  
22 management employees, including Mr. Caisley, continued this irresponsible behavior to the  
23 detriment of the very customers it says it is concerned about.

24 If GMO and KCPL are concerned about its customers, management would stop charging its  
25 customers for excessive management expense report charges. Since it will not stop this  
26 behavior, the only conclusion that a reasonable person can make is that GMO and KCPL  
27 have no real concern about the well being of its customers' household budget.

**REBUTTAL OF STAFF WITNESS KEITH MAJORS**

1  
2  
3 **Q. Do you agree with the Staff’s Supplemental Executive Retirement Plan (“SERP”)**  
4 **adjustment sponsored by Staff witness Keith Majors and described at page 114 of the**  
5 **Staff’s Revenue Requirement Cost of Service Report for GMO filed on July 20, 2016?**

6 A. No. OPC does not agree with the part of the adjustment that includes KCPL allocated costs  
7 to GMO. Staff witness Majors included in its revenue requirement calculation of the dollar  
8 amount of SERP requested by GMO in its direct filing for GMO’s former highly-  
9 compensated employees. OPC agrees with this amount and has also proposed this level of  
10 SERP expense recovery for GMO in this rate case.

11 However, Mr. Majors has also included in his SERP adjustment a corporate allocation of  
12 SERP expense from KCPL to GMO. As I explained in my direct testimony in this case,  
13 OPC opposes this allocation of KCPL SERP to GMO customers as GMO customers have  
14 never received any benefit from the services provided by these former, highly-compensated  
15 SERP employees who never worked for KCPL GMO.

16 **Q. Please describe Staff’s SERP adjustment.**

17 A. SERPs are non-qualified retirement plans that provide pension payments above what the  
18 former highly compensated employee currently receive under the all-employee pension plan  
19 benefit formula. In theory, a SERP exists only because of the employee compensation  
20 limits on the pension plan benefit formula that are set by the federal government. There are  
21 no limits on what a company like GMO can pay under a SERP to former employees.

22 At page 114 of the Staff’s Cost of Service Report Mr. Majors described his SERP  
23 adjustment as follows:

24 Included in Staff’s revenue requirement recommendation is an  
25 annualized level of actual monthly-recurring supplemental executive  
26 retirement plan (“SERP”) payments GMO made to its former  
27 executives and other highly-compensated former employees.  
28  
29



1 **Q. Does Mr. Major's testimony state that he included SERP payments allocated from**  
2 **KCPL to GMO?**

3 A. No. However, a review of Mr. Majors SERP adjustment workpaper shows that he included  
4 GMO's proposed allocation of SERP expenses from KCPL to GMO.

5 **Q. Why is including KCPL allocated SERP expense inappropriate in this rate case?**

6 A. SERP payments reflect compensation for past employee service. If these former KCPL  
7 SERP beneficiaries never provided service to GMO customers while they were employed  
8 by KCPL, then GMO customers have never received any benefit from these employees. If  
9 GMO customers have never received any benefit from these former KCPL employees, then  
10 none of KCPL's compensation costs associated with these employees should be allocated to  
11 GMO and charged to GMO's customers.

12 **Q. Does OPC take issue with another adjustment proposed by Staff witness Majors?**

13 A. Yes. Mr. Majors sponsored the Staff's income tax adjustment as reflected in Staff's  
14 Accounting Schedule 11. That schedule reflects the calculation of current income tax for  
15 GMO. However, as described in my direct testimony, GMO has not paid current income  
16 taxes for several years and GMO does not expect to pay current income taxes for several  
17 years. Given these facts, it would be inappropriate to include current income tax expense as  
18 a part of GMO's cost of service in this rate case. I think all parties to this rate case would  
19 agree that it would be detrimental to GMO's customers to pay GMO for an expense it does  
20 not incur and does not pay.

21 **Q. Is Mr. Majors' current income tax expense adjustment consistent Staff's ratemaking**  
22 **position on this issue in the current Empire District Electric Company rate case, No.**  
23 **ER-2016-0023?**

24 A. No. In the Empire rate case, Staff did not include any current income tax expense in its  
25 proposed cost of service for Empire. My review of the documents in that case shows

1 Empire did not contest the Staff's income tax expense adjustment to exclude current income  
2 taxes in its proposed cost of service Accounting Schedules.

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

4 **A.** Yes, it does.