

Exhibit No.:

Issues: Cyber-Security Forecast/Tracker  
Transmission Forecast/Tracker  
RTO Administrative Fee Forecast  
Transmission Revenue  
Forecast/Tracker  
Transmission Wholesale Revenue

Witness: Karen Lyons

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: ER-2016-0156

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**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

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**REBUTTAL TESTIMONY**

Missouri Public  
Service Commission

**OF**

**KAREN LYONS**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

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

*Jefferson City, Missouri  
August 2016*

**\*\* Denotes Highly Confidential Information \*\***

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**KCP&L GREATER MISSOURI OPERATIONS COMPANY**  
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1 REBUTTAL TESTIMONY

2 OF

3 KAREN LYONS

4 KCP&L GREATER MISSOURI OPERATIONS COMPANY

5 CASE NO. ER-2016-0156

6 Q. Please state your name, employment position and business address.

7 A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service  
8 Commission (“Commission” or “PSC”), Fletcher Daniels State Office Building, 615 East 13<sup>th</sup>  
9 Street, Kansas City, Missouri 64106.

10 Q. Are you the same Karen Lyons who has previously provided testimony in  
11 this case?

12 A. Yes. I contributed to Staff’s Cost of Service Report filed in the KCP&L  
13 Greater Missouri Operations Company (“GMO” or “Company”) rate case designated as Case  
14 No. ER-2016-0156 on July 15, 2016.

15 Q. What is the purpose of your rebuttal testimony?

16 A. GMO proposes alternative regulatory treatment for transmission expense,  
17 Critical Infrastructure Protection (“CIP”) and Cyber<sup>1</sup>-Security expense, transmission revenue,  
18 and Regional Transmission Organization (“RTO”) administrative fees. For transmission  
19 expense and revenue, GMO is proposing three options for recovery. First, GMO proposes  
20 that all transmission expense and revenue incurred through the Southwest Power Pool  
21 (“SPP”) and the Midcontinent Independent System Operator, Inc. (“MISO”) be flowed  
22 through the Fuel Adjustment Clause (“FAC”) with the exception of Crossroads transmission

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<sup>1</sup> Information systems.

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1 expense of approximately \$4.9 million that was disallowed by the Commission in Case No.  
2 ER-2012-0175. Staff witness Matt Barnes addresses this proposal in his rebuttal testimony in  
3 this case. Staff understands that the transmission expense included in GMO's proposal  
4 includes transmission of electricity by others (FERC Account 565), RTO administrative fees  
5 (FERC Account 561 and 575) and the FERC assessment (FERC Account 928). Second, if  
6 transmission expense and revenue are not flowed through the FAC, GMO proposes using a  
7 forecasted average of 2017-2018 values to develop an ongoing level of transmission expense  
8 and revenue to include in GMO's cost of service and proposes to track the forecasted levels of  
9 transmission expense and revenues. Staff understands that if the forecast costs are lower than  
10 what is collected in rates, GMO will return the excess to its customers. If the costs are higher  
11 than the forecasted costs, GMO will absorb the costs. This is commonly known as a one-way  
12 tracker. It is also Staff's understanding that if a forecasted level of transmission expense and  
13 revenues and one-way tracker is not granted by the Commission then GMO proposes a tracker  
14 for which any over-recovery or under-recovery of transmission expense and CIP and Cyber-  
15 Security costs included in rates compared to the actual expenditures incurred by GMO will  
16 be booked to a regulatory asset or regulatory liability account, and would be eligible to  
17 be included in GMO's rates set in its next general rate proceeding through an amortization to  
18 expense. This is commonly referred to as a two-way tracker. Consistent with its proposal for  
19 transmission expense and revenue, GMO proposes using an average of 2017-2018 forecasted  
20 levels of CIP and Cyber-Security costs to represent an ongoing level of costs to include in its  
21 cost of service and proposes a tracker for the forecasted values.<sup>2</sup>

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<sup>2</sup> Rush Direct page 10.

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1 Staff is opposed to the use of forecasted costs to represent future ongoing costs in  
2 GMO's cost of service. Although Staff supports tracking mechanisms in special  
3 circumstances, Staff is opposed to the trackers proposed by GMO. In my Rebuttal Testimony,  
4 I will discuss the reasons for Staff's opposition of GMO's forecast and tracker proposal. Staff  
5 witness Mark L. Oligschlaeger addresses the general use of cost trackers and forecasts in his  
6 rebuttal testimony.

7 In addition, I will address each area of its cost of service that GMO proposes to use an  
8 alternative regulatory mechanism to recover its costs. I will respond to the following GMO  
9 witnesses that address the proposed use of forecast and trackers:

- 10 • Darrin R. Ives – Transmission expense, CIP and Cyber-Security forecast and  
11 tracker
- 12
- 13 • Tim M. Rush – Transmission expense and revenue, CIP and Cyber-Security  
14 forecast and tracker
- 15
- 16 • Joshua F. Phelps-Roper – CIP and Cyber-Security forecast
- 17
- 18 • John R. Carlson – Transmission forecast
- 19
- 20 • Ronald A. Klote – RTO Administrative fees and GMO's Accounting  
21 Schedules

22 GMO also proposes an adjustment to reduce the level of transmission revenue in its cost of  
23 service. In its Direct Filing, and supported by Mr. Klote in GMO's accounting schedules,  
24 GMO proposed an adjustment to reduce wholesale transmission revenues received from SPP  
25 based on the difference between GMO's Federal Energy Regulatory Commission ("FERC")  
26 authorized Return on Equity ("ROE") and the authorized ROE granted by the Missouri  
27 Commission in this case. Staff opposes GMO's proposed accounting treatment for this  
28 adjustment for ratemaking purposes. I will respond to GMO witness Klote's Direct Testimony

1 that supports both the revenue requirement accounting schedules and GMO's proposed  
2 adjustment related to the wholesale transmission revenue.

3 **EXECUTIVE SUMMARY**

4 Q. Please summarize Staff's position with regard to GMO's proposal to use a  
5 forecast to represent future ongoing level of costs and revenues.

6 A. GMO is proposing to include forecasted levels of transmission expense,  
7 transmission revenue, RTO administrative fees and CIP and Cyber-Security costs and a  
8 tracker for transmission expense, transmission revenue and CIP and Cyber-Security costs in  
9 its revenue requirement. Staff advocates use of historical costs that are known and  
10 measurable and ratemaking principles such as annualizations and normalization to develop an  
11 ongoing level of cost and revenue to include in a utility's cost of service. The ratemaking  
12 principles relied on by Staff ensures that the relationship in time between investment, revenue  
13 and expense remains intact. GMO's proposal to use forecasted levels to represent future  
14 ongoing costs and revenues is based on assumptions that may or may not occur and  
15 consequently violates the known and measurable concept. In addition, GMO is proposing to  
16 isolate certain areas of its cost of service that it has identified as increasing costs for special  
17 treatment without any consideration of changes to its cost of service that will offset increasing  
18 costs, so that there is not a proper matching.

19 Q. What is Staff's response to GMO's proposal to include a forecasted level of  
20 transmission expense, transmission revenue, RTO administrative fees, and CIP and  
21 Cyber-Security costs to represent an ongoing level in its cost of service?

22 A. Staff recommends the Commission reject GMO's proposal to isolate  
23 transmission expense, transmission revenue, RTO administrative fees, and CIP and

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1 Cyber-Security costs and the use of 2017-2018 forecasts to represent an ongoing level to  
2 include in GMO's cost of service. In its direct filing, Staff recommended an annualized level  
3 of transmission expense, transmission revenue, RTO administrative fees, and CIP and  
4 Cyber-Security expense for the 12 month period ending December 31, 2015, the update  
5 period in the case, and will review these costs in the true-up phase of this case, ending  
6 July 31, 2016. Staff's annualized level of transmission expense excludes all Crossroads  
7 transmission costs consistent with Commission Orders from Case No. ER-2010-0356 and  
8 Case No. ER-2012-0175.

9 Q. Please summarize Staff's position with regard to GMO's proposal for a  
10 transmission expense, transmission revenue, and CIP and Cyber-Security cost trackers.

11 A. Current levels of transmission expense, transmission revenue and CIP and  
12 Cyber-Security costs are known and measurable, for which Staff can use as the basis to  
13 determine an ongoing level of expense and revenue. Trackers should only be used for costs  
14 that are volatile, difficult to predict, and for which there is no historical data on which to base  
15 such a prediction. Transmission expense, transmission revenue, and CIP and Cyber-Security  
16 costs are normal operating expenses and revenues incurred by GMO and the financial impact  
17 of these items are neither volatile nor particularly difficult to predict. Similar to GMO's  
18 proposal to use forecasted costs for certain areas of its cost of service that are increasing,  
19 GMO is also proposing to use a tracker for these costs because they are increasing and  
20 without a tracker GMO will not have an opportunity to earn its authorized return on equity.<sup>3</sup>  
21 Like its request for forecasted costs, GMO is isolating certain costs for proposed tracker  
22 treatment but does not consider costs that may decline in the future and offset the cost

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<sup>3</sup> GMO witness Rush, page 9.

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1 increases. Staff recommends the Commission deny GMO's request for a transmission and  
2 CIP and Cyber-Security cost tracker.

3 Q. What is a "tracker?"

4 A. A tracker is a deferral mechanism used when it is difficult to determine a  
5 particular level of costs to include in rates, or when other unusual circumstances apply.  
6 When use of a tracker is authorized, a level of recovery for a cost is set in rates, and the  
7 Company tracks the actual amount of incurred costs in this area until the utility's next rate  
8 proceeding. Any amount under or over the set level of costs included in rates would be  
9 evaluated in the next rate case for future recovery. Typically, Staff does not endorse trackers,  
10 preferring inclusion of costs through normal ratemaking principles, such as through  
11 annualization and normalization processes. The tracker methodology is typically requested  
12 by utilities for cost increases only, while other costs may be declining. This selective use of  
13 trackers would represent an unfair ratemaking approach to deal with those isolated increasing  
14 costs which could be offset by savings in other cost of service areas. GMO's proposed  
15 ratemaking treatment for these cost increases identified in the Company's direct testimony  
16 does not propose to consider any offsetting, or mitigating savings in other aspects of the cost  
17 of service.

18 Q. Please summarize Staff's position with regard to GMO's adjustments related to  
19 wholesale transmission revenue.

20 A. GMO proposes an adjustment to reduce transmission revenues for the  
21 difference between the FERC ordered ROE of 11.1% and the ROE granted by the  
22 Commission in this case. GMO's authorized FERC ROE includes a 50 basis point adder  
23 attributable solely for it being a member of SPP. GMO contends Missouri rate payers are not



1 entitled to wholesale transmission revenues that are based on a FERC ROE that is higher than  
2 the Commission authorized ROE. Similar to the revenues, GMO is charged for transmission  
3 costs from other SPP members that include the financial impact of FERC incentives, ROE,  
4 and other adders. Although GMO made an adjustment to reduce wholesale transmission  
5 revenues, no corresponding adjustment was made to decrease GMO's transmission expense  
6 on the same basis. Staff recommends the Commission deny GMO's request to reduce  
7 revenues for the difference in the FERC and Commission authorized ROEs. However, in the  
8 event that the Commission grants GMO's request to eliminate transmission revenues based on  
9 the difference between the FERC ROE of 11.1% and the ROE granted by the Commission in  
10 this case, Staff recommends that a corresponding adjustment should be made to reduce  
11 transmission expenses incurred by GMO that also include FERC incentives from other SPP  
12 members. This would make the adjustments consistent in nature.

13 **TRANSMISSION EXPENSE-FORECAST AND TRACKER**

14 Q. Please explain how Staff treated GMO's transmission expense in its  
15 direct filing.

16 A. Staff analyzed GMO's transmission expense for the period of 2009-2015.  
17 Based on a discernable upward trend, Staff included an annualized level of transmission  
18 expense based on the 12 month period ending December 31, 2015. In addition, Staff made an  
19 adjustment to eliminate all Crossroads transmission expense for the same period, 12 months  
20 ending December 31, 2015. Transmission expense will be further reviewed in the true-up  
21 phase of this case.<sup>4</sup>

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<sup>4</sup> Staff's Cost of Service Report, page 151.

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1 Q. How do GMO's and Staff's positions differ with respect to the level of  
2 transmission expense to include in its cost of service?

3 A. GMO proposes to isolate transmission expense by using an average of 2017  
4 and 2018 forecasts to include in its cost of service. Beginning on page 16 of his Direct  
5 Testimony, GMO witness Carlson identifies the following transmission expense included in  
6 its cost of service:

7 The SPP Schedule 11 Base Plan Zonal and Region-wide charges and  
8 the Crossroads related transmission charges are included in Adjustment  
9 CS-45 as discussed in the direct testimony of Company witness Ronald  
10 A. Klote and included in Schedule RAK-4 attached to his testimony.  
11 FERC assessments collected under SPP Schedule 12 are included in  
12 Adjustment CS-85, which is also discussed in Klote's direct testimony  
13 and included in Schedule RAK-4. The SPP scheduling and  
14 administrative fees (Schedule 1 and 1-A) are included in Adjustment  
15 CS-86, also in the Klote direct testimony and Schedule RAK-4.  
16 Company witness Tim Rush, in his direct testimony, discusses the  
17 Company's proposal(s) for how these charges should be recovered  
18 from Missouri retail customers in rates.

19 Mr. Rush discusses GMO's proposal to include forecasted costs in GMO's cost of service  
20 beginning on page 8 of his Direct Testimony.

21 Q. Why does Staff oppose the use of forecasts to represent an ongoing level of  
22 costs to include in GMO's cost of service?

23 A. Forecasts are developed using assumptions that may or may not be realized in  
24 the future. As a result, the use of forecasts to develop an ongoing level of costs to include in a  
25 utility's cost of service is neither known or measurable. GMO's proposal to use a forecast to  
26 determine an ongoing level of costs also violates the matching principle by isolating  
27 transmission expense without taking into consideration concurrent changes that will occur in  
28 other areas of its cost of service. Consequently, GMO's proposal disrupts the relationship in  
29 time that occurs between its investment, expense, and revenue.

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1 Q. Has the Commission recently addressed the known and measurable concept?

2 A. Yes. In Case No. WR-2016-0064, Hillcrest Utilities, the Commission stated  
3 the following on page 18 of its Report and Order issued July 12, 2016:

4 Hillcrest has proposed that estimated property taxes in the amount of  
5 \$2,972 be included in its cost of service in this case. That estimated  
6 property tax will not be paid until approximately December 31, 2016,  
7 so it is beyond the test and update periods for this case. **Since it occurs**  
8 **after the update period, to be included in Hillcrest's cost of service**  
9 **the expense must have been realized (known) and must be**  
10 **calculable with a high degree of accuracy (measurable).** However,  
11 the evidence shows that the 2016 property tax amount has not yet been  
12 paid, is an estimate of the property tax costs, and could change during  
13 the summer of 2016. Therefore, that property tax estimate is not  
14 known and measurable, so it is inappropriate to include that amount in  
15 the revenue requirement for this case.  
16 **[Emphasis Added]**

17 Q. You stated above that GMO's proposal to use forecasted levels of transmission  
18 expense violates the matching principle. Please explain.

19 A. A utility's rates are developed based on use of ratemaking adjustments known  
20 as annualizations and normalizations to establish an ongoing investment, revenue, and  
21 expense relationship. The amounts determined through the ratemaking adjustments are  
22 intended to match the relationship with a utility investment, revenue and expense at a point in  
23 time, and anticipates that the same relationship will continue in the foreseeable future,  
24 allowing the utility the opportunity to earn its authorized return. GMO's proposal to isolate  
25 transmission expense by using forecasted levels without considering changes that will occur  
26 with other areas of its cost of service disrupts the relationship that occurs between its  
27 investment, revenue and expense. To determine the revenue requirement in this case, Staff  
28 consistently treated all areas of GMO's cost of service, leaving the relationship between  
29 GMO's investment, expense, and revenue intact.

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1 Q. Is Staff aware of any changes that could impact GMO's proposed forecasted  
2 level of transmission expense?

3 A. Yes. In FERC Docket No. EL14-19-002, the FERC approved a settlement that  
4 addresses issues regarding MISO's regional "through and out" rates in the MISO South  
5 region. In response to the Office of the Public Council ("OPC") Data Request No. 1023,  
6 GMO stated the following with regard to the expected benefits of the settlement:

7 GMO benefits from the settlement agreement through a reduction in the  
8 proposed increase to the Crossroads rate that otherwise would have  
9 been imposed as a result of the Entergy integration into MISO. The  
10 Crossroads rate primarily consists of two components, a Schedule 7  
11 rate and a Schedule 26 rate. Under the settlement agreement, the  
12 Schedule 7 rate is phased in over a ten-year period: in the first two  
13 years, only the Entergy rate is applied; in the remaining eight years, the  
14 MISO rate is evenly phased in. The MISO Schedule 26 rate is phased  
15 in over a 13 year period, with no Schedule 26 charge applied in years 1-  
16 5, followed by an even phase in of the MISO Schedule 26 rate in the  
17 remaining eight years.

18 Regarding the same FERC docket and OPC data request, GMO stated the following with  
19 regard to settlement proceeds received and anticipated future proceeds:

20 Settlement rates have been implemented. *See Midcontinent Indep. Sys.*  
21 *Operator, Inc.*, Order of Chief Judge Granting Motion for Interim  
22 Implementation of Settlement Rates (Mar. 3, 2016) and settlement  
23 agreement at II.B.(1). GMO has received refunds for the months of  
24 January, February, and March 2016 in the amount of \$804,642.29. A  
25 refund for overcharges prior to settlement implementation (i.e., refund  
26 for Years 1 and 2 of the settlement period, December 19, 2013, through  
27 December 31, 2015) will be received by September 21, 2016; however,  
28 this refund is subject to true-up by MISO upon FERC order on the  
29 Offer of Partial Settlement filed by Entergy and other parties (but not  
30 KCP&L) in FERC Docket No. ER13-948, *et al.*. KCP&L has not and  
31 will not receive any dollar proceeds from the settlement. The expected  
32 initial, lump-sum refund amount for GMO for Years 1 and 2 of the  
33 settlement period, which is subject to true-up, is approximately  
34 \$4,760,000.

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1 Although Staff recommends the continued disallowance of Crossroads transmission expense  
2 (as discussed in the rebuttal testimony of Staff witness Cary G. Featherstone), the settlement  
3 addressed above is one example of how certain components of GMO's transmission expense  
4 can and will decrease in the future. GMO's transmission forecast also includes Crossroads  
5 transmission expense. Since the Commission has previously disallowed Crossroads  
6 transmission expense and Staff is recommending in this case that Crossroads transmission  
7 expense continue to be disallowed, GMO's transmission forecasts are over stated and  
8 therefore, are not representative of transmission expense that should be recovered from its  
9 customers.

10 In FERC Docket No. ER14-1174-000, GMO received allocated revenues based on a  
11 settlement agreement that was approved by the FERC on January 21, 2016. In response to  
12 Staff Data Request No. 0155.14, GMO responded:

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15 As previously discussed, the Commission recognized that it would be inappropriate to include  
16 projected costs that could change in a future period in its Report and Order in Case No.  
17 WR-2016-0064. The FERC cases addressed above are just two examples of changes that can  
18 occur in the future that will impact transmission expense. Consequently, GMO's proposal to  
19 use forecasted costs is not representative of a known and measurable ongoing level of costs on  
20 which rates should be set.

21 Q. Mr. Rush states on page 9 of his Direct Testimony, "Without forward-looking  
22 rate treatment to timely recover these cost increases, GMO will not have a reasonable  
23 opportunity to earn its authorized return on equity when the rates are set in the case and in  
24 effect". Do you agree with Mr. Rush?

25 A. No. Although Staff recognizes that there are areas of GMO's cost of service  
26 that have increased since GMO's last rate case there are also areas of its cost of service that  
27 have decreased that offset the cost increases either in part or in whole. Since rates were  
28 changed in GMO's last rate case, Case No. ER-2012-0175, GMO has experienced cost

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1 increases that include but are not limited to transmission, CIP and Cyber-Security, plant in  
2 service, and property taxes, \*\* \_\_\_\_\_

3 \_\_\_\_\_ \*\* Staff witness Keith Majors addresses GMO's recent return on equity  
4 results in his rebuttal testimony in this case. \*\* \_\_\_\_\_

5 \_\_\_\_\_  
6 \_\_\_\_\_ \*\* Mr. Rush also  
7 states that, "[t]o knowingly not allow the utility to recover these costs is patently unfair to the  
8 utility."<sup>5</sup> GMO's approach of isolating a few areas of its cost of service and seeking rates  
9 based on forecast cost increases without taking into consideration potential cost reductions is  
10 patently unfair to its customers.

11 Q. Mr. Ives states on page 14 of his Direct Testimony that "For GMO, it is clear  
12 that transmission expense and CIP/cyber expense will be increasing after the test year and  
13 true-up period in this case. It is also clear that customer usage for GMO will not grow after  
14 the test year and true-up period in this case. As such, reliance exclusively on historical costs  
15 to set the rate allowance for GMO's transmission expense and CIP/cyber expense will result  
16 in under-recovery for GMO and associated earnings shortfalls that will not be offset by  
17 revenue growth." Do you agree with Mr. Ives?

18 A. No. While Staff agrees that transmission expense and cyber-security expense  
19 have increased since rates were last set in Case No. ER-2012-0175, the level of increase in  
20 future periods, or whether increases will occur at all, is not yet known with certainty.  
21 Mr. Ives would have the Commission believe that customer growth and growth in average  
22 customer usage are the only factors that can offset cost increases. As previously discussed,

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<sup>5</sup> Rush Direct, page 9.

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1 there are other areas of GMO's cost of service that can offset cost increases. Mr. Ives  
2 provides an example of this phenomenon when he states on page 7 of his Direct Testimony:

3           Although we are asking for an increase in our ROE from 9.7% to 9.9%  
4           and an increase to GMO's equity component of its capital structure, the  
5           weighted average cost of capital that we are requesting to recover from  
6           customers in this case is lower than the weighted cost of capital  
7           approved in our last rate case (Case No. ER-2012-0175). The  
8           **weighted average cost of capital has decreased due to the cost of**  
9           **debt going down to 5.089% from 6.425% in the last case.**  
10          (Emphasis added)

11          Q.     What is GMO's position on a transmission tracker?

12          A.     GMO's primary proposal is to include transmission expense in its FAC. If the  
13 Commission denies GMO's proposal to include transmission expense in its FAC, GMO  
14 proposes the following as stated on page 10 of GMO witness Rush's Direct Testimony:

15                 In fact, GMO filed the FAC to reflect transmission costs and  
16                 revenues in the FAC. But, to the extent that the proposal is  
17                 rejected by the Commission, then GMO proposes to use  
18                 forecasted transmission expenses to set rates.

19                 For both CIP and cybersecurity costs and transmission  
20                 expenses, if the forecasted costs during the period in which rates  
21                 are in effect are lower than those costs in rates, the Company  
22                 would return the excess to customers in the next rate case.  
23                 However, if costs are more than those forecasted, the  
24                 Company's shareholders would absorb those costs exceeded the  
25                 rate allowance.

26 GMO's proposal, as stated by Mr. Rush, is commonly referred to as a one-way tracker. It is  
27 also Staff's understanding, in the event the Commission denies GMO's proposal for the one-  
28 way tracker, GMO proposes a tracker for which any over-recovery or under-recovery of  
29 transmission expense and CIP and Cyber-Security costs included rates compared to the actual  
30 expenditures incurred by GMO will be booked to a regulatory asset or regulatory liability



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1 account, and eligible to be included in GMO's rates set in its next general rate proceeding  
2 through an amortization to expense.

3 Q. Does Staff agree with GMO's request for a transmission tracker outside of  
4 a FAC?

5 A. No. Staff disagrees with certain transmission expense being included in  
6 GMO's FAC and disagrees with GMO's request for a stand-alone tracker for transmission  
7 expense if the Commission does not grant GMO authority to continue its FAC.

8 Q. Please explain why Staff believes a transmission expense tracker is  
9 inappropriate.

10 A. Use of trackers should be restricted to costs that are volatile, difficult to predict  
11 an appropriate level of ongoing costs, and for costs for which there is no historical data on  
12 which to base such a prediction. Similar to GMO's request for forecasted transmission  
13 expense, a tracker violates the known and measurable concept and the matching principle.  
14 Staff used historical known and measurable costs for all areas of GMO's cost of service using  
15 regulatory adjustments such as annualizations and normalizations to determine an ongoing  
16 and matched level of investment, expense and revenue to include in GMO's cost of service.

17 A tracker should only be used in rare circumstances where it is extremely difficult to  
18 identify an appropriate level of costs to be included in rates. While trackers have been used in  
19 the past, and Staff recommended the use of a tracker in Case No ER-2010-0355 and Case No  
20 ER-2012-0174 for operation and maintenance costs of Iatan 2, trackers should be used  
21 sparingly. Staff recommended a tracker for Iatan 2 operation and maintenance ("O&M") costs  
22 because of KCPL's limited operational experience with Iatan 2 and the lack of historical  
23 O&M costs at the time of Case No ER-2010-0355. In that case, Staff did not have historical

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1 data to reasonably determine an annualized level of O&M expense. Staff's agreement to use  
2 this tracker was only intended to cover the initial years of operation of the Iatan 2 unit, until  
3 an adequate history of the unit's O&M expenses existed. In the current rate case, GMO has  
4 recommended that this tracker no longer be used, and Staff agrees.<sup>6</sup>

5 An increase in expense is not considered a rare circumstance that would warrant the  
6 use of a tracker. Consideration must be given to all areas of a utility's cost of service to  
7 develop rates. Since GMO rates were last set in Case No ER-2012-0175, GMO has  
8 experienced cost increases and customer growth decreases as discussed above and confirmed  
9 by GMO witness Ives. \*\* \_\_\_\_\_

10 \_\_\_\_\_ \*\*

11 Q. Is this the first request for a transmission tracker by GMO?

12 A. No. GMO requested a transmission tracker in Case No. ER-2012-0175.

13 The Commission stated the following on page 31-32 of its Report and Order:

14 "Rare" does not describe cost increases in the utility business generally.  
15 Specifically, Applicants' evidence shows the following as to  
16 transmission. Transmission is an ordinary and typical, not an abnormal  
17 and significantly different, part of Applicants' activities. Also,  
18 Applicants showed that paying more for transmission than in the  
19 previous year is a foreseeably recurring event, not an unusual and  
20 infrequent event. Thus, "items related to the effects of" transmission  
21 cost increases are not rare and, therefore, are not extraordinary.

22 ...

23 Because Applicants have not shown that the projected transmission  
24 increases are current and will be rare, Applicants have not carried their  
25 burden of proving that projected transmission increases are  
26 extraordinary. If the increases—once they happen—prove to be less than  
27 five percent of income, Applicants may apply for an accounting  
28 authority order under the law they cite. If the projected transmission

<sup>6</sup> Klotz Direct page 39.

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1 increases prove to be more than five percent of income, they will be  
2 subject to deferral without the Commission's order.

3 ...

4 For those reasons, the Commission concludes that denying a tracker is  
5 consistent with the law and does not threaten safe and adequate service  
6 at just and reasonable rates, so the Commission will not order a  
7 transmission tracker. (Footnotes omitted.)

8 In response to the Commission Order in Case No ER-2012-0175, GMO then filed an  
9 Accounting Authority Order ("AAO") request for transmission expense and as an alternative  
10 requested a transmission tracker. In Case No. EU-2014-0077, the Commission stated the  
11 following beginning on page 10 of its Report and Order:

12 In Missouri, rates are normally established based off of a historic test  
13 year. The courts have stated than an AAO allows the deferral of a final  
14 decision on current *extraordinary* costs until a rate case and therefore is  
15 not retroactive ratemaking. Consistent with the language in General  
16 Instruction No. 7, the Commission has evaluated the transmission costs  
17 for which Companies seek an AAO to determine if they are an unusual  
18 and infrequent occurrence. The Commission concludes they are not.

19 Companies began incurring transmission expenses when they began  
20 providing retail electric service. Transmission costs are part of the  
21 ordinary and normal costs of providing electric service and are  
22 expected to continue in the foreseeable future. Furthermore, while the  
23 transmission costs at issue may have a significant effect on Companies,  
24 they are not "abnormal and significantly different from the ordinary  
25 and typical activities" of the Companies. The increase in transmission  
26 costs was anticipated and is indeed the norm for all electric utility  
27 members of SPP. Therefore, the transmission costs are not  
28 extraordinary.

29 ...

30 The Commission recognizes that its approval of an AAO is necessary  
31 in order for Companies to receive its intended benefits from the  
32 reporting of a deferral in published financial reports. Companies carry  
33 the burden of proof. They failed to show by a preponderance of the  
34 evidence that they are entitled to the requested AAO. Based upon the  
35 competent and substantial evidence in the record, the Commission finds

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1 and concludes that KCP&L's and GMO's application for an AAO, or  
2 in the alternative a tracker, should be denied. (Footnotes omitted.).

3 Q. Has KCPL requested a transmission tracker consistent with GMO's requests  
4 addressed above?

5 A. Yes. KCPL and GMO requested a transmission tracker in concurrent rate  
6 cases and jointly filed a request for a transmission AAO. In addition, KCPL proposed a  
7 transmission tracker in its last rate case, Case No ER-2014-0370. The Commission denied  
8 KCPL's proposal for a transmission tracker in that case. The Commission stated on page 54  
9 of its Report and Order:

10 The evidence presented in this case showed that KCPL's transmission  
11 costs, while having increased in recent years, are normal, ordinary and  
12 recurring operation costs. These recurring costs are not abnormal or  
13 significantly different from the ordinary and typical activities of the  
14 company, so they are not extraordinary and, therefore, not subject to  
15 deferral under the USoA. The commission concludes that KCPL has  
16 not met its burden of proof to demonstrate that projected transmission  
17 cost increases are extraordinary, so its request for a transmission tracker  
18 will be denied.

19 Q. In his Direct Testimony, Mr. Ives suggests that GMO transmission expense is  
20 beyond the Company's control.<sup>7</sup> Does Staff agree?

21 A. No. Although Staff agrees that transmission expense has increased in recent  
22 years, Staff does not agree that GMO has no control over reducing the impact of increasing  
23 transmission expense. As one example, GMO had the opportunity to mitigate increased  
24 transmission expense with increases in transmission revenue. GMO management had the  
25 recent opportunity to construct two regional transmission projects and, instead, transferred  
26 the right to construct these regional transmission projects to Transource Missouri, an affiliate

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<sup>7</sup> Ives Direct, page 12.

1 of GMO pursuant to a Stipulation and Agreement in Case Nos. EA-2013-0098 and  
2 EO-2012-0367. Also, as previously discussed, GMO is a participant in several FERC dockets  
3 that may impact the level of transmission expense it incurs in the future and is an active  
4 participant into SPP planning and decision-making processes.

5 Q. In KCPL's last rate case, KCPL requested rate base treatment and carrying  
6 costs for its proposed trackers. Is GMO requesting rate base treatment and carrying cost  
7 treatment for its proposed trackers?

8 A. GMO did not discuss rate base and carrying cost treatment for its proposed  
9 trackers in its direct testimony. However, KCPL and GMO have historically requested rate  
10 base treatment of unamortized tracker balances and addition of carrying costs in the tracker  
11 balances as part of its tracker requests. Therefore, Staff will address these items in the context  
12 of this case, and recommends no rate base treatment and no carrying costs recovery for  
13 GMO's proposed trackers in the event the Commission approves the trackers.

14 **CIP AND CYBER-SECURITY-FORECAST AND TRACKER**

15 Q. Please explain how Staff treated GMO's CIP and Cyber-Security expense in its  
16 direct filing.

17 A. Staff annualized CIP and Cyber-Security expense based on the 12 month  
18 period ending December 31, 2015 and will further review CIP and Cyber-Security expense  
19 during the true-up phase in this case.<sup>8</sup>

20 Q. How do GMO's and Staff's positions differ with respect to the level of CIP  
21 and Cyber-Security expense to include in its cost of service?

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<sup>8</sup> Staff Cost of Service Report page 125.

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1           A.     Consistent with transmission expense discussed above, GMO proposes to  
2 isolate CIP and Cyber-Security expense by using an average of 2017-2018 forecasts to  
3 include in its cost of service. Beginning on page 3 of his Direct Testimony, GMO witness  
4 Roper states, “The table below describes the Company O&M costs related to CIP and Cyber-  
5 Security. O&M is specifically included because the Company is only requesting forecasted  
6 rate making treatment for O&M costs.” In addition, GMO is requesting a tracker based on the  
7 forecasted levels of CIP and Cyber-Security. GMO witness Rush states on page 10 of his  
8 Direct Testimony:

9                     For both CIP and cybersecurity costs and transmission expenses, if the  
10 forecasted costs during the period in which rates are in effect are lower  
11 than those costs in rates, the Company would return the excess to  
12 customers in the next rate case. However, if costs are more than those  
13 forecasted, the Company’s shareholders would absorb those costs  
14 exceeding the rate allowance.

15           Q.     Does Staff oppose the use of forecasts to represent an ongoing level of CIP and  
16 Cyber-Security costs in GMO’s cost of service for the same reasons discussed above?

17           A.     Yes. Staff opposes the use of forecasted CIP and Cyber-Security costs for the  
18 following reasons:

- 19                     • GMO’s proposal to isolate certain expenses by using forecasted levels is  
20 “single issue” ratemaking.  
21  
22                     • Forecasted costs are not known and measurable and are developed by making  
23 assumptions that may or may not occur.  
24  
25                     • The use of forecasted costs disrupts the matching relationship among  
26 investment, revenue and expense. GMO’s proposal for use of forecasted levels  
27 only applies to increasing cost items: it does not account for costs that may  
28 decrease and offset the cost increases in part or in whole.

29           Q.     How does GMO’s forecast compare to actual incurred costs for CIP and  
30 Cyber-Security?

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1           A.     The table below compares GMO's actual 2015 CIP and Cyber-Security costs  
2 to the forecasts for the years 2016 through 2019 provided to Staff in data requests in Case No.  
3 ER-2016-0156:<sup>9</sup>

4     \*\*

5     \*\*

6           Q.     Does Staff agree that CIP and Cyber-Security costs will continue to increase in  
7 the future as suggested by GMO?

8           A.     No. As reflected in the table above, GMO forecasts an increase in 2016 for  
9 these costs, a reduction in CIP and Cyber-Security from 2016 levels in 2017, and then  
10 generally stable expenses from 2017 on. In addition, Staff's analysis of CIP and  
11 Cyber-Security expenses indicates that GMO's recent incurred costs are declining not  
12 increasing as GMO would have the Commission believe. This is discussed in further detail  
13 below. In the last KCPL rate case, Case No. ER-2014-0370, KCPL witness Ives stated, "The  
14 Company has already committed significant resources toward compliance. Going forward,  
15 those efforts and resources will be increasing."<sup>10</sup> The reason for the increase as argued by  
16 KCPL was directly related to CIP version 5 that became effective in April 2016. The costs  
17 associated with CIP version 5 also impact GMO. However, for reasons discussed in further

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<sup>9</sup> Case No. ER-2016-0156, Staff Data Request No. 0166 and 0166.1.

<sup>10</sup> Case No. ER-2014-0370, Ives Direct, page 29.

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1 detail below, it is Staff's opinion the CIP and Cyber-Security costs did not materialize as  
2 KCPL predicted.

3 Q. Did KCPL, in Case No. ER-2014-0370, request forecasted CIP and Cyber-  
4 Security costs and a tracker consistent with GMO's request in this case?

5 A. KCPL requested a CIP and Cyber-Security tracker based on KCPL's forecast  
6 of evolving North American Electric Reliability Corporation ("NERC") reliability standards,  
7 specifically, CIP version 5. Beginning on page 28 of his Direct Testimony in Case No.  
8 ER-2014-0370, KCPL witness Ives states:

9 . . . KCPL is committed to and required to comply with the standards  
10 set out in CIP V5. The standards to be implemented in 2016 are much  
11 more aggressive in broader coverage of the Company's assets and  
12 systems supporting the BES [Bulk Electric System]. These cyber  
13 systems, as they are referenced in the V5, will require additional  
14 actions as well as resources for both physical and logical protection in  
15 support of reliability of the BES. . . . The cost to comply is  
16 undetermined, but will be substantial. The Company has already  
17 committed significant resources toward compliance. Going forward,  
18 those efforts and resources will be increasing. The Company is asking  
19 the Commission to authorize it to establish a tracker for these costs. . . .

20 In surrebuttal, in the event the Commission denied KCPL's request for a tracker, KCPL  
21 requested an increase of the base amount of approximately \$3.5 million that was based on a  
22 forecasted level.<sup>11</sup>

23 Q. How did Staff treat CIP and Cyber-Security costs in KCPL's last rate case,  
24 Case No. ER-2014-3070?

25 A. Consistent with Staff's treatment of CIP and Cyber-Security costs in this case,  
26 Staff recommended an annualized level of non-labor costs for the update period and the true  
27 up period in Case No. ER-2014-0370. Included in KCPL's base rates is an annualized level

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<sup>11</sup> Case No ER-2014-0370, Rush Surrebuttal, page 15-16.



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1 of \*\* \_\_\_ \*\* million non-labor O&M CIP and Cyber-Security costs based on the 12 months  
2 ending May 31, 2015, the true-up period in the case.

3 Q. Did the Commission grant KCPL a CIP and Cyber-Security tracker or  
4 an additional amount of CIP and Cyber-Security costs based on a forecast in Case No.  
5 ER-2014-0370?

6 A. No. Beginning on page 58 of its Report and Order, the Commission stated:

7 KCPL has requested that the Commission approval the same type of  
8 deferral mechanism for CIP/cyber-security expenses that it requested  
9 for transmission fee expenses. For that reason, the Commission  
10 incorporates herein the analysis contained in the conclusions of law and  
11 decision section from the transmission fee expense issue discussed  
12 above. The Commission concludes that KCPL has not met its burden of  
13 proof to demonstrate that projected CIP/cyber-security increases are  
14 extraordinary, so its request for a tracker will be denied.

15 KCPL has also requested that the Commission add to this amount an  
16 additional amount of \$3.5 million, which it claims is an estimate of its  
17 increased CIP/cyber-security costs, subject to refund in a future rate  
18 case. Since this request was first submitted in surrebuttal testimony, it  
19 violates Commission Rule 4 CSR 240-2.130 (7)(A), which requires that  
20 “[d]irect testimony shall include all testimony and exhibits asserting  
21 and explaining that party’s entire case-in-chief”. By submitting the  
22 request for the first time in surrebuttal, KCPL has prevented other  
23 parties from having a sufficient opportunity to conduct discovery or  
24 provide testimony on that matter. The Commission also finds that  
25 KCPL failed to adequately explain how it arrived at its estimate and  
26 how the Commission has the legal authority to grant such relief. For all  
27 these reasons, the Commission concludes that KCPL’s request for an  
28 additional \$3.5 million added to the approved base amount of revenue  
29 requirement should be denied.

30 Q. How did KCPL’s forecast for non-labor CIP and Cyber-Security costs compare  
31 to KCPL’s actual incurred costs and Staff’s annualized level of costs?

32 A. The table below compares KCPL’s non-labor CIP and Cyber-Security 2015  
33 forecast to KCPL’s actual incurred costs for 2015 and Staff’s annualized level of CIP and  
34 Cyber-Security costs that is currently in KCPL base rates. As reflected in the table below,

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1 KCPL's forecast for 2015 was overstated by approximately \$3.3 million which equates to  
2 39%. The CIP and Cyber-Security costs simply did not materialize as predicted by KCPL.  
3 On the other hand, Staff's annualized level was within 8% of KCPL's 2015 actual incurred  
4 CIP and Cyber-Security costs:

5 \*\*

6 \*\*

7 Q. Are there new versions of CIP standards that are driving GMO's proposal for  
8 forecasted CIP and Cyber-Security costs and a tracker?

9 A. Yes. GMO witness Roper states the following on page 6 in his Direct  
10 Testimony:

11 . . . The CIP version 6 standards, which will expand the CIP version 5  
12 standards, were approved in January 2016 and will supplant CIP  
13 version 5, with some new requirements becoming enforceable as early  
14 as July 1, 2016. CIP version 7 is being discussed within the NERC  
15 Standard Drafting Team to address outstanding issues from FERC  
16 Orders 706, 761, and 791. . . .

17 Q. Does Staff have any reason to believe that new versions of CIP standards will  
18 result in a material increase of CIP and Cyber-Security costs?

19 A. No. As discussed above, KCPL requested a tracker and forecasted costs in  
20 Case No ER-2014-0370 for CIP and Cyber-Security costs because KCPL predicted that costs  
21 associated with CIP version 5 would substantially increase. KCPL's prediction simply did  
22 not materialize. CIP version 5 became enforceable in April 2016 and as stated by Mr. Roper,

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1 the first stage of the requirements of CIP version 6 requirements will become enforceable as  
2 early as July 1, 2016 with other requirements enforceable over a period of several years.<sup>12</sup>  
3 Staff's recommended annualized level of these expenses within the true-up phase in this case  
4 will include costs associated with CIP version 5 and the first stage of version 6.  
5 As previously stated, Staff will review GMO's CIP and Cyber-Security costs through the  
6 true-up, July 31, 2016. At the time of this filing, Staff reviewed costs through June 2016 and  
7 found there is no indication that GMO's CIP and Cyber-Security costs will continue to  
8 increase. In fact, Staff found they are declining, when compared to the 2014 and 2015 levels,  
9 even with costs associated with CIP version 5 and version 6 that is addressed by GMO  
10 witness Roper's Direct Testimony. The table below reflects GMO's actual historical CIP and  
11 Cyber-Security costs for the period of 2010-2015 and an annualized level based on the  
12 12 months ending June 30, 2016. Although Staff recognizes that GMO experienced an  
13 increase in CIP and Cyber-Security costs in 2014 above its historical levels, the costs have  
14 flattened and also appear to be trending down. During the true-up stage in this case,  
15 Staff does not anticipate the annualized level of CIP and Cyber-Security costs to materially  
16 change from the annualized level based on 12 months ending June 30, 2016 identified in the  
17 table below:

18 \*\*

19 \*\*

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<sup>12</sup> Case No. ER-2016-0156, Roper Direct, page 6.

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1 Q. The table above reflects a substantial increase in CIP and Cyber-Security costs  
2 in 2014. Did the increase in GMO's CIP and Cyber-Security costs in 2014 have a negative  
3 impact on its earnings since the increase was not reflected in its base rates that were set in  
4 Case No. ER-2012-0175?

5 A. Yes. Without considering any other costs in GMO's cost of service the 2014  
6 increase in CIP and Cyber-Security costs had a negative impact on earnings \*\* \_\_\_\_\_

7 \_\_\_\_\_

8 \_\_\_\_\_

9 \_\_\_\_\_ \*\* This occurs if there are  
10 changes in other areas of GMO's cost of service that offset cost increases.

11 Q. As discussed above, GMO witness Roper states that GMO is only requesting  
12 forecasted ratemaking for CIP and Cyber-Security O&M costs. Does GMO's proposal  
13 include labor expenses for this cost category?

14 A. Although GMO does not specifically address labor in its request for  
15 a forecasted level of CIP and Cyber-Security, Staff understands that labor is included in  
16 GMO's proposal.

17 Q. Explain how Staff came to the conclusion that GMO's proposal for a  
18 forecasted level of CIP and Cyber-Security includes labor.

19 A. GMO witness Roper provides a table of historical CIP and Cyber-Security  
20 costs for the period of 2009-2015 and a forecasted level for 2016. The table Mr. Roper  
21 provides does not provide the costs broken down by labor and non-labor. Staff's analysis of  
22 CIP and Cyber-Security costs was based on the Company response to a Staff data request.<sup>13</sup>

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<sup>13</sup> Staff Data Request No. 0166.2 in Case No. ER-2016-0156.

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1 The table below reflects GMO's historical CIP and Cyber-Security costs for the period of  
2 2010-2015 broken down by labor and non-labor costs. The annual total of CIP and Cyber-  
3 Security costs in Mr. Roper's table in his direct testimony matches Staff's annual total of CIP  
4 and Cyber-Security costs in the chart below. Consequently, Staff concluded that GMO's  
5 proposal for forecasted CIP and Cyber-Security includes labor costs:

6 \*\*

7 \*\*

8 Q. Did Staff include labor costs related to CIP and Cyber-Security in its  
9 Accounting Schedules supporting its Cost of Service Report filed on July 15, 2016?

10 A. Yes. Staff annualized GMO's payroll costs using actual employee levels and  
11 current hourly wage or salary, as of December 31, 2015 and will update payroll costs and

1 related benefits at the end of the true-up period, July 31, 2016. Any GMO employees with  
2 CIP and Cyber-Security job responsibilities are included in Staff's payroll annualization.

3 Q. GMO proposes to include labor in the CIP and Cyber-Security tracker.  
4 If a tracker is approved by the Commission, does Staff agree with GMO's proposal to  
5 include labor?

6 A. No. Staff annualized GMO's payroll costs through December 31, 2015 and  
7 will update these costs through the true-up period of July 31, 2016. Staff recommends that,  
8 if the Commission approves a CIP and Cyber-Security tracker, the Commission should not  
9 include labor costs within the mechanism. If labor costs are included in the tracker, Staff  
10 recommends that GMO be required to offset increased payroll costs related to CIP and Cyber-  
11 Security with any employee reductions and other cost savings that may occur in other  
12 operations of the Company.

13 Q. Does Staff oppose a CIP and Cyber-Security tracker for the same reasons  
14 discussed earlier for GMO's proposal for a transmission tracker?

15 A. Yes. For the same reasons discussed above, trackers should be only used for  
16 costs that are volatile, difficult to predict at an appropriate level, and for which there is no  
17 historical data on which to base such a prediction. CIP and Cyber-Security costs are normal,  
18 ordinary and recurring operating expenses incurred by GMO and are neither volatile nor  
19 difficult to predict.

20 **RTO ADMINISTRATIVE FEES-FORECAST**

21 Q. Please explain how Staff treated GMO's RTO administrative fees in its  
22 direct filing.

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1           A.     Staff annualized SPP administrative fees based on the current SPP 2016  
2 administrative rate and applied the rate to GMO's retail load for the 12 month period ending  
3 December 31, 2015. Staff also included an annualized amount for the NERC fees.

4           Q.     How do GMO's and Staff's positions differ with respect to the level of RTO  
5 administrative fees to include in GMO's cost of service?

6           A.     GMO's proposal for forecasted levels for transmission and related tracker  
7 includes RTO administrative fees. GMO proposes to isolate RTO administrative fees that  
8 include SPP and MISO administrative fees and the NERC assessment, by using an average of  
9 2017 and 2018 forecasts to include in its cost of service. Beginning on page 16 of his Direct  
10 Testimony, GMO witness Carlson identifies the following transmission expense included in  
11 its cost of service:

12                     FERC assessments collected under SPP Schedule 12 are included in  
13                     Adjustment CS-85, which is also discussed in Klote's direct testimony  
14                     and included in Schedule RAK-4. The SPP scheduling and  
15                     administrative fees (Schedule 1 and 1-A) are included in Adjustment  
16                     CS-86, also in the Klote direct testimony and Schedule RAK-4.  
17                     Company witness Tim Rush, in his direct testimony, discusses the  
18                     Company's proposal(s) for how these charges should be recovered  
19                     from Missouri retail customers in rates.

20           Q.     You stated above that GMO proposes to use a forecasted level of SPP and  
21 MISO administrative fees. However, GMO witness Carlson does not specifically address  
22 MISO administrative fees. Please explain.

23           A.     Although Mr. Carlson did not specifically address MISO administrative fees in  
24 his testimony, GMO included the fees in its adjustment for RTO administrative fees.

25           Q.     Provide an explanation of why Staff's recommended level of RTO  
26 administrative fees does not include MISO administrative fees as proposed by GMO.

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1           A.     Prior to December 19, 2013, when Entergy became a member of MISO,  
2 Entergy billed GMO for firm point-to-point transmission expense for Crossroads. Subsequent  
3 to Entergy becoming a member of MISO in December 2013, MISO billed GMO for  
4 transmission administrative fees directly related to Crossroads in addition to firm point to  
5 point transmission and other transmission costs. Since the Commission has previously  
6 disallowed GMO from any recovery of transmission costs related to Crossroads<sup>14</sup>, Staff made  
7 an adjustment to exclude MISO transmission administrative fees from GMO's cost of service.

8           Q.     Does Staff oppose the use of forecasts to represent an ongoing level of RTO  
9 administrative fees in GMO's cost of service for the same reasons discussed above for  
10 transmission expense and CIP and Cyber-Security?

11          A.     Yes. Staff opposes the use of forecasted RTO administrative fees for the  
12 following reasons:

- 13           • GMO's proposal to isolate certain expenses by using forecasted levels is single  
14 issue ratemaking.
- 15           • Forecasted costs are not known and measurable and are developed by making  
16 assumptions that may or may not occur.
- 17           • The use of forecasted costs disrupts the matching relationship among  
18 investment, revenue, and expense. GMO's proposal for forecasted levels only  
19 applies to increasing cost items; it does not account for costs that may decrease  
20 and offset the cost increases in whole or in part.
- 21           •
- 22           •

23          Q.     Does GMO provide justification why a forecasted level of RTO administrative  
24 fees is appropriate to represent an ongoing level of costs?

25          A.     No. Mr. Klote states on page 48 of his Direct Testimony, "GMO annualized  
26 SPP Schedule I-A fees based on an average of 2017-2018 projected rates. Company witness

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<sup>14</sup> Case No. ER-2010-0356, Commission Report and Order, page 99. Case No. ER-2012-0175, Commission Report and Order, page 59.



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1 John R. Carlson discusses Schedule 1-A in his Direct Testimony.” Beginning on page 14 of  
2 his Direct Testimony, Mr. Carlson describes the SPP administrative fee including the change  
3 in the Administrative Charge and refers to Mr. Rush and Mr. Klote for the ratemaking  
4 treatment of the costs.

5 Q. What are the changes in the Administrative Charge as described by  
6 Mr. Carlson?

7 A. Mr. Carlson addressed the fact that the SPP Administrative Charge has  
8 decreased to \$.37 per megawatt hour in 2016.<sup>15</sup> Information regarding SPP’s historical  
9 administrative charges in effect for the period of 2006-2016 is provided in Staff’s Cost of  
10 Service Report on page 150.

11 Q. Does GMO propose a RTO administrative fee tracker consistent with its  
12 proposal for a transmission expense tracker?

13 A. GMO witnesses do not directly address RTO administrative fees with regards  
14 to a tracker. However, as stated above, Mr. Carlson refers to Mr. Rush in his direct testimony  
15 with regard to the ratemaking treatment for administrative fees and FERC assessments.  
16 To the extent GMO’s proposal for a transmission tracker includes SPP and MISO  
17 administrative fees and the FERC assessment, Staff is opposed to this treatment for the same  
18 reasons provided earlier in this testimony.

19 **TRANSMISSION REVENUE-FORECAST AND TRACKER**

20 Q. Please explain how Staff treated GMO’s transmission revenue in its  
21 direct filing.

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<sup>15</sup> GMO witness Carlson Direct, page 15.

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1           A.     Staff annualized transmission revenue based on the 12 month period ending  
2 December 31, 2015 and will further review transmission revenue during the true-up phase in  
3 this case.<sup>16</sup>

4           Q.     How do GMO's and Staff's positions differ with respect to the level of  
5 transmission revenue to include in GMO's cost of service?

6           A.     Consistent with transmission expense, CIP and Cyber-Security expense and  
7 RTO administrative fees discussed above, GMO proposes to isolate transmission revenue by  
8 using an average of 2017 and 2018 forecasts to include in its cost of service. GMO witness  
9 Klote states the following on page 31 of his Direct Testimony:

10                     The Company annualized transmission revenue recorded in FERC  
11 accounts 456009, 456100, and 456109 based on an average of 2017-  
12 2018 forecasted levels. This was due to the overall increase in  
13 transmission revenues that GMO is incurring over test year levels. By  
14 using this projected level, GMO is better able to match the actual  
15 transmission revenues levels with the rate period in which they are  
16 offsetting rates for customers.

17           Q.     Do you agree with Mr. Klote when he states. "GMO is better able to match  
18 the actual transmission revenues levels with the rate period in which they are offsetting rates  
19 for customers"?

20           A.     No. Mr. Klote is incorrect by suggesting there is some form of matching  
21 principle that occurs by isolating transmission revenue by using a forecast that purportedly  
22 offsets rates for customers in a future rate period. As discussed above, the matching principle  
23 is intended to match the relationship of utility investment, revenue, and expense at a point in  
24 time with the anticipation a representative relationship will occur in the foreseeable future.

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<sup>16</sup> Staff Cost of Service Report, Page 88.

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1 Isolating transmission revenues without considering other areas of its cost of service disrupts  
2 this relationship.

3 Q. Does Staff oppose the use of forecasts to represent an ongoing level of  
4 transmission revenue in GMO's cost of service for the same reasons discussed above?

5 A. Yes. Staff opposes the use of forecasted transmission revenue for the  
6 following reasons:

- 7 • GMO's proposal to isolate certain expenses by using forecasted levels is single  
8 issue ratemaking.
- 9
- 10 • Forecasted costs are not known and measurable, and are developed by making  
11 assumptions that may or may not occur.
- 12
- 13 • The use of forecasted costs disrupts the matching relationship among  
14 investment, revenue and expense. GMO's proposal for forecasted levels on  
15 applies to increasing cost items; it does not account for costs that may decrease  
16 and offset the cost increases in whole or in part.

17 Q. Does GMO propose a transmission revenue tracker consistent with its proposal  
18 for a transmission expense tracker?

19 A. Yes. Mr. Rush states on page 5 of his direct testimony:

20 GMO proposes to use forecasted transmission expenses and revenues to  
21 the extent any transmission revenues and expenses are not covered by  
22 the FAC. Similarly, if the Commission rejects GMO's request for  
23 inclusion of 100% of transmission expenses and revenues in the FAC,  
24 and also rejects GMO's request for forecasted transmission revenues  
25 and expenses, then GMO requests a tracker.

26 Q. Is Staff opposed to a transmission revenue tracker for the same reasons it  
27 opposes a transmission expense tracker?

28 A. Yes. For the same reasons discussed above, trackers should be used for costs  
29 or revenues that are volatile, difficult to predict an appropriate level, and for which there is no  
30 historical data on which to base such a prediction. Transmission revenues are normal,

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1 ordinary and recurring operating revenues incurred by GMO and are neither volatile nor  
2 difficult to predict.

3 Q. Please summarize Staff's position on GMO's proposal to use alternative  
4 regulatory mechanisms for transmission expense, transmission revenue, RTO administrative  
5 fees, and CIP and Cyber-Security expense.

6 A. GMO's proposal to use forecasted costs and revenues are not known and  
7 measurable and disrupt the relationship with GMO's investment, revenue and expense.  
8 GMO's proposal to isolate, transmission expense, transmission revenue, RTO fees and CIP  
9 and Cyber-Security fees by requesting forecasted levels does not take into consideration  
10 changes in other areas of its cost of service that can offset these cost increases. \*\* \_\_\_\_\_  
11 \_\_\_\_\_

12 \_\_\_\_\_ \*\* This occurred  
13 because other areas of GMO's cost of service declined. It is interesting that GMO does not  
14 propose forecasted levels for costs that may be declining in the future.

15 A tracker should only be used in situations when costs are difficult or impossible to  
16 predict or when there is no historical data on which to base an appropriate level of ongoing  
17 costs. GMO is requesting trackers for normal, ordinary and recurring operating expenses and  
18 revenues. The ability of GMO to earn its authorized return on equity in a period when costs  
19 increased and usage declined is an example of why alternative regulatory treatment of costs  
20 should not be isolated without considering all areas of GMO's cost of service. Therefore,  
21 Staff recommends the Commission deny GMO's request for trackers and forecasted costs and  
22 revenues in this case.

1 **WHOLESALE TRANSMISSION REVENUE**

2 Q. How do the Company and Staff positions differ with respect to GMO's  
3 adjustment to eliminate wholesale transmission revenue?

4 A. GMO proposed an adjustment to reduce wholesale transmission revenue based  
5 on the difference between the FERC authorized ROE and the ROE the Commission approves  
6 in this rate case. In its direct filing on July 15, 2016, Staff did not reduce transmission  
7 revenues as proposed by GMO. If the Commission agrees with GMO that transmission  
8 revenues should be reduced to reflect the difference between the FERC authorized ROE and  
9 the ROE approved by the Commission, then Staff recommends that a corresponding  
10 adjustment be made to reduce GMO's transmission expense.

11 Q. What type of revenues is GMO proposing to reduce?

12 A. GMO receives revenues from SPP for both Zonal and Base Plan transmission  
13 upgrades. Base Plan projects are directed by SPP, while Zonal projects are initiated by  
14 GMO.<sup>17</sup>

15 According to Mr. Klote in his Direct Testimony, beginning on line 15 of page 29:

16 This adjustment provides for the Company's retail customers to bear  
17 responsibility for the return on transmission rate base at the MPSC-  
18 authorized level. Essentially, the adjustment reduces the amount of  
19 transmission revenue that is credited against the gross transmission  
20 revenue requirement so that the adjusted revenue credit is consistent  
21 with the Company's allowed ROE rather than the ROE allowed by the  
22 Federal Energy Regulatory Commission ("FERC").

23 The transmission revenue received by SPP is calculated using GMO's authorized FERC ROE  
24 of 11.1% which consists of a base ROE of 10.6% and 50 basis point adder. The 50 basis  
25 point adder, approved by FERC, is available to Transmission Owners participating in

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<sup>17</sup> GMO witness Klote Direct Testimony, page 30-31.

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1 Regional Transmission Organizations.<sup>18</sup> SPP utilizes GMO's Annual Transmission Revenue  
2 Requirement ("ATTR") to allocate revenues to Transmission Owners and expenses to  
3 Transmission Customers.

4 Q. What is a "Transmission Owner?"

5 A. Based on SPP's Open Access Transmission Tariff, a Transmission Owner, as a  
6 member of SPP, is obligated to construct, own, operate, and maintain transmission facilities as  
7 directed by SPP. SPP utilizes GMO's ATTR to allocate revenues to Transmission Owners  
8 and expenses to Transmission Customers. Transmission revenues are collected from SPP  
9 Transmission Customers for the amount necessary to recover the revenue requirement for the  
10 Transmission Owner.

11 Q. Is GMO charged by SPP on behalf of other Transmission Owners that are  
12 members of SPP?

13 A. Yes. Other Transmission Owners of SPP receive an authorized FERC ROE  
14 that may include FERC ratemaking incentives and ROE adders. As a Transmission Customer  
15 of SPP, GMO is charged its allocated share of transmission expense by SPP for other  
16 transmission owners of SPP that have constructed, upgraded, and maintained the SPP  
17 transmission infrastructure. The allocated transmission expense charged to GMO includes  
18 approved FERC ratemaking incentives and adders for other SPP members.

19 Q. Did GMO make a corresponding adjustment to reduce transmission expense to  
20 account for a higher FERC ROE included in the transmission charges billed by SPP?

21 A. No.

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<sup>18</sup> Response to Staff Data Request No. 0292.1 in Case No. ER-2014-0370.

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1 Q. Please summarize Staff's position on GMO's proposed adjustment to reduce  
2 transmission revenues.

3 A. GMO is asking the Commission to reduce transmission revenues so its  
4 customers do not receive the benefit of a higher FERC authorized ROE. On the other hand,  
5 GMO is inconsistently expecting its customers to pay transmission expense that includes a  
6 higher FERC authorized ROE for Zonal and Base Plan upgrades constructed by other SPP  
7 transmission owners. Staff has accepted that GMO's transmission expense has increased and  
8 recognizes that a significant factor in the increase is the SPP directed transmission upgrades  
9 that include FERC ROE incentives. Staff did not make an adjustment to reduce GMO's  
10 transmission expense that includes FERC incentives. To be consistent, Staff also did not  
11 make an adjustment to reduce transmission revenues as GMO has proposed. Staff  
12 recommends that GMO's transmission revenues should not be reduced for the difference  
13 between the higher FERC ROE and the Commission authorized ROE in this case. However,  
14 if the Commission agrees with GMO's proposed reduction to transmission revenues, then  
15 Staff recommends the Commission order a corresponding adjustment to reduce transmission  
16 expense that includes a higher FERC ROE. If rate payers are not entitled to transmission  
17 revenues received from SPP that includes an ROE higher than the authorized rate of return,  
18 then rate payers should not have to pay for transmission costs from SPP that includes an ROE  
19 higher than what is authorized by Commission.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes, it does.

