

EXHIBIT

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Improvement Programs/
St. Joseph L&P Ice Storm AAO/
Ted Robertson
Surrebuttal
Public Counsel
ER-2012-0175

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SURREBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT
GREATER MISSOURI OPERATIONS COMPANY**

Case No. ER-2012-0175

**

**

Denotes Highly Confidential Information that has been redacted

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1
2 **III. RATE CASE EXPENSE**

3 Q. ON PAGE 10, LINES 9-13 OF YOUR REBUTTAL TESTIMONY YOU STATED YOU
4 WOULD UPDATE THE COMMISSION ON OPC'S RECOMMENDATION. WHAT
5 IS THE AMOUNT OF RATE CASE EXPENSE INCURRED BY GMO-MPS AND
6 GMO-L&P AS OF THE END OF THE MARCH 31, 2012 KNOWN AND
7 MEASURABLE PERIOD AUTHORIZED BY THE COMMISSION?

8 A. Based on Company's responses to MPSC Staff Data Request Nos. 94 and 96, Case No.
9 ER-2012-0174, the total rate case expenditures identified as of March 31, 2012 is GMO-
10 MPS ** ** and GMO-L&P ** **.

11
12 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION FOR RECOVERY OF
13 THOSE COSTS?

14 A. Public Counsel recommends that the costs associated with the services provided by all
15 outside legal, outside consultants and outside contract service providers be disallowed and
16 that the remaining costs be shared evenly between shareholders and ratepayers. That is,
17 shareholders should be allowed to recover 50% of the remaining incremental costs incurred
18 which is approximately \$1,465 for GMO-MPS and \$57 for GMO-L&P.

19
20 Q. HAS COMPANY INCURRED ADDITIONAL RATE CASE COSTS SUBSEQUENT
21 TO MARCH 31, 2012?

1 A. Yes. Based on Company's September 19, 2012 update to MPSC Staff Data Request No.
2 94, Case No. ER-2012-0174, the total rate case expenditures identified as of the end of
3 the true-up date of August 31, 2012 is GMO-MPS ** ** and GMO-L&P
4 ** **.

5
6 Q. IS IT PUBLIC COUNSEL'S INTENTION TO UPDATE ITS RECOMMENDATION
7 REGARDING THESE COSTS IN TRUE-UP TESTIMONY?

8 A. Yes.

9
10 Q. DOES PUBLIC COUNSEL'S RECOMMENDATION INCLUDE THE DISALLOWANCE
11 OF ANY COSTS ASSOCIATED WITH THE COMPANY'S 2010 RATE CASE?

12 A. No. Though the Public Counsel generally supports the MPSC Staff's position on the
13 recovery of the costs in the determination of rates for the current case, OPC's
14 recommendation does not specifically address the costs.

15
16
17
18 **IV. ST. JOSEPH INFRASTRUCTURE PROGRAM**

19 Q. WHAT IS THE FUNDEMENTAL UNDERLYING BASIS OF COMPANY'S REQUEST
20 FOR THE ST. JOSEPH INFRASTRUCTURE IMPROVEMENT PROGAM?

1 A. The basis is that Company believes regulatory lag, with regard to its capital investment, is a
2 detriment to its earnings potential and therefore the historical ratemaking process in Missouri
3 is flawed.

4
5 Q. WHAT IS MEANT BY THE TERM "REGULATORY LAG?"

6 A. Under the cost of service (i.e., rate of return) regulatory ratemaking model utilized in the
7 state of Missouri, regulatory lag refers to the time gap between when a utility undergoes a
8 change in cost or sales levels and when the utility can reflect the change in new rates.

9
10 Q. IS THE HISTORICAL RATEMAKING PROCESS IN MISSOURI FLAWED TO THE
11 POINT THAT COMPANY'S REQUEST TO MODIFY IT BECOMES REASONABLE?

12 A. No. Granted the cost of service ratemaking model utilized in Missouri is not perfect, but no
13 ratemaking model that I'm aware of is. There are definitely inherent benefits and detriments
14 associated with its usage; however, it has been utilized in this State for many decades and
15 quite successfully at that. I'm completely unaware of any utility in the State, large or small,
16 that has not benefited from the stability provided by the usage of the model. No utilities, in
17 this State, have filed for bankruptcy or failed on an operational level to provide their
18 essential services at just and reasonable rates as authorized by the Commission. That is not
19 to say that some utilities have not, at one time or another, experienced financial and/or
20 operational problems, but more often than not those problems, if severe or terminal, were the
21 result of poor management and/or a utility's foray into unregulated services or activities.

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Q. DOES COMPANY ALSO CITE THE CURRENT ECONOMIC RECESSION AS A CONTRIBUTING CAUSE OF THE POTENTIAL EARNINGS REDUCTION?

A. Yes. Beginning on page 6, line3, of Mr. Ives Rebuttal Testimony he discusses how load growth has historically helped offset negative effects of regulatory lag. He states,

Historically, GMO, and other regional utilities have experienced load growth (increased kWh usage) in a range of 2% to 3% annually. In the historical-based regulatory model, this increased kWh usage on the Company's system sometimes resulted in revenues that exceeded the revenues that rates were based on. Utilities like GMO were able to utilize the increased revenue to offset cost of service and capital investment regulatory lag. Today, GMO is not experiencing load growth consistent with historical levels. In fact, as our direct case demonstrates, since rates were last set, GMO has experienced very little growth in its MPS territory and demand destruction (decreased kWh and kW usage) in its L&P jurisdiction. This lack of load growth adds to and exacerbates the cost of service and capital investment regulatory lag previously discussed.

Q. IS THE COMPANY ACTUALLY INCURRING LOAD GROWTH WITHIN THE AREA IT PROPOSES TO ADD THE NEW INFRASTRUCTURE ASSOCIATED WITH THE PROPOSED PROGRAM?

A. Yes. Beginning on page 13, line 3, of Mr. Herdegen's Direct Testimony he discusses that the area in which the two new substations will be placed is experiencing significant growth of approximately 4% per year. His testimony states:

1 **Q: Please explain in greater detail GMO's plan with regard to**
2 **substation additions.**

3
4 A: The North and East outskirts of the city of St. Joseph are
5 experiencing areas of significant growth. The Industrial Park
6 Substation at the southeast end of the city currently is at
7 approximately 88% of its capacity, and growing at a rate of
8 approximately 4% per year. In order to address these areas of
9 growth and reduce the existing footprint of the 34kV system over
10 time, several new 161kV/12kV substations are proposed for
11 construction in the St. Joseph metro area. Two locations have been
12 initially selected for construction of new 161kV/12kV substations
13 that are in close proximity to existing 161kV transmission lines,
14 which should allow for very short extensions to the proposed
15 substations, minimizing the visual impact and improving
16 reliability.

17
18
19 **Q. DOES MR. WOLF IDENTIFY OR DISCUSS THE OFF-SETTING LOAD GROWTH**
20 **(POSITIVE REGULATORY LAG) FOR THE COMMISSION?**

21 A. No. On page 3, lines 1-2, of his Rebuttal Testimony Mr. Wolf states,

22
23 **Q: Is the five-year as-filed plan expected to increase revenue?**

24
25 A: No.

26
27
28 However, as discussed by Mr. Herdegen, but left silent by Mr. Ives and Mr. Wolf, the two
29 new substations (the cost of which is approximately 54% total proposed costs) will be sited
30 in an area experiencing significant growth of approximately 4% per year. That load growth,
31 which is higher than Company's historical load growth, plus any reduction of associated

1 operation and maintenance costs, will lead to some positive regulatory lag for the Company
2 which neither Mr. Ives nor Mr. Wolf identifies or describes for the Commission (Company
3 witness, Mr. John P. Weisensee, does state on page 22, lines 19-21, of his Rebuttal
4 Testimony, "Although the program's emphasis is not on generating maintenance savings,
5 logically replacing aging infrastructure with new facilities will reduce overall maintenance
6 costs.").

7
8 Q. ISN'T ONE OF THE PRIMARY BENEFITS OF REGULATORY LAG THAT IT
9 INCENTS A UTILITY TO CONTROL ITS COSTS?

10 A. Yes. Economic theory predicts that the longer the regulatory lag, the more incentive a utility
11 has to control its costs. That is, uncertainty about the exact length of the lag can serve as
12 an incentive for cost-containment. Furthermore, regulatory lag can be either a benefit or
13 a detriment to a utility because changes in its cost structure, whether increasing or
14 decreasing, are not reflected in rates charged ratepayers until the authorization of new
15 rates occur.

16
17 Q. WOULDN'T COMMISSION AUTHORIZATION OF COMPANY'S REQUEST SHIFT
18 RISK TO RATEPAYERS AND LESSEN COMPANY'S INCENTIVE AT COST
19 CONTAINMENT?

20 A. Yes. The ultimate effect of the proposal, if authorized by the Commission, is that the
21 associated risk would be shifted to ratepayers and Company's managers would have less

1 incentive to contain costs. I believe that would be inappropriate because the Commission is
2 not in the business of micro-managing the utility's operations between rate cases. That is the
3 job of the Company's hired managers. Authorization of the Company's proposal would
4 alleviate some of the risk that is inherently incorporated into the duties of those job positions
5 and relax or eliminate some of their associated responsibilities towards shareholders and
6 ratepayers. Thus, the regulatory ratemaking model utilized in the state of Missouri is not
7 "broken" and does not require to be "fixed" as proposed by Mr. Ives and Mr. Wolf.

8
9 Q. WOULDN'T THE COMPANY ALSO BENEFIT FROM THE EFFECTS OF POSITIVE
10 REGULATORY LAG WHICH IT HAS NOT INCLUDED IN ITS PROPOSAL?

11 A. Yes. If the Company continues to experience the significant load growth in the area where
12 the substations are to be sited, it is highly likely that that load growth, which is not included
13 in the Company's proposal, will create additional earnings which will, to some degree, offset
14 the program's proposed costs. In addition, future increases in revenues that may occur and
15 decreases in any cost of service expenses, plant retirements, depreciation on plant retired but
16 built into rates are also factors which could and would add additional positive lag earnings
17 for the benefit of Company. Company's proposal fails to identify or explain these detriments
18 to ratepayers. Regulatory lag can be a detriment or a benefit to either Company or
19 ratepayers, but Company's proposal, in addition to being improper ratemaking, does not even
20 present a complete picture of the actual cause and effect of its proposal for the Commission
21 to review in its decision-making.

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V. ST. JOSEPH L&P ICE STORM AAO

Q. DOES COMPANY BELIEVE THAT A FULL YEAR'S AMORTIZATION OF THE ASSOCIATED COSTS SHOULD BE INCLUDED IN THE COST OF SERVICE IN THIS RATE CASE?

A. Yes. Even though the costs deferred will be fully amortized by the end of calendar year 2012, Mr. Weisensee states on page 19, lines 10-13, "The Company did not begin recovering its costs for the ice storm until new rates were effective in the 2009 Case, September 1, 2009. Therefore, the Company will not fully recover these costs until September 1, 2014, well beyond the effective date of new rates in the current rate case."

Q. DID THE COMMISSION'S *ORDER GRANTING ACCOUNTING AUTHORITY ORDER* IN CASE EU-2008-0233 INCLUDE A CONDITION THAT COMPANY RECOVERY OF THE TOTAL COSTS DEFERRED WAS THE GOAL OF THE AUTHORIZATION?

A. No. The seven Staff conditions authorized by the Commission and agreed to by Aquila, Inc. (former owner) are,

With its recommendation to approve AAO treatment of the cost caused by the December 2007 storms associated with Aquila's L&P service area, Staff suggests that the Commission impose the following conditions:

- 1 1. Aquila should be authorized to defer actual incremental operation
2 and maintenance expenses incurred for its L&P division as a direct
3 result of the December 2007 ice storm to Account 182.3. Such
4 expense shall be in accordance with USOA definitions of operation
5 and maintenance expense and shall exclude any expenditures
6 relating to plant-in-service (i.e. capital costs). The capital costs,
7 and any resultant retirements, would be treated like other plant
8 investment and booked to plant-in-service and accumulated
9 depreciation accounts.
- 10
11 2. Any insurance claim proceeds or subrogation proceeds applicable
12 to incremental storm-related operation and maintenance expenses
13 must first be used to offset the total amount of expenses deferred
14 under this AAO, thus reducing amounts deferred.
- 15
16 3. Any gain experienced by Aquila for its L&P division that can be
17 considered extraordinary as defined by the USOA should first be
18 used to reduce the amount of this ice storm regulatory asset as long
19 as the asset is recorded on Aquila's book and records.
- 20
21 4. Aquila must begin ratably amortizing the ice storm regulatory
22 assets over a five-year (60 month) period beginning in January
23 2008, as Aquila's application has requested.
- 24
25 5. Aquila shall maintain adequate records supporting the incremental
26 expenses deferred. Such records shall include, but not be limited
27 to, listing of outside contractors, agreements with third parties for
28 goods and services, controls in place to ensure all expenditures
29 were reasonable, invoices detailing food, lodging, and labor costs,
30 labor and material costs, procedures and verification for expenses
31 versus capitalization determination, and determination of
32 incremental levels of such costs versus normal ongoing levels of
33 costs.
- 34
35 6. The Commission does not make any findings or inferences as to
36 whether the deferred expenses are prudent and reasonable, whether
37 other factors contributed to the damage to the system and the
38 resulting repair/replacement costs incurred, or whether Aquila
39 would have suffered financial harm (i.e., earnings during the
40 period were inadequate to compensate Aquila for the costs
41 incurred) absent deferral.

1
2 7. The Commission reserves the right to determine the appropriate
3 ratemaking treatment of the deferred costs in a future rate
4 proceeding, including whether or not the deferral should be offset
5 by any gains recognized by Aquila since the beginning of the
6 deferral period.

7
8 Aquila's Response

9
10 Although Aquila initially requested AAO relief with regard to damage in
11 its MPS service territory, the company agrees with Staff's conclusions and
12 with Staff recommended conditions.
13
14

15 The Order authorized the Company to begin ratably amortizing the ice storm regulatory
16 assets over a five-year (60 month) period beginning in January 2008, as Aquila's
17 application has requested. It did not state that the utility was entitled to continue to
18 amortize the costs subsequent to the end of the five-year period beginning January 2008.

19 The Commission based the starting amortization date on the Company's request in its
20 application; thus, the Company knew and agreed to the fact that it might not recover in
21 future rates the total costs deferred.
22

23 Q. WHY WOULD AQUILA AGREE TO AMORTIZE THE DEFERRED COSTS PRIOR
24 TO THE AMORTIZATION BEING INCLUDED IN RATES?

25 A. I cannot state definitively what Aquila was thinking or its rationale for its request to
26 begin the amortization in January of 2008; however, as stated in condition #6 of the AAO
27 Order, the Commission did not make any findings or inferences as to whether Aquila

1 would have suffered financial harm (i.e., earnings during the period were inadequate to
2 compensate Aquila for the costs incurred) absent deferral. In other words, the
3 Commission did not do an investigation of the utility's earnings at the time the storm
4 occurred.

5
6 If a rate investigation had occurred and Company's earnings were found to have exceeded
7 its authorized revenue requirement, a complaint could have been filed thereby potentially
8 reducing the then current rates and certainly not permitting any deferral of the storm
9 costs. An argument could be made that the Company's earnings at that time of the storm
10 and until its next rate change were such that the costs amortized between January 2008
11 and the next rate case were recovered in the rates in-force during that time period.
12 However, since an earnings investigation was not performed, we do not know what
13 support Aquila Inc. relied on to base its agreement to the amortization authorized.

14
15 Q. WILL THE COMPANY UNDERRECOVER THE DEFERRED COSTS IF MR.
16 WEISENSEE'S RECOMMENDATION IS NOT AUTHORIZED?

17 A. Maybe or maybe not. As I discussed in the previous Q&A, Aquila requested to begin the
18 amortization in January 2008 and no earnings investigation occurred to determine
19 whether Aquila's Inc.'s then current rates allowed it to recover the amortization costs
20 associated with the storm during the period prior to its next rate change. As such, Mr.
21 Weisensee's statement represents nothing more than an unsubstantiated allegation which

1 cannot be verified by any of the parties to the instant case. It may be that Aquila
2 recovered those costs or maybe they did not, but in any event, Aquila agreed to the
3 amortization authorized knowing full well that the amortization would not be identified
4 as actually being included in rates until its next subsequent rate change.

5
6 Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT ITS RECOMMENDATION TO
7 REBASE THE UNAMORTIZED COSTS OVER THREE YEARS IS THE MOST
8 REASONABLE OF THE OPTIONS PRESENTED TO THE COMMISSION?

9 A. Both the MPSC Staff's and Company's recommendations will likely allow the Company
10 to over-recover the costs authorized for deferral - Staff by a much smaller amount than
11 Company if it stays out for the three years before the next change in rates it has indicated.
12 Both of those options are inherently unfair to ratepayers. An accounting authority order
13 is a special but abnormal accounting procedure intended to recognize extraordinary costs
14 of a unique and material nature not normally included in the development of a utility's
15 rates. It is not a license to take unfair advantage of captive ratepayers.

16
17 The positions of both Staff and Company are much more likely to lead to a significant
18 over-recovery of the costs actually deferred; whereas, the Public Counsel's proposal to
19 rebase the costs and amortize the remaining unamortized balance over 3 years would
20 achieve the deferral and amortization authorized by the Commission in its AAO Order

1 while not harming ratepayers and providing Company with the recovery the Order
2 actually stated.

3

4 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

5 A. Yes, it does.