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Exhibit No.: 166

Issue: Capital Structure; Transmission
Expenses; CIP/Cybersecurity O&M
Expenses; Iatan 2 and Common
O&M Amortization

Witness: Ronald A. Klote

Type of Exhibit: True-up Rebuttal Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2014-0370

Date Testimony Prepared: July 15, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
July 2015

KCP&L Exhibit No. 166
Date 7/20/15 Reporter Jenni
File No. ER-2014-0370

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TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2014-0370

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

2 A: My name is Ronald A. Klotz. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

4 **Q: Are you the same Ronald A. Klotz who pre-filed Direct, Rebuttal, Surrebuttal and**
5 **True-Up Direct Testimony in this matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your True-Up Rebuttal Testimony?**

8 A: I will address four items by 1) providing the capital structure as of May 31, 2015 that
9 Kansas City Power & Light Company (“KCP&L” or “Company”) used in its true-up
10 revenue requirement; 2) providing an update regarding discussions between personnel for
11 KCP&L and representatives of the Missouri Public Service Commission (“Commission”)
12 Staff (“Staff”) on the level of Southwest Power Pool, Inc. (“SPP”) transmission expense
13 as of May 31, 2015; 3) providing an update regarding discussions between KCP&L
14 personnel and Staff representatives related to IT Roadmap (including Cybersecurity) and
15 Critical Infrastructure Protection (“CIP”) operations and maintenance (“O&M”) expense
16 levels as of May 31, 2015; and 4) addressing the true-up direct testimony of Office of
17 Public Counsel (“OPC”) witness William Addo regarding Iatan 2 & Common Operations
18 & Maintenance amortization included in the revenue requirement model.

1 Capital Structure

2 **Q: What capital structure did KCP&L use for its true-up revenue requirement as of**
3 **May 31, 2015?**

4 **A:** Like Staff (Featherstone True-Up Direct Testimony, p. 5), KCP&L based its true-up
5 revenue requirement on the actual capital structure of Great Plains Energy as of May 31,
6 2015 which is comprised of the following percentages as applied to the cost rates
7 supported by KCP&L:

<u>Component</u>	<u>Percent</u>	<u>Required Return</u>	<u>Weighted Return</u>
Long-term debt	49.358%	5.5570%	2.7429%
Preference Stock	0.552%	4.291%	0.0237%
Common Equity	50.090%	10.300%	5.1593%
<u>Weighted Average Cost of Capital</u>			<u>7.9259%</u>

14 Transmission Expenses

15 **Q: Regarding the level of SPP transmission expense as of May 31, 2015, please provide**
16 **an update of discussions between representatives of KCP&L and Staff.**

17 **A:** KCP&L and Staff have reached agreement that \$54,027,871 (KCP&L Total Company)
18 represents the level of annualized transmission expense as of the May 31, 2015 true-up
19 period before other adjustments. This amount does not include amounts attributable to
20 the Independence Power & Light (“IPL”) issue which is still at issue between Company
21 and Staff as discussed in my True-Up Direct Testimony and further addressed by
22 KCP&L witness Darrin Ives in his True-Up Rebuttal Testimony.

1 **Q: What is KCP&L's position regarding the appropriateness of including \$54,027,871**
2 **(KCP&L Total Company) of transmission expense plus the impact of the IPL issue**
3 **in revenue requirement?**

4 **A:** This is appropriate so long as a fuel adjustment clause ("FAC") or tracker treatment is
5 authorized for transmission expenses. If an FAC or tracker treatment is not authorized
6 for transmission expenses, the May 31, 2015 level should be increased by \$5 million.
7 This additional amount and recommended inclusion in this case is discussed in the
8 Surrebuttal testimony of Company witness Mr. Tim Rush.

9 **CIP/Cybersecurity O&M Expenses**

10 **Q: Regarding the level of IT Roadmap (including Cybersecurity) and CIP O&M**
11 **expense as of May 31, 2015, please provide an update of discussions between**
12 **representatives of KCP&L and Staff.**

13 **A:** KCP&L and Staff have reached agreement that an annualized amount of \$4,150,012
14 (KCP&L Total Company) and \$4,766,126 (KCP&L Total Company) associated with IT
15 Roadmap (including Cybersecurity) and CIP costs will be included in the revenue
16 requirement calculated in this rate case as of May 31, 2015. Included in the IT Roadmap
17 costs are Cybersecurity costs of \$571,424 which should be included in the
18 CIP/Cybersecurity tracker base amount requested by KCP&L in this rate case.

19 **Q: What is KCP&L's position regarding the appropriateness of including \$5,337,550**
20 **(KCP&L Total Company) of CIP/cyber-security O&M expense in revenue**
21 **requirement?**

22 **A:** This is appropriate so long as tracker treatment is authorized for CIP/cyber-security
23 O&M expenses. If tracker treatment is not authorized, the May 31, 2015 level should be

1 increased by \$3.5 million. This additional amount and recommended inclusion in this
2 case is discussed in the Surrebuttal testimony of Company witness Mr. Tim Rush.

3 **Iatan 2 and Common O&M Amortization**

4 **Q: Regarding the testimony of OPC witness William Addo, what was his position in his**
5 **true-up direct testimony regarding KCP&L's Iatan 2 and Iatan Common Operation**
6 **and Maintenance Tracker?**

7 A: Witness Addo proposes to aggregate the unamortized balances of Vintages 1-5 at
8 September 30, 2015 and amortize the balance over 3 years in order to maintain one
9 tracker balance going forward. KCP&L is in agreement with Witness Addo's Vintages 2
10 – 5, yet the Company disagrees with witness Addo's treatment of Vintage 1. KCP&L
11 was previously granted an amortization amount for Vintage 1 which began with the
12 effective date of rates in Case No. ER-2012-0174 and is currently included in base rates
13 and still being amortized at the time of the true-up in this rate case.

14 **Q: Does the Company believe the Partial Non-Unanimous Stipulation and Agreement**
15 **as To Certain Issues filed July 1, 2015, appropriately handles this issue for this rate**
16 **case?**

17 A: Yes.

18 **Q: Why?**

19 A: In the Partial Non-Unanimous Stipulation and Agreement As To Certain Issues filed on
20 July 1, 2015, the signatories have agreed to the prospective tracking of regulatory asset
21 and liability recovery. As such, for each regulatory asset vintage granted in this rate case
22 the amount will be tracked on a prospective basis to ensure no over-recovery of the
23 previously authorized Vintage 1 of the Iatan 2 and Common O&M expenses.

1 **Q: Please explain.**

2 A: For each regulatory asset that KCP&L has been granted full recovery of or for each
3 regulatory liability for which full credit has been given to KCP&L customers that
4 remains in rates prior to KCP&L's next general rate case, KCP&L will apply those
5 amortization amounts as offsets to other amortizations that do not end prior to the
6 effective date of rates in a subsequent rate case. In the event that there is no amortization
7 ending prior to new rates in a subsequent case, the amortization amounts will be tracked
8 as a regulatory asset or regulatory liability that will be amortized over an appropriate
9 period of time in a future case. Therefore, KCP&L will track any over/under recovery
10 for this particular issue. Both Staff and KCP&L have included the Vintage 1 amount
11 previously authorized and in effect at the end of the May 31, 2015 true-up period in its
12 cost of service.

13 **Q: What is the correct amount that should be used in the revenue requirement?**

14 A: The Company recommends that the Commission authorize KCP&L to include an
15 annualized expense amount of \$1,243,003 for all Vintages 1 – 5 associated with Iatan 2
16 and Common O&M expenses in the Company's cost of service.

17 **Q: Does KCP&L agree with the Vintage 5 amount included in OPC's adjustment as
18 part of the true-up in this case?**

19 A: Yes, KCP&L is in agreement with the Vintage 5 true-up amount of \$773,352 included by
20 OPC for the stub period February 1, 2015 through May 31, 2015. This amount will be
21 amortized over three years and is included as Vintage 5 in the \$1,243,003 annual amount
22 proposed by the Company in this case.

1 Q: Does that conclude your True-Up Rebuttal Testimony?

2 A: Yes, it does.

