

Exhibit No.:
Issue: Overview/Policy
Witness: Darrin R. Ives
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
Date Testimony Prepared: February 27, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
February 2012**

KCP&L Exhibit No. 29
Date 10-27-12 Reporter KF
File No. ER-2012-0174

DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2012-0174

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

2 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
3 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company")
6 as Senior Director – Regulatory Affairs.

7 **Q: What are your responsibilities?**

8 A: My responsibilities include oversight of the Company's Regulatory Affairs Department,
9 as well as all aspects of regulatory activities including cost of service, rate design,
10 revenue requirements, and tariff administration.

11 **Q: Please describe your education, experience and employment history.**

12 A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business
13 Administration with majors in Accounting and Marketing. I received my Master of
14 Business Administration degree from the University of Missouri-Kansas City in 2001. I
15 am a Certified Public Accountant. From 1992 to 1996, I performed audit services for the
16 public accounting firm Coopers & Lybrand L.L.P. I was first employed by KCP&L in
17 1996 and held positions of progressive responsibility in Accounting Services until named
18 Assistant Controller in 2007. I served as Assistant Controller until I was named Senior
19 Director – Regulatory Affairs in April 2011.

1 Q: Have you previously testified in a proceeding before the Missouri Public Service
2 Commission ("Commission" or "MPSC")?

3 A: Yes, I have previously testified before the MPSC in Case Nos. ER-2009-0089, ER-2009-
4 0090, HR-2009-0092, ER-2010-0355 and ER-2010-0356.

5 Q: What is the purpose of your testimony?

6 A: The purpose of my testimony is to provide an overview of the Company's proposed rate
7 increase, including a description of the major drivers in the case. I also address the
8 Company's requests in this case for certain expense trackers, a regulatory mechanism that
9 we believe can provide relief from extensive regulatory lag that prevents the Company
10 from realizing an earned return on equity that is reasonable in relation to the return on
11 equity allowed by this Commission.

12 CASE OVERVIEW AND DRIVERS

13 Q: Please briefly summarize the Company's case.

14 A: The Company is requesting an increase of \$105.7 million or 15.1 percent, based on a
15 current Missouri jurisdictional base revenue requirement of \$699.6 million. The
16 Company's case is based on a historical test year that ended September 30, 2011.
17 KCP&L anticipates a true-up as of August 31, 2012. Accordingly, test year data was
18 annualized and normalized and reflects projected values for true-up items as of August
19 31, 2012.

20 Company witness John Weisensee's Direct Testimony supports the cost of service
21 and revenue requirement determination, which is included in his Schedules JPW-1
22 through JPW-3.

1 **Q: What effective date do the Company's proposed tariffs being filed in this case bear?**

2 A: The tariffs bear an effective date of March 28, 2012. We would expect the Commission
3 to suspend this filing up to an additional 10 months beyond this effective date.

4 **Q: What are the major drivers underlying KCP&L's proposed rate increase?**

5 A: This is the first rate case since the completion of the Iatan 2 generating station. Iatan 2
6 was completed in August 2010 and rates that went into effect on May 4, 2011, reflected
7 the completion of that major undertaking.

8 This case can be considered a general rate case with no single issue making up the
9 majority of the increase. This case is reflective of material changes in the wholesale
10 energy market significantly impacting the amount of credits KCP&L is able to provide to
11 retail customers for wholesale market activity as compared to historical levels. KCP&L's
12 retail rates are more affected by declines in the wholesale market than any other Missouri
13 or regional regulated electric utility as KCP&L has historically provided much larger
14 offsets to retail rates for wholesale market activity. The impact to Missouri retail base
15 rates is exacerbated as KCP&L is precluded from seeking a fuel adjustment clause
16 ("FAC") in Missouri due to its stipulation and agreement entered into in 2005 for its
17 Comprehensive Energy Plan ("CEP"). Similar to off-system sales ("OSS") margins,
18 KCP&L had previously been able to reduce retail rates for customers by providing a
19 credit to base rates reflecting the revenues it was able to make under firm wholesale sales
20 contracts. As these long-term contracts have expired, as a result of changes in their
21 resource needs these firm customers chose not to continue the agreements with KCP&L.
22 Infrastructure investments and continued focus on our ability to reliably serve our
23 customers are also reflected in KCP&L's requested increase.

1 Additionally, while KCP&L has actively managed its cost structure, the regulatory
2 lag inherent in the current Missouri regulatory framework has made it difficult, if not
3 impossible, to manage cost increases imposed on us by others, which are also driving the
4 need for this requested increase. To better manage regulatory lag for certain cost
5 increases, in addition to amounts requested in this case, we are proposing certain expense
6 trackers as more fully outlined in later sections of this testimony and described by other
7 Company witnesses.

8 Off-system Sales (“OSS”) margins - With that said, the most significant driver in this
9 case is the impact of OSS margins and the uncertainty of this market. Company
10 witnesses Michael Schnitzer, Burton Crawford and Tim Rush will address this in more
11 detail. KCP&L is the only major electric utility regulated by the MPSC that does not
12 have a FAC in place. Beginning with the 2006 rate case, the Commission has set a
13 percentile that reflects the probability of achieving a certain level of OSS margins as an
14 offset to KCP&L’s retail cost of service in its determination of base rates. This has
15 provided a credit to customers set based on KCP&L’s expected ability to sell power in
16 the wholesale market. As a result of historically low natural gas prices and soft regional
17 market demand for wholesale power, both of which are expected to continue over the
18 coming years, the size of the credit for OSS margins available to offset retail rates is
19 much smaller than previous cases.

20 As a result of these dramatic changes in market conditions, Company witnesses
21 Michael Schnitzer and Tim Rush provide testimony on the Company’s recommended
22 changes regarding the treatment of OSS margins and our request for an Interim Energy
23 Charge (“IEC”).

1 **Firm Wholesale Sales** – Similar to OSS margins, KCP&L had previously been able to
2 reduce retail rates for customers by providing a credit to base rates reflecting the revenues
3 it was able to make under firm wholesale sales contracts. As these long-term contracts
4 have expired, as a result of changes in their resource needs these firm customers chose
5 not to continue the agreements with KCP&L. As I mentioned, wholesale market demand
6 is soft with historically low natural gas prices contributing to the soft demand. As a
7 result, KCP&L has not been able to execute new firm wholesale sales contracts replacing
8 the revenues from the expired contracts. Therefore, the credit to retail customers from
9 these prior firm wholesale sales contracts is no longer available, contributing to the
10 increase requested in this case.

11 **Transmission Costs** - Transmission is another area that is seeing significant increases
12 because of the expansions in the regional transmission network that serves Southwest
13 Power Pool (“SPP”). SPP administrative fees and KCP&L’s load share responsibility for
14 transmission upgrade costs in the SPP region are driving the significant increases in this
15 area. Company witness John Carlson addresses this subject.

16 **Infrastructure Investments** – The August 31, 2012 projected true-up of plant in service
17 amounts, net of reserve for depreciation, have increased about \$105 million over the
18 December 2010 period, the true-up date for KCP&L’s last rate case. A substantial
19 portion of this net increase relates to the replacement of the turbine/rotor and other
20 components of original equipment at the Wolf Creek nuclear generating station. Other
21 large portions of this net plant increase relate to routine replacements of transmission and
22 distribution infrastructure. Also included in the net increase are final costs for
23 completion of the Iatan 2 generating facility after October 31, 2010, the cut-off used in

1 the last case. The request as a result of infrastructure investments is addressed in the
2 testimony of Company witness John Weisensee.

3 **Other Operations & Maintenance (“O&M”) Expenses** – Other expenses have
4 increased, including payroll and employee benefits, maintenance, and other non-fuel
5 O&M expenses. These expense increases are covered in the testimony of Company
6 witness John Weisensee.

7 The Company implemented an organizational realignment in early 2011. The
8 program was called Organizational Realignment and Voluntary Separation (“ORVS”)
9 and will result in substantial ongoing savings to the Company. The voluntary separation
10 portion of the program was used to achieve the workforce reductions identified in the
11 realignment portion of the program. The Company is requesting recovery of the
12 associated severance payments over a five-year period to recover the cost of the program.
13 Company witness Kelly Murphy will address this in her testimony.

14 **Q: Has KCP&L taken steps to control costs during the test year for this case?**

15 **A:** Absolutely. As mentioned above, the Company implemented an organizational
16 realignment initiative, coupled with a voluntary separation program, in early 2011 which
17 yielded considerable savings which will continue into future years. In addition to the
18 Company’s usual efforts to keep its costs as low as possible, in light of the economic
19 conditions affecting the Company and its customers, KCP&L has redoubled its efforts to
20 control costs and conserve capital. Additionally, the synergy savings attributable to the
21 acquisition of Aquila continue to flow to customers and are reflected in this case in the
22 test period and the true-up levels. As was addressed in the last rate case, the Company

1 has been able to realize greater savings than initially anticipated, which flow back to
2 customers based on the test period levels.

3 In 2010 and again in 2011, the Company held to flat non-fuel operations and
4 maintenance budgets in all areas in which we could control the costs. Additionally, as
5 the economy continued to lag, we completed a review of capital projects budgeted for
6 2011 and delayed non-critical capital projects in an effort to preserve liquidity. In 2011,
7 we also initiated our Supply Chain Transformation (“SCT”) Program. The SCT is a
8 significant, multi-year program that will streamline, modernize and improve upon the
9 way KCP&L operates—both internally and with our suppliers. The SCT will help our
10 Supply Chain organization become more forward looking, strategic and innovative,
11 which in turn will enable all areas of our company to operate much more efficiently and
12 cost effectively. By improving operations and processes, the SCT program will deliver
13 cost savings, improve stakeholder value and allow managers to focus on their core
14 responsibilities and job functions. To date, we are on schedule to achieve our targets for
15 the SCT program. Finally, in 2011 our generation business began an intensive
16 benchmarking process utilizing the expertise of the nationally recognized Solomon
17 group. The focus of this process is to utilize Solomon’s national benchmarking database
18 to be able to analyze costs in our generation organization, specifically focused on
19 benchmarking to similar generating units and activities. We are early in this process but
20 have already been able to realize improvements as we begin to implement best practices
21 identified through the benchmarking process. The synergy savings attributable to the
22 GMO acquisition continue to flow to customers and are reflected in this case in the test
23 period and the true-up levels. As was addressed in the last rate case, the Company has

1 been able to realize greater savings than initially anticipated, which flow back to
2 customers based on the test period levels. Additionally, since the mid-2008 acquisition,
3 we have reduced our total number of executives by eight and our annual executive base
4 labor by \$1.7 million. We have done this through managing attrition and expanding
5 executive scopes of responsibility where appropriate.

6 **Q: What is the return on equity (“ROE”) KCP&L is requesting in this case?**

7 A: KCP&L is requesting a ROE of 10.4 percent based upon the projected capital structure of
8 Great Plains Energy Incorporated, KCP&L’s parent holding company, as of August 31,
9 2012, 52.5% percent of which is comprised of common equity. The August 31, 2012
10 projected capital structure reflects remarketing of the subordinated notes component of
11 Great Plains Energy’s Equity Units as Senior Notes which have been included in the
12 long-term debt component of the projected capital structure. Additionally, on June 15,
13 2012, the purchase contract component of the Equity Units will be settled with the
14 issuance of common stock which has been included in the equity component of the
15 projected capital structure. KCP&L witness Dr. Samuel Hadaway presents in his Direct
16 Testimony his cost of capital study results and recommendations in support of the
17 Company’s requested ROE. Dr. Hadaway’s approach is based on a traditional approach
18 to estimate the underlying cost of equity capital for a group of comparable, investment-
19 grade electric utility companies.

20 **Q: Does the Company’s proposed ROE adequately address the substantial risk of**
21 **KCP&L’s OSS?**

22 A: No, it does not. The risk of the OSS market consists of several components, including
23 market price, volumetric risk associated with generation variable cost, generation unit

1 outages, coal supply availability, weather, and uncertainty of retail sales growth. We
2 have seen the impact of flooding that occurred in 2011 that resulted in limitations on coal
3 supply availability which in turn limited the Company's ability to run its generating units
4 at optimum levels. A detailed risk analysis of the OSS market is contained in the Direct
5 Testimony of Mr. Schnitzer. The risk of this market is too large for either the Company
6 or its customers to bear entirely.

7 OTHER MISSOURI ACTIVITY

8 **Q: Please describe why KCP&L made a Missouri Energy Efficiency Investment Act**
9 **("MEEIA") filing.**

10 **A:** KCP&L was actively involved in the passing of legislation in Missouri—Senate Bill 376
11 (SB376) which mandated the adoption of MEEIA rules. At its foundation, SB376
12 became law on the principle that greater implementation of cost-effective energy
13 efficiency programs will be beneficial for all Missourians. SB376 specifically recognizes
14 this fact and includes provisions designed to align the interests of electric service
15 providers and their customers in achieving this goal. KCP&L made a MEEIA filing in
16 December 2011 due to the fact that its current recovery mechanism for demand-side
17 management ("DSM") and energy efficiency investments is inadequate.

18 **Q: Please describe why KCP&L subsequently withdrew its MEEIA filing?**

19 **A:** First, I want to make it clear that KCP&L remains committed to energy efficiency as the
20 lowest cost resource for supplying electricity and as such we are continuing with our
21 MEEIA filing for KCP&L Greater Missouri Operations Company ("GMO"). Given a
22 recovery mechanism through MEIAA that keeps the Company whole with an opportunity
23 to earn a return on energy efficiency investments just like we do on investments in

1 traditional supply, it is our intention to continue to develop our energy efficiency
2 portfolio for the long term benefit of our customers, company and region. We also
3 believe that energy efficiency has additional benefits including putting private capital to
4 work in our communities to put local contractors, plumbers and vendors to work
5 investing in our communities. As we have indicated over the course of our CEP energy
6 efficiency pilot programs, we believe another benefit of energy efficiency is scalability.
7 It can be increased or decreased depending upon energy resource needs of the utility and
8 our customers.

9 As we pulled together this rate request filing and furthered our work on our IRP
10 filings due to be filed in April 2012, we determined it was prudent to reassess our
11 MELAA filing for KCP&L. Factors we considered were historically low natural gas
12 prices which have created softness in demand in the wholesale market. We also
13 considered the lagging economic environment and the fact that we have experienced
14 declines in weather normalized retail demand since our last case. Considering these
15 factors and with the addition of Iatan 2 to our base load generation fleet, KCP&L does
16 not need additional capacity at this time. As such, to raise customer rates in the short
17 term for benefits customers will realize over a 10 to 20 year time horizon just does not
18 make sense considering the current state of the economy. The move to withdraw at this
19 time allows us to leverage one of the most important benefits of energy efficiency, its
20 scalability.

21 **Q: How do you plan to proceed with energy efficiency in Missouri?**

22 **A:** We are continuing to aggressively pursue energy efficiency for GMO, where we need the
23 capacity. We are currently evaluating when it makes sense to do so in KCP&L. We will

1 file our plan for when we think we will begin to increase energy efficiency spending in
2 KCP&L again with our IRP updates in April of this year. Reducing our energy efficiency
3 programs in KCP&L until closer to when more generation is needed reduces our ask of
4 customers in this filing while preserving the longer term opportunity to invest in
5 customers and for customers to receive the benefit of energy efficiency.

6 **Q: Can you provide an update on the potential merger filing by KCP&L and GMO?**

7 A: Yes. In December 2011, KCP&L and GMO jointly filed a 60-day Notice of Intent to File
8 a merger application. As the companies continued to evaluate the benefits of a merger as
9 well as finalizing rate case filings, it was determined to suspend efforts on the merger
10 application at this time. Considerations for suspending the filing included:

- 11 1) the significant amount of synergy savings and corporate integration
12 already achieved as a result of the July 14, 2008, acquisition of GMO,
- 13 2) potential detrimental property tax impacts to certain counties based on the
14 State property tax assessment and county allocation process currently in
15 place,
- 16 3) the potential to request variances/waivers to achieve certain operational
17 efficiencies contemplated by the merger, and
- 18 4) the volume of KCP&L activity already scheduled to be in front of the
19 Commission in 2012.

20 **Q: Please describe the variances/waivers you mentioned that KCP&L and GMO are**
21 **requesting in the current cases.**

22 A: As described more fully by Company witness William P. Herdegen, the companies are
23 requesting a waiver of the affiliate transaction rules to allow the companies to maintain

1 one, consolidated inventory for inventory. We request that inventory be initially
2 purchased and maintained by Great Plains Energy Services ("GPES"), a services
3 company established several years ago consistent with the provisions of the Public Utility
4 Holding Company Act of 1935. As Mr. Herdegen further describes, there are numerous
5 operational benefits from utilizing one consolidated inventory. Purchasing and
6 maintaining the inventory at GPES and charging the inventory to the appropriate utility
7 and jurisdiction when installed provides the lowest cost to customers by allowing for
8 maintenance of optimal items on hand as well as by preserving appropriate sales tax
9 treatment.

10 **OTHER REQUESTS**

11 **Q: Does the Company request Commission authorization on any additional matters?**

12 **A:** Yes, in addition to the other requests discussed below, we have two Accounting
13 Authority Order ("AAO") requests pending with the Commission at this time.

14 **Flood AAO** - The Company has requested certain accounting treatment associated with
15 the flooding that occurred in 2011 which caused a significant disruption in coal supply
16 and the ability to generate electricity for both retail and OSS. A filing for this accounting
17 treatment was made on December 19, 2011 in Case No. EU-2012-0130 and should be
18 completed by the time rates are in effect from this case. The impact of the Company's
19 request is included in this case as if approved by the Commission. Flood costs incurred
20 during the test year have been removed and replaced with an amount reflecting a five-
21 year amortization.

22 **Renewable Energy Standard ("RES")/Solar AAO** - By a filing made on December 30,
23 2011, in Case No. EU-2012-0131, the Company has also requested certain accounting

1 treatment associated with renewable energy standards. This includes the \$2 per watt
2 rebate currently provided to customers in the KCP&L service territory that install solar
3 facilities, costs associated with meeting the renewable energy standards requirements and
4 the solar standard offer agreement that a utility may offer to customers that have installed
5 solar facilities. See my additional discussion below concerning the request for
6 establishment of an ongoing tracker for deferral and recovery of new costs as well as
7 those incurred for 2010 and after in excess of costs recovered in base rates.

8 **TRANSMISSION TRACKER**

9 **Q: What is the Company's proposal regarding a transmission tracker?**

10 **A:** The Company requests that a transmission tracking mechanism be authorized in this case
11 to ensure the appropriate recovery of transmission costs. The Company's request for a
12 transmission tracker would be treated similarly to the tracking mechanism for its RES
13 and property tax expense trackers also being requested in this filing, although there are
14 differences in the rate at which carrying costs are calculated for the different trackers.
15 Other similar authorized tracking mechanisms are Empire District Electric Company's
16 Vegetation Management/Infrastructure Inspection and pension trackers, and Ameren
17 Missouri's SO₂ and pension trackers, as well as KCP&L's and GMO's pension trackers.

18 In the last rate case, the Company recommended a transmission tracker
19 mechanism and the Staff of the Commission supported, with modification, the
20 Company's proposed tracker mechanism. Both the Company and Staff did not pursue the
21 tracker mechanism beyond the initial testimonies.

1 Trackers are valuable tools for costs that are material and may fluctuate from
2 year-to-year. Use of a tracker ensures that in the years between rate cases the utility does
3 not under-recover or over-recover its costs.

4 **Q: Why is a tracker appropriate for KCP&L's transmission costs?**

5 A: Transmission costs can vary significantly from year-to-year, and such costs are a material
6 cost of service component. Historically, transmission costs have fluctuated due to load
7 variations, both native and off-system. An added factor in the coming years relates to the
8 SPP's regional transmission upgrade projects and increasing SPP administrative fees,
9 which will increase KCP&L's costs significantly in coming years.

10 **Q: Does KCP&L discuss in more detail SPP's transmission expansion plans in this**
11 **filing?**

12 A: Yes, Company witness John Carlson provides additional insight into SPP's transmission
13 upgrade plans and its expected impact on KCP&L and its customers in the next several
14 years. SPP's expansion plan proposes regional transmission additions and includes a
15 detailed list of projects in order to achieve the plan. SPP employs a cost allocation
16 methodology to provide fair and equitable sharing of costs for base-plan transmission
17 additions.

18 **Q: What factors are driving the transmission expansion plans?**

19 A: A major factor is the push for renewable energy resources in the region, in particular
20 wind generation. Significant transmission upgrades are necessary to capture the full
21 potential of wind resources in the region. Another major driver of new upgrades is the
22 need to reduce congestion on key transmission paths in order to facilitate more efficient
23 power markets.

1 **Q: How do the Company's projected transmission costs compare to historical levels?**

2 A: As can be seen on attached Schedule DRI-1, transmission costs have increased
3 significantly in recent years and are projected to grow at an even faster pace in the future.

4 **Q: What types of costs are included on this schedule?**

5 A: This schedule includes FERC account 565 costs (standard point-to-point transmission
6 charges and base plan funding), SPP Schedule 1-A fees charged to accounts 561 and 575,
7 and FERC Schedule 12 fees charged to account 928.

8 **Q: Are these the same costs that the Company proposes to be included in a
9 transmission tracker?**

10 A: Yes, they are.

11 **Q: How does the Company propose that a transmission tracker be implemented?**

12 A: We propose that transmission costs, as defined in this tracker, be set in the true-up
13 process in this rate proceeding. The Company would then track its actual charges on an
14 annual basis against this amount, with the Missouri jurisdictional portion of any excess
15 treated as a regulatory asset (account 182) and the Missouri jurisdictional portion of any
16 shortfall treated as a regulatory liability (account 254). The regulatory asset or liability
17 would be included in rate base.

18 **Q: Is this amount supported by other Company witnesses in this case?**

19 A: Yes, Company witnesses John Weisensee and John Carlson support this amount in their
20 discussion of adjustments CS-45 (Transmission of Electricity by Others), CS-85
21 (Regulatory Assessments- Schedule 12 Fees) and CS-86 (Schedule 1-A Fees).

1 **Q: Is the Company requesting carrying costs on the amounts added to the regulatory**
2 **asset or regulatory liability for the period before amounts are included in rate base?**

3 A: Yes. Similar to the process authorized by the Commission for DSM program costs in
4 Case No. ER-2010-0355, the Company is requesting that carrying costs be accrued on
5 amounts not yet included in rate base. The carrying costs would be calculated monthly
6 by applying the monthly value of the annual Allowance for Funds Used During
7 Construction ("AFUDC") rate to the eligible costs.

8 **Q: How would the regulatory asset or liability be dealt with in KCP&L's next rate**
9 **case?**

10 A: We propose that the regulatory asset or liability be amortized to cost of service in the
11 Company's next rate proceeding, over the same length of period as costs are accumulated
12 with the unamortized balance included in rate base. The Company would reset the level
13 of ongoing transmission costs in base rates in the next rate case, similar to how ongoing
14 pension costs are reset in each case. The regulatory asset or liability would include
15 accrued carrying costs from the time costs are incurred until they are included in rate
16 base.

17 **Q: Is this proposed treatment consistent with KCP&L's other regulatory tracker, the**
18 **pension tracker?**

19 A: Yes, with two exceptions; the pension tracker uses a fixed amortization period of five
20 years rather than matching the future recovery period to the accumulation period between
21 rate cases. The pension tracker also does not accrue carrying costs for amounts in the
22 regulatory asset that are not yet in rate base. However, as pointed out above, the

1 proposed accrual of carrying costs for the transmission tracker is consistent with that
2 currently authorized for DSM costs.

3 **RENEWABLE ENERGY STANDARD**

4 **Q: Is the Company requesting a tracker mechanism for the Renewable Energy**
5 **Standard (“RES”)?**

6 A: Yes. As discussed above, on December 30, 2011, the Company filed an application for
7 an accounting authority order in Case No. EU-2012-0131, requesting authority to defer
8 costs associated with the implementation of the RES law. At the time of this filing, the
9 Commission has not issued an Order either approving or rejecting the Company’s
10 request. As part of this filing, the Company is requesting implementation of an
11 associated tracker mechanism.

12 **Q: What has the Company requested in its AAO filing?**

13 A: The Company requested that the Commission issue an AAO authorizing KCP&L: (i) to
14 defer and record in Account 182 of the Uniform System of Accounts (“USOA”) certain
15 incremental costs incurred by KCP&L to comply with Missouri’s Renewable Energy
16 Standard, Section 393.1020, et seq., which establishes requirements for electric utilities
17 to generate or purchase electricity generated from renewable energy resources; (ii) to
18 include carrying costs on the balances in those regulatory assets and (iii) to defer such
19 amounts in a separate regulatory asset with their disposition to be determined in the
20 Company’s next general rate case. At the writing of this testimony, the Commission has
21 not acted on the application.

1 **Q: Has the Company included any RES costs in its revenue requirement in**
2 **conformance with the AAO filing that it made in December?**

3 A: Yes, the recovery of solar rebates and renewable energy credit costs have been included
4 in annualized O&M expense (adjustment CS-116 on Schedule JPW-4) and rate base
5 (Schedule JPW-2), sponsored by Company witness John P. Weisensee.

6 **Q: Is the Company requesting a continuing RES expense tracker in this filing?**

7 A: Yes, due to the unpredictability of costs expected to be incurred under the RES law
8 prospectively, the Company requests that the Commission authorize an RES expense
9 tracker authorizing KCP&L: (i) to defer and record as a regulatory asset in Account 182
10 or as a regulatory liability in Account 254 of the USOA certain incremental costs
11 incurred by KCP&L above, or below, the base ongoing costs, as determined in the true-
12 up process in this case, to comply with Missouri's Renewable Energy Standard, Section
13 393.1020, et seq. This standard establishes requirements for electric utilities to generate
14 or purchase electricity generated from renewable energy resources; (ii) to include
15 carrying costs based on the Company's short-term debt rate on the balances in those
16 regulatory assets or liabilities; and (iii) to defer such amounts in a separate a regulatory
17 asset or liability with their disposition to be determined in the Company's next general
18 rate case.

19 **Q: Would the regulatory asset include amounts incurred prior to the establishment of**
20 **this tracker?**

21 A: Yes. The regulatory asset would also include the costs incurred for 2010 through 2012
22 less amounts recovered in base rates for those periods as determined in the true-up
23 process in this case. This amount has been reflected in rate base in the current case. The

1 current filing includes a five year amortization of the projected regulatory asset as
2 reflected in adjustment CS-116.

3 **Q: How would the regulatory asset or liability be dealt with in KCP&L's next rate
4 case?**

5 A: We propose that new amounts added to the regulatory asset or liability after the effective
6 date of rates in this case, including carrying costs, be amortized to cost of service in the
7 Company's next rate proceeding over the same length of period as costs are accumulated,
8 with the unamortized balance included in rate base. The Company would reset the level
9 of ongoing RES costs in base rates in the next rate case, similar to how ongoing pension
10 costs are reset each case. The regulatory asset or liability would include accrued carrying
11 costs from the time costs are incurred until they are included in rate base.

12 **Q: Is this proposed treatment consistent with KCP&L's proposed transmission and
13 property tax regulatory trackers requested in this filing?**

14 A: Yes, it is, except that the carrying costs are calculated using the Company's short-term
15 debt rate as required by the Commission's rules on RES rather than the Company's
16 AFUDC rate.

17 **PROPERTY TAX TRACKER**

18 **Q: Is the Company proposing a property tax tracker?**

19 A: Yes. The Company requests that a property tax tracking mechanism be authorized in this
20 case to ensure the appropriate recovery of rising property tax expenses. The Company's
21 request for a property tax tracker would be treated similarly to the tracking mechanism
22 for its transmission and RES trackers requested in this filing, allowing for differences in

1 the rate used to calculate carrying costs, and to other tracker mechanisms approved by the
2 Commission for other utilities.

3 **Q: Why is a tracker appropriate for KCP&L's property tax expenses?**

4 A: Property tax expenses have been escalating over past five years as described more fully
5 by Company witness Harold (Steve) Smith. Property taxes are determined by Missouri
6 state assessors, are a significant component of the Company's cost of service, and
7 amounts assessed are out of the control of the Company to manage. Cost of service
8 components, such as property taxes, that are out of Company management's control to
9 contain or manage are significant contributors to regulatory lag and impact the
10 Company's ability to earn returns reasonably close to returns allowed by this
11 Commission. Property taxes, and similar costs such as RES costs and transmission costs
12 discussed above, are costs ideally addressed through regulatory mechanisms such as
13 expense riders and trackers.

14 **Q: How does the Company propose that a property tax tracker be implemented?**

15 A: We propose that annual property tax expenses, as defined in this tracker, be set in this
16 rate proceeding at the expense level determined in the true-up in this case. The Company
17 would then track its actual property tax expenses on an annual basis against this amount,
18 with the Missouri jurisdictional portion of any excess treated as a regulatory asset
19 (account 182) and the Missouri jurisdictional portion of any shortfall treated as a
20 regulatory liability (account 254), with such regulatory asset or liability included in rate
21 base in the next case.

1 **Q: Is this amount supported by other Company witnesses in this case?**

2 A: Yes, Company witnesses John Weisensee and Harold (Steve) Smith support this amount
3 in their discussion of adjustment CS-126 (Property Tax Expense).

4 **Q: Is the Company requesting carrying costs on the amounts added to the regulatory
5 asset or regulatory liability for the period before amounts are included in rate base?**

6 A: Yes. Similar to the process authorized by the Commission for DSM program costs in
7 Case No. ER-2010-0355, the Company is requesting that carrying costs be accrued on
8 amounts not yet included in rate base. The carrying costs would be calculated monthly
9 by applying the monthly value of the annual AFUDC rate to the eligible costs.

10 **Q: How would the regulatory asset or liability be dealt with in KCP&L's next rate
11 case?**

12 A: We propose that the regulatory asset or liability be amortized to cost of service in the
13 Company's next rate proceeding over the same length of period as costs are accumulated,
14 with the unamortized balance included in rate base. The Company would reset the level
15 of ongoing property tax expense in base rates in the next rate case, similar to how
16 ongoing pension costs are reset each case. The regulatory asset or liability would include
17 accrued carrying costs from the time costs are incurred until they are included in rate
18 base.

19 **Q: Does the Company have additional requests of the Commission in this filing?**

20 A: Yes, KCP&L requests Commission authorization on the following items:

- 21 • KCP&L requests implementation of an IEC, with an offsetting OSS sharing
22 mechanism, as more fully described and proposed by Company witness Tim Rush
23 in his Direct Testimony.

- 1 • KCP&L requests that the Iatan 2 and Iatan Common O&M tracker continue to be
2 utilized until at least the Company's next rate case, as proposed by Company
3 witness John Weisensee in his Direct Testimony.
- 4 • KCP&L requests that the plant accounting practice referred to as general plant
5 amortization be approved on a permanent basis, as proposed by Company witness
6 John Weisensee in his Direct Testimony.
- 7 • KCP&L requests that the Commission order that no re-allocation of the
8 Company's advanced coal credit be made to GMO, for the reasons stated by
9 Company witness Salvatore P. Montalbano in his Direct Testimony.
- 10 • KCP&L requests that the Commission approve the Economic Relief Program
11 tariffs as proposed by Company witness Jimmy Alberts in his Direct Testimony.

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

13 **A:** Yes, it does.

KANSAS CITY POWER & LIGHT COMPANY
Transmission Expenses

<u>Account</u>	<u>Account Description</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Projected</u> <u>8/31/2012</u>	<u>Projected</u> <u>12/31/2012</u>	<u>Projected</u> <u>12/31/2013</u>	<u>Projected</u> <u>12/31/2014</u>	<u>Projected</u> <u>12/31/2015</u>
561400	Trans Op-Schd,Contr & Dis Serv	2,662,340	2,498,396	3,409,641	4,141,090	4,972,842	4,916,154	5,282,842	6,863,346	6,849,400
561800	Trans Op-Rail Plan&Std Dv-RTD	317,312	326,742	474,884	463,783	656,289	647,034	706,902	964,943	962,666
565XXX	Transm Oper-Elec Tr-By Others	11,119,963	12,349,274	15,022,326	18,811,254	28,912,190	28,729,645	32,180,310	39,107,155	44,482,787
575700	Trans Op-Mkt Mon&Comp Ser-RTD	2,576,936	2,462,502	2,454,386	2,516,703	3,527,555	3,477,808	3,799,596	5,186,569	5,174,331
928003	Reg Comm Exp-FERC Assessment	666,726	880,858	1,194,983	1,191,605	1,487,379	1,272,532	1,300,398	1,411,489	1,360,244
	Total	17,343,277	18,517,772	22,556,420	27,124,435	39,556,255	39,043,173	43,270,048	53,533,502	58,829,428