

EXHIBIT

Exhibit No.:

307 NP

Issue(s):

KCP&L'S Request to Implement
Certain Tracking Mechanisms/
Clean Charge Network (Electric
Vehicle Charging Stations)/
Customer Deposits/
Interest on Customer Deposits /
Customer Advances/
Vegetation Management Cost/
IATAN 2 and IATAN Common
Operations and Maintenance
(O&M) Tracker/
Excess Margin Regulatory Liability/
Corporate Franchise Tax/
Normalized Rate Case Expense

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Sponsoring Party:

Public Counsel

Case No.:

ER-2014-0370

REBUTTAL TESTIMONY

OF

WILLIAM ADDO

Filed
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Data Center
Missouri Public
Service Commission

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

**

**

Denotes Highly Confidential Information that has been Redacted

May 7, 2015

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File No. ER-2014-0370

NP

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**REBUTTAL TESTIMONY
OF
WILLIAM ADDO**

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

1 **I. INTRODUCTION.**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. William Addo, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4
5 Q. ARE YOU THE SAME WILLIAM ADDO THAT PREVIOUSLY FILED DIRECT
6 TESTIMONY IN THIS CASE?

7 A. Yes.

8
9 **II. PURPOSE OF TESTIMONY.**

10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 A. The purpose of my testimony is to respond to the Direct Testimony of Kansas City Power
12 & Light Company ("KCP&L" or "Company") witness, Mr. Tim M. Rush, regarding
13 KCP&L's request to implement a vegetation management tracker; a property tax tracker;
14 and a critical infrastructure protection/cybersecurity tracker. My testimony will also
15 respond to the Supplemental Direct Testimony of Company witness, Mr. Darrin R. Ives,
16 regarding the recovery of Clean Charge Network (electric vehicle charging stations)
17 costs. Additionally, my testimony will address the Direct Testimonies of Missouri Public
18 Service Commission ("MPSC") Staff witnesses, Mr. Joel A. Molina, Mr. V. William

1 Harris, and Mr. Matthew R. Young; and KCP&L witness, Mr. Ronald A. Klote,
2 regarding their positions on customer deposits, interest on customer deposits, customer
3 advances, vegetation management costs, Iatan 2 and Iatan Common operations and
4 maintenance tracker, excess margin regulatory liability, Missouri corporate franchise tax,
5 and rate case expense.
6

7 **III. KCP&L'S REQUEST TO IMPLEMENT CERTAIN TRACKING MECHANISMS.**

8 Q. IS KCP&L ASKING FOR THE COMMISSION'S AUTHORITY TO IMPLEMENT
9 CERTAIN TRACKING MECHANISMS IN THIS CASE?

10 A. Yes. The Company is asking for the Commission's authority to implement: (1) a
11 vegetation management cost tracker; (2) a property tax tracker; and (3) a critical
12 infrastructure protection/cybersecurity cost tracker. My testimony regarding these issues
13 will first provide the Commission with a brief background respecting trackers, and why
14 Public Counsel believes that the Commission should authorize the use of trackers by
15 utilities only as a last resort. I will then respond separately to each of the Company's
16 requests for the Commission's authority to implement the above referenced trackers.
17

1 (i). **BACKGROUND OF TRACKERS.**

2 Q. WHAT IS A TRACKER?

3 A. A tracker is a rate-adjustment mechanism by which the level of a certain cost incurred by
4 a utility — mostly a new cost component where it is difficult to determine a level to
5 include in base rates — is deferred and tracked against a baseline level that is included in
6 rates. Any deviations from that baseline are then preserved for consideration in future
7 rate cases for possible recovery. If the utility expends more than the baseline amount that
8 is included in rates, the Commission may authorize the utility to recover the difference in
9 future rates. However, if the utility expends less than the baseline amount that is
10 included in rates, the Commission may authorize the utility to return the difference to
11 ratepayers. The significance of every tracking mechanism is that costs are deferred from
12 one accounting period to another accounting period for the development of a utility's
13 revenue requirement.

14
15 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THE USE OF TRACKERS BY
16 UTILITIES?

17 A. Generally, tracking mechanisms, which permit ratemaking considerations of items from
18 outside a rate case test year for the development of a revenue requirement, violate the
19 historical test year model of setting utility rates in the State of Missouri. Since trackers
20 can reduce the incentive of utilities to closely control costs, trackers should be authorized

1 by the Commission only as a last resort when other ratemaking techniques such as
2 normalization, annualization, and known and measurable changes fail to capture on-going
3 costs in rates. Please note that I take no position on the legality of trackers, which may be
4 addressed by my counsel in our post-hearing brief.
5

6 **(ii). KCP&L'S REQUEST FOR THE COMMISSION'S AUTHORITY TO**
7 **IMPLEMENT A VEGETATION MANAGEMENT TRACKER.**

8 Q. PLEASE DESCRIBE KCP&L'S PROPOSAL REGARDING THE
9 IMPLEMENTATION OF A VEGETATION MANAGEMENT TRACKER.

10 A. On page 29, lines 16 through 23, and continuing on page 30, lines 1 through 12, of the
11 Direct Testimony of Company witness, Mr. Tim M. Rush, he states:
12

13 **Q: Is the Company proposing a vegetation management tracker?**
14

15 **A:** Yes. The Company requests that a vegetation management tracking
16 mechanism be authorized in this case to ensure the appropriate
17 recovery of rising expenses and to help better manage the cyclical
18 nature of tree-trimming throughout the service territory as well as in
19 the Kansas and GMO rate jurisdictions, where we will also seek
20 authority to implement vegetation management cost trackers. Use of a
21 tracker for vegetation management costs will enable the Company to
22 schedule and perform this work in the most efficient manner by, for
23 example, concentrating resources and efforts on a particular portion of
24 the service territory, while still meeting all requirements, without
25 creating the perception that the Company is spending a vegetation
26 management rate allowance for one rate jurisdiction on vegetation

1 management efforts in a different rate jurisdiction. Without a
2 vegetation management tracker, the Company would tend to spread the
3 work ratably over each rate jurisdiction which is likely not the most
4 efficient way to accomplish this work. The Company's request for a
5 vegetation management tracker would be treated similarly to the
6 tracking mechanism for most other tracking mechanisms in Missouri.
7 This would be similar to tracking mechanisms at The Empire District
8 Electric Company's vegetation management/infrastructure inspection
9 and pension trackers, and Ameren Missouri's SO2, vegetation
10 management and pension trackers, as well as KCP&L's and GMO's
11 pension trackers.
12

13 Q. WHY DOES KCP&L BELIEVE THAT A VEGETATION MANAGEMENT
14 TRACKER IS NEEDED?

15 A. Company witness, Mr. Tim M. Rush, on page 30, lines 14 through 17, of his Direct
16 Testimony, states:
17

18 **Q: Why is a tracker appropriate for KCP&L's vegetation management**
19 **expenses?**

20
21 **A: Vegetation management expenses have been escalating over recent**
22 **years as described more fully by Company witness Jamie Kiely. In**
23 **addition, the Company is proposing to expand its tree trimming**
24 **activities to address three specific areas that are not currently in the**
25 **rules for vegetation management, but which will enhance customer**
26 **reliability. (Emphasis added by OPC)**
27

1 Q. IS KCP&L'S ALLEGATION OF INCREASING VEGETATION MANAGEMENT
2 COSTS ALSO ADDRESSED IN THE DIRECT TESTIMONY OF ANOTHER
3 COMPANY WITNESS?

4 A. Yes. Company witness, Mr. James "Jamie" S. Kiely, in his Direct Testimony, page 7,
5 lines 3 through 6, states that "VM costs incurred by all of the Company's jurisdictions
6 increased from just under \$23 million in 2010 to almost \$24.58 million in 2013. I expect
7 this upward trend to continue in the future for a couple of reasons even in the absence of
8 the enhanced VM programs discussed in this testimony."

9
10 Q. WHAT RATEMAKING MECHANICS HAS KCP&L PROPOSED REGARDING THE
11 IMPLEMENTATION OF THE REQUESTED VEGETATION MANAGEMENT
12 TRACKER?

13 A. The Company proposes that the annual vegetation management expenses, as defined in
14 this tracker, be set in this rate proceeding at the expense level determined in the true-up in
15 this case. The Company would then track its actual vegetation management expenses on
16 an annual basis against this amount, with the Missouri jurisdictional portion of any excess
17 treated as a regulatory asset (Account 182) and the Missouri jurisdictional portion of any
18 shortfall treated as a regulatory liability (Account 254). A carrying cost, based on the
19 Company's monthly short-term interest rate, would be calculated monthly on the account
20 balance. In the Company's next rate case, the regulatory asset or liability would be

1 amortized to cost of service over the same length of period as costs are accumulated. The
2 Company would then reset the level of on-going vegetation management expense in base
3 rates, similar to how the Company's on-going pension costs are reset in each case. The
4 Company's response to Midwest Energy Consumers' Group ("MECG") Data Request
5 No. 2-9 (c) indicates that vegetation management costs respecting contract labor,
6 equipment, and fuel costs would govern the proposed deferral.

7
8 Q. IS PUBLIC COUNSEL OPPOSED TO KCP&L'S VEGETATION MANAGEMENT
9 TRACKER REQUEST?

10 A. Yes.

11
12 Q. PLEASE EXPLAIN.

13 A. First, Mr. Tim M. Rush's allegation that "vegetation management expenses have been
14 escalating over recent years" is unsubstantiated. Public Counsel's analysis of the
15 vegetation management costs that the Company expended from calendar years 2009
16 through 2014 (as depicted in *Figure 1* below) shows that vegetation management costs
17 peaked in year 2012 and, in fact, have been declining ever since. Vegetation
18 management costs are neither escalating nor volatile; contrary to KCP&L's assertion.
19 Therefore, KCP&L's attempt to cite "escalating vegetation management costs" as the
20 basis for requesting a tracker is misleading.

1

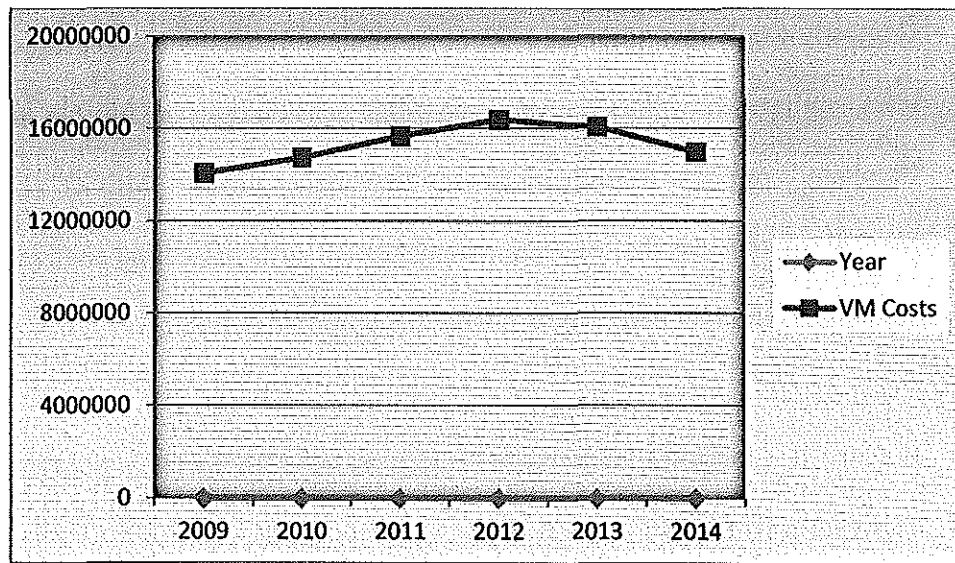


Figure 1

2

Second, Public Counsel believes that a sufficient database of historical cost has occurred for KCP&L's vegetation management program; as such, a tracking mechanism is not needed to determine an on-going level of cost. The Commission promulgated vegetation management and infrastructure inspection rules entitled Electrical Corporation

6

Infrastructure Standards and Electrical Corporation Vegetation Management Standards and Reporting Requirements that became effective on June 30, 2008. The rules granted

8

authorization to utilities to request a tracker to track vegetation management costs

9

because the Commission found that the utilities had too little experience to know how

10

much they would need to spend to comply with the new vegetation management and

1 infrastructure inspection rules. However, KCP&L has not implemented a vegetation
2 management tracker. Public Counsel's position opposing a vegetation management
3 tracker for KCP&L is based in part on the fact that after approximately seven years of
4 operating under the vegetation management and infrastructure inspection rules, KCP&L
5 has adequate cost information available to be utilized to develop a normalized annual on-
6 going cost level.

7
8 Third, Public Counsel believes that KCP&L's request that the Commission grant it
9 authority to implement a vegetation management tracker is an effort by the Company to
10 single out one expense item without taking into consideration all increases or decreases
11 of KCP&L's expenses and revenues. This approach to ratemaking does not incentivize
12 the Company to control cost.

13
14 Fourth, Mr. Tim M. Rush also cites the Company's proposed expansion of tree trimming
15 activities to address: (1) Emerald Ash Borer mitigation; (2) triplex circuits; and (3)
16 alignment of urban and rural trim cycles as a basis for why he believes the Company's
17 request for a vegetation management tracker is appropriate. On the advice of counsel, it
18 appears that these proposed programs are outside the "scope" of the vegetation
19 management and infrastructure inspection rules contemplated in 4 CSR 240-23.030 and 4
20 CSR 240-23.020, respectively. The vegetation management and infrastructure inspection

1 rules were promulgated through a collaborative process that involved stakeholders in the
2 utility regulation industry in Missouri; thus, any amendment to the rules should be a
3 consented effort by these same stakeholders—not just KCP&L. In addition, the costs
4 associated with the proposed programs are “speculative” because the costs are based on
5 estimates that are currently not known and measurable. As of the end of the update period
6 authorized by the Commission in this case, KCP&L has not incurred any actual costs in
7 relation to these programs.

8
9 Q. PLEASE SUMMARIZE PUBLIC COUNSEL’S RECOMMENDATION REGARDING
10 THIS ISSUE.

11 A. Public Counsel recommends that the Commission deny KCP&L’s request for authority to
12 implement a vegetation management tracker because the Company has not provided any
13 compelling evidence to support its request.

14
15 **(iii). KCP&L’S REQUEST FOR THE COMMISSION’S AUTHORITY TO**
16 **IMPLEMENT A PROPERTY TAX TRACKER.**

17 Q. WHAT IS IT THAT KCP&L IS REQUESTING?

18 A. On page 27, lines 13 through 21, of his Direct Testimony, Company witness Mr. Tim M.
19 Rush states:

20

1 **Q: Is the Company proposing a property tax tracker?**
2

3 **A:** Yes. The Company requests that a property tax tracking mechanism
4 be authorized in this case to ensure the appropriate recovery of rising
5 property tax expenses. The Company's request for a property tax
6 tracker would be treated similarly to the tracking mechanism for most
7 other tracking mechanisms in Missouri. This would be similar to
8 tracking mechanisms at The Empire District Electric Company's
9 vegetation management/infrastructure inspection and pension trackers,
10 and Ameren Missouri's SO₂, vegetation management and pension
11 trackers, as well as KCP&L's and GMO's pension trackers.
12

13 **Q. WHY DOES KCP&L BELIEVE THAT A PROPERTY TAX TRACKER IS NEEDED?**

14 **A.** Beginning on page 28, lines 1 through 15, of Mr. Tim M. Rush's Direct Testimony, he
15 states:
16

17 **Q: Why is a tracker appropriate for KCP&L's property tax**
18 **expenses?**
19

20 **A:** Property tax is another primary driver for this rate case and the
21 Company is requesting a tracker mechanism, similar to the request in
22 the last rate case. As KCP&L's costs continue to rise, the pattern of
23 under-earnings will only get worse. Property tax expenses have been
24 escalating over past five years as described more fully by Company
25 witness Ronald A. Klote. Property taxes are determined by Missouri
26 state assessors, are a significant component of the Company's cost of
27 service, and amounts assessed are out of the control of the Company to
28 manage. Cost of service components, such as property taxes, that are
29 out of Company management's control to contain or manage are
30 significant contributors to regulatory lag and impact the Company's
31 ability to earn returns reasonably close to returns allowed by this

1 Commission. Additionally, in the event of declines in property tax
2 levels in the future, a tracker will protect customers from property tax
3 costs higher than those actually experienced by the Company.
4 Property taxes, like pension costs, are costs ideally addressed through
5 regulatory mechanisms such as riders and trackers.
6

7 Q. HOW DOES COMPANY WITNESS, MR. RONALD A. KLOTE, DESCRIBE THE
8 ISSUE OF "ESCALATING" PROPERTY TAX EXPENSES IN HIS TESTIMONY?

9 A. Company witness, Mr. Ronald A. Klotz, on page 75, lines 22 and 23, and continuing on
10 page 76, lines 1 through 5, of his Direct Testimony, states "Based on the prior five years,
11 KCP&L's property tax expense has continued to increase; in 2009 KCP&L's total
12 property tax expense was \$67.2 million and in 2013 KCP&L's total property tax expense
13 was \$83.0 million. In each of the prior years the Company's total property tax expense
14 has increased over the prior year; see Schedule RAK-10, a 5 year summary of KCP&L
15 property taxes. Based upon this history of increase in property tax expense in each of the
16 last five years I expect property taxes to continue to increase during the next few years."
17

18 Q. HOW DOES KCP&L PROPOSE THAT THE REQUESTED PROPERTY TAX
19 TRACKER BE IMPLEMENTED?

20 A. On page 28, lines 16 through 22, of Mr. Tim M. Rush's Direct Testimony, he states:
21

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

1
2 **A:** We propose that annual property tax expenses, as defined in this
3 tracker, be set in this rate proceeding at the expense level determined
4 in the true-up in this case. The Company would then track its actual
5 property tax expenses on an annual basis against this amount, with the
6 Missouri jurisdictional portion of any excess treated as a regulatory
7 asset (Account 182) and the Missouri jurisdictional portion of any
8 shortfall treated as a regulatory liability (Account 254).
9

10 And, on page 29, lines 4 through 8, of his Direct Testimony, Mr. Tim M. Rush formulates
11 the following Q and A:

12
13 **Q: Is the Company requesting carrying costs on the amounts added**
14 **to the regulatory asset or regulatory liability for the period before**
15 **amounts are included in rate base?**
16

17 **A:** Yes. The Company is requesting that carrying costs be accrued on
18 amounts. The carrying costs would be calculated monthly by applying
19 the monthly short-term interest rate to the account balance.
20

21 Mr. Tim M. Rush further states on page 29, lines 11 through 14, of his Direct Testimony
22 that “We propose that the regulatory asset or liability be amortized to cost of service in
23 the Company’s next rate proceeding over the same length of period as costs are
24 accumulated. The Company would reset the level of ongoing property tax expense in
25 base rates in the next rate case, similar to how ongoing pension costs are reset each case.”
26

1 Q. WHAT IS PUBLIC COUNSEL'S POSITION REGARDING THIS ISSUE?

2 A. Public Counsel recommends that the Commission deny KCP&L's request to implement a
3 property tax tracker for the following reasons;

4
5 First, Public Counsel believes that the MPSC Staff's methodology utilized to calculate
6 the Company's annualized property tax amount accurately captures the known and
7 measurable on-going level of property tax expense; thus, there is absolutely no need for a
8 tracking mechanism. KCP&L's property taxes are assessed by taxing authorities on
9 January 1 of each calendar year, and payments are not due until December 31 of each
10 corresponding year.

11
12 In this case, the MPSC Staff proposes to include in KCP&L's rates an annualized
13 property tax expense based on KCP&L's property in-service on January 1, 2015. The
14 MPSC Staff determined KCP&L's annualized property tax amount by first calculating a
15 ratio based upon the actual property tax paid by KCP&L in December 2014 divided by
16 the Company's actual Plant-in-Service on January 1, 2014, and then applied the ratio to
17 Plant-in-service as of January 1, 2015. The MPSC Staff consistently utilized this
18 methodology for calculating the Company's annualized property tax amounts in the past.
19

1 The MPSC Staff's methodology has received favorable ruling from the Commission. In
2 Case No. ER-2006-0314, the Commission stated in its Report and Order that:

3
4 Staff recommends that the Commission calculate property tax expense by
5 multiplying the January 1, 2006 plant-in-service balance by the ratio of the
6 January 1, 2005 plant-in-service balance to the amount of property taxes
7 paid in 2005. KCPL wants the property tax cost of service updated to
8 include 2006 assessments and levies. The Commission finds that the
9 competent and substantial evidence supports Staff's position, and finds
10 this issue in favor of Staff. [R&O, page 68]
11

12 Second, Public Counsel believes that KCP&L's argument in support of its property tax
13 tracker request is a one-sided argument. For example, Mr. Tim M. Rush's argument that
14 "property tax expenses have been escalating over past five years," without providing
15 further information to the Commission as to why the property tax expenses have been
16 "escalating" is misleading. The Company's response to OPC's Data Request No. 1207
17 (obtainable from *Table 1* below) shows a predictive direct relationship between
18 KCP&L's Plant-in-Service and the actual property tax amount paid by the Company. It
19 appears that the Company's property tax liability increases from 2009 through 2014 are
20 primarily because of plant additions. The cost behavior of any normal business expense
21 behaves in a similar fashion—all things being equal, hiring a large number of employees
22 results in higher wages and/or salaries and employee benefits, and vice versa. The MPSC
23 Staff's methodology utilized to calculate the Company's annualized property tax amount

1 provides the best available information regarding KCP&L's actual January 1, 2015 Plant-
2 in-Service and the most recent 2014 tax rates.

Column1	Column2	Column3
Year	Beg. of Year Actual Total Plant-in-Service (Total KCP&L)	Total Actual Property Taxes Billed (Total KCP&L)
2009	\$ 5,633,953,538	\$ 67,244,975
2010	\$ 6,221,168,368	\$ 72,311,320
2011	\$ 7,500,433,421	\$ 75,303,149
2012	\$ 7,795,285,088	\$ 77,504,905
2013	\$ 7,942,456,549	\$ 83,017,084
2014	\$ 8,247,043,419	\$ 88,407,707

3 *Table 1*

4
5 Third, Mr. Ronald A. Klote's assertion that "Based upon this history of increase
6 in property tax expense in each of the last five years I expect property taxes to
7 continue to increase during the next few years," is speculative. The use of
8 tracking mechanisms should not be authorized based on speculative events. As
9 indicated above, it appears KCP&L's historical property tax liability increases are
10 a result of plant additions. In other words, if the Company's plant investment
11 reduces in the future, property tax expense will reduce—all things being equal.
12 The Company's supplemental response to OPC's Data Request No. 1207 shows
13 that the property tax components that will govern the property tax tracking
14 mechanism also vary directly with the Company's Plant-in-Service balances.
15 *Table 2* below shows this relationship.

Column1	Column2	Column5
Year	Beginning of Year Plant in Service "PTD Allocator"	Regulatory Property Tax O&M Expense
	Total Company	Total Company
2009	\$ 5,257,761,423	** **
2010	\$ 5,786,119,742	** **
2011	\$ 7,030,774,379	** **
2012	\$ 7,299,613,261	** **
2013	\$ 7,422,200,321	** **
2014	\$ 7,666,864,348	** **

Table 2

Fourth, Public Counsel believes that KCP&L's request that the Commission grant it authority to implement a property tax tracker is an effort by the Company to single out one expense item without taking into consideration all relevant factors relating to KCP&L's expenses and revenues. This approach to ratemaking does not incentivize the Company to control cost.

Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S RECOMMENDATION REGARDING THIS ISSUE.

A. Public Counsel recommends that the Commission deny KCP&L's request for authority to implement a property tax tracker because of the reasons I outlined above.

1 (iv). **KCP&L'S REQUEST FOR THE COMMISSION'S AUTHORITY TO**
2 **IMPLEMENT A CRITICAL INFRASTRUCTURE PROTECTION/**
3 **CYBERSECURITY (CIP) TRACKER.**

4 Q. PLEASE SUMMARIZE KCP&L'S REQUEST FOR THE COMMISSION'S
5 AUTHORITY TO IMPLEMENT A CRITICAL INFRASTRUCTURE PROTECTION/
6 CYBERSECURITY TRACKER.

7 A. Company witness, Mr. Tim M. Rush, on page 31, lines 19 through 23, of his Direct
8 Testimony, states "The Company requests that a CIP tracking mechanism be authorized
9 in this case to ensure recovery of costs necessary to address the government mandated
10 requirements regarding security of cyber assets essential to the reliable operation of the
11 electric grid. The CIP tracker would be treated consistent and similar to other tracking
12 mechanisms in Missouri."

13
14 Mr. Rush explains that "The CIP standards represent the portion of the full NERC
15 reliability standards library focused on security of the infrastructure supporting reliable
16 operation of the Bulk Electric System ("BES"). Due to the fluid nature of security threats
17 to the critical infrastructure, the standards have continued to evolve to strengthen
18 industry's approach in response to those threats. These responses are compliance
19 obligations as well as additional protective measures that may not be mandated. Version
20 5 ("V5") of the CIP standards includes ten new or modified Reliability Standards, which

1 expand the scope of the cyber systems that the current standards protect, as well as
2 strengthen protections required for assets that are currently in scope.”¹
3

4 Mr. Rush also states that the new security standard, CIP V5, is to be “effective April 1,
5 2016.”² He further states that “The cost to comply is undetermined, but is expected to be
6 substantial. The Company has already committed significant resources toward
7 compliance. Going forward, those efforts and resources will be increasing. The
8 Company is asking the Commission to authorize it to establish a tracker for these costs.
9 The amounts above those costs that will be included in base rates will be tracked for
10 recovery consideration in a future rate case.” and that “The plan is to establish an amount
11 reflecting personnel hired directly attributable to the CIP in the true-up and also include
12 any defined costs that may have already been incurred.”³
13

14 The Company proposes that a carrying cost, based on the Company’s monthly short-term
15 interest rate, would be calculated monthly on the accrued amounts. In the Company’s
16 next rate case, the regulatory asset would be amortized to cost of service over a five-year

¹ Direct Testimony of Tim M. Rush, Page 32, lines 14 through 22.

² Direct Testimony of Tim M. Rush, Page 32, line 24.

³ Direct Testimony of Tim M. Rush, Page 33.

1 period. The Company would then reset the level of on-going CIP in base rates, similar to
2 how the Company's on-going pension costs are reset in each case.
3

4 Q. DOES KCP&L INCUR CRITICAL INFRASTRUCTURE PROTECTION/
5 CYBERSECURITY COSTS ON RECURRING BASIS?

6 A. Yes. KCP&L incurs critical infrastructure protection/cybersecurity costs as normal on-
7 going business expense.
8

9 Q. WOULD KCP&L HAVE THE OPPORTUNITY TO RECOVER PRUDENTLY
10 INCURRED CRITICAL INFRASTRUCTURE PROTECTION/ CYBERSECURITY
11 COSTS IN THIS INSTANT CASE?

12 A. Yes, including the incremental costs that the Company has committed toward the
13 implementation of CIP V5.
14

15 Q. WHAT IS PUBLIC COUNSEL'S POSITION REGARDING THIS ISSUE?

16 A. Public Counsel's position is that the Commission should deny KCP&L's request to
17 implement a critical infrastructure protection/cybersecurity tracker for the following
18 reasons;
19

1 First, Pubic Counsel believes that KCP&L's request for the Commission's authority to
2 implement a critical infrastructure protection/cybersecurity tracker is analogous to asking
3 the Commission for a blank check because the alleged costs that will govern the tracker
4 are undefined. As freely alluded to by Mr. Rush in his testimony, the cost to comply with
5 the new security standard is "undetermined"⁴ and that "many of the costs will not be
6 incurred before the true-up, but shortly thereafter and during the remainder of 2015 and
7 early 2016."⁵ What is even more worrying is that the implementation of CIP V5 will not
8 be effective until April 1, 2016. If the Commission grants KCP&L its request to
9 implement a critical infrastructure protection/cybersecurity tracker, KCP&L would have
10 unlimited discretion as to the costs it chooses to track. Public Counsel believes trackers
11 should not be utilized in this manner.

12
13 Second, even though Public Counsel agrees that CIP V5 is a government mandated
14 requirement, the costs associated with the implementation of the new security standard
15 are not entirely new. KCP&L has, in the past, incurred critical infrastructure
16 protection/cybersecurity costs as a normal on-going business expense for earlier
17 version(s) of security standards; and will continue to incur critical infrastructure
18 protection/cybersecurity costs into the foreseeable future—possibly for newer versions.

⁴ Direct Testimony of Mr. Tim M. Rush, Page 33.

⁵ Direct Testimony of Mr. Tim M. Rush, Page 34, lines 10 through 12.

1 Public Counsel believes that CIP V5 is an upgrade to the Company's currently existing
2 security standard; and is much more similar to how utility companies occasionally
3 upgrade their existing technological systems such as enterprise accounting, human
4 resources, customer billing, asset management, etc., without asking for a tracking
5 mechanism to track the incremental costs.

6
7 Third, Public Counsel is concerned that a Commission decision granting KCP&L its
8 request to implement a tracking mechanism for critical infrastructure protection/
9 cybersecurity will open the "floodgates" to other Missouri utilities to request tracking
10 mechanism for similar costs. This phenomenon would preempt the Commission's
11 current effort to address security practices for protecting essential utility infrastructure.

12
13 On March 4, 2015, the Commission opened File No. AW-2015-0206, *In the Matter of a*
14 *Working Case to Address Security Practices for Protecting Essential Utility*
15 *Infrastructure*, to review and consider the physical and cybersecurity practices of all
16 Missouri utilities. Public Counsel believes that File No. AW-2015-0206 is an appropriate
17 forum to address how critical infrastructure protection/ cybersecurity costs should be
18 dealt with going forward. In this instant case, Public Counsel's position is that KCP&L's
19 critical infrastructure protection/ cybersecurity costs should continue to receive the
20 traditional ratemaking treatment for normal on-going business expense.

1 Fourth, Public Counsel believes that KCP&L's request that the Commission grant it
2 authority to implement a critical infrastructure protection/cybersecurity tracker is an
3 effort by the Company to single out one expense item without taking into consideration
4 all increases or decreases of KCP&L's expenses and revenues. This approach to
5 ratemaking does not incentivize the Company to control cost.

6
7 **IV. CLEAN CHARGE NETWORK (ELECTRIC VEHICLE CHARGING**
8 **STATIONS).**

9 Q. IS KCP&L REQUESTING THE RECOVERY OF COSTS ASSOCIATED WITH THE
10 COMPANY'S CLEAN CHARGE NETWORK PROJECT?

11 A. Yes. Company witness, Mr. Darrin R. Ives, on page 1, lines 8 through 11, of his
12 Supplemental Direct Testimony, states "I will explain the Company's request to recover
13 costs related to KCP&L's Clean Charge Network, a plan to install and operate more than
14 1,000 electric vehicle charging stations throughout the Greater Kansas City region that was
15 announced publicly on January 26, 2015."

16
17 Q. WHAT EXPLANATION DID MR. IVES PROVIDE REGARDING THIS ISSUE?

18 A. Among other background information, Mr. Ives states on page 3, lines 2 through 19, of his
19 Supplemental Direct Testimony that:

1 This pilot project is large enough to be impactful, but is moderately sized
2 from a capital expenditure perspective and extends KCP&L's commitment
3 to environmental sustainability. Along with KCP&L's environmental
4 upgrades at several local power plants, renewable energy portfolio and
5 energy efficiency programs and KCP&L's recent announcement regarding
6 cessation of burning coal at certain KCP&L and GMO generating units
7 between 2016 and 2021, the KCP&L Clean Charge Network will reduce
8 carbon emissions and help the Kansas City region attain Environmental
9 Protection Agency ("EPA") regional ozone standards which is beneficial
10 to the entire Kansas City region.

11
12 In addition, the Clean Charge Network helps to eliminate 'range anxiety'
13 in the region, which is the number one roadblock to greater electric
14 vehicle adoption. As more drivers adopt electric vehicles, not only will
15 vehicle emissions be reduced, but the cost of operating and maintaining
16 the electrical grid will be spread over increased electricity usage.

17
18 Finally, the collaborative stakeholder working group docket that KCP&L
19 has proposed can be used to explore other potential benefits, including the
20 Company's integrated management of the Clean Charge Network,
21 possibilities for vehicle to grid programs and potential impacts on
22 implementation of the EPA's Clean Power Plan.
23

1 Q. PRIOR TO FILING SUPPLEMENTAL DIRECT TESTIMONY REGARDING THIS
2 ISSUE, DID KCP&L IDENTIFY ANY COST OF SERVICE COMPONENT AS BEING
3 RELATED TO ELECTRIC VEHICLE CHARGING STATIONS IN ITS DIRECT
4 CASE FILING?

5 A. No. Even though the Company included an estimated amount of \$385,947 (total
6 KCP&L) in cost of service, the Company only identified this amount as miscellaneous
7 expenses. Furthermore, the Company plans to include an expected amount "in the range
8 of \$7 to \$9 million"⁶ in the Company's Missouri jurisdictional rate base at true-up.
9

10 Q. WHAT IS PUBLIC COUNSEL'S POSITION REGARDING THIS ISSUE?

11 A. Consistent with my Direct Testimony regarding this issue, Public Counsel is opposed to
12 any adjustment to include the costs that are related to the electric vehicle charging
13 stations in KCP&L's rates. Public Counsel believes that the Company's Clean Charge
14 Network project lacks critical project details.

15
16 From an accounting standpoint, however, Public Counsel is opposed to the inclusion of
17 the costs that are associated with the Clean Charge Network project in KCP&L's rates
18 because the costs are not known and measurable. Aside from the fact that the costs are
19 not known and measurable, even though KCP&L has self-servingly included the

⁶ Supplemental Direct Testimony of Darrin Ives, page 5, line 16.

1 estimated expense amount in its cost of service, the Company did not see the need to
2 include a corresponding revenue amount in its cost of service. Mr. Darrin Ives states on
3 page 6, lines 3 and 4, that “it is not currently expected that any meaningful revenues will
4 be generated by the Clean Charge Network before the end of the true-up period.” The
5 Company’s response to the MPSC Staff’s Data Request No. 035 (a), among other
6 responses, states that “Revenue amounts are not applicable as no stations were put in
7 service as of January 31, 2015.” The financial consequence on ratepayers is that while
8 KCP&L wants ratepayers to pay for the cost of the electric vehicle charging stations,
9 through increased rates, the Company does not see the need to “credit” ratepayers with
10 any proceeds that inure to the benefit of the Company.

11
12 Public Counsel has concerns that the inclusion of the Clean Charge Network project costs
13 in KCP&L’s rates would subject the majority of ratepayers to continually subsidize the
14 cost of a service that is modeled to benefit few customers who own electric vehicles—
15 more especially when limited information exist regarding the revenues that will be
16 generated by the Clean Charge Network. The Company’s response to the MPSC Staff’s
17 Data Request No. 0413, among other responses, states that “As a pilot project, no specific
18 studies, analysis or evaluations leading to a specific cost-benefit calculation for customers
19 who do not own electric vehicle was conducted for the KCP&L Clean Charge Network
20 (“CCN”) pilot project. Rather, KCP&L believes, that this pilot will show benefits that

1 exceed costs to all customers as the electric vehicle market evolves.” Public Counsel’s
2 position is that KCP&L has not met its burden of proof; thus, the Commission should not
3 base its judgment on what KCP&L merely “believes.”
4

5 Public Counsel is also very concerned about the long-term financial viability and
6 operational sustainability of the Clean Charge Network project and the consequent effect
7 on ratepayers. It appears that after so many years of experience with operating electric
8 vehicle charging stations (since 2011), KCP&L is still irresolute about the operational
9 direction of the Clean Charge Network after the pilot period. Mr. Ives, on page 2, lines
10 17 through 19, of his Supplemental Direct Testimony, formulates the following Q&A:
11

12 **Q: What happens after the pilot period?**

13 **A:** The Company plans to learn from these installations, gathering
14 information during the pilot period to be shared with stakeholders in
15 developing a longer term view.
16

17 It is, therefore, not an overstatement to posit that KCP&L’s decision to continue with the
18 operation of the Clean Network Charge may depend on the outcome of the pilot program.
19 The Company’s response to the MPSC Staff’s Data Request No. 0405, among other
20 responses, states that “As a pilot project, no specific economic feasibility study was
21 conducted for the KCP&L Clean Charge Network (“CCN”) pilot project. KCP&L

1 believes that this pilot will show benefits that exceed the costs to all customers as the
2 electric vehicle market evolves.” The financial consequence of KCP&L’s decision to
3 abrogate the project after the pilot period is that ratepayers would still be required to pay
4 for the plant investment that is already built into the Company’s rates.

5
6 Finally, considering the rate at which new technologies evolve very rapidly, the
7 likelihood exists that a newer technology may render the Clean Charge Network obsolete
8 in a very short timeframe; thus, creating a situation where KCP&L would have to retire
9 the electric vehicle charging stations earlier than their scheduled retirement date. The
10 occurrence of this situation will adversely put ratepayers at risk since the ratemaking
11 process allows a utility to recover the unrecovered depreciation reserve amount
12 associated with a retired plant investment from ratepayers. What this means is that a
13 utility company continues to recover the cost of a plant investment from ratepayers even
14 though the plant is no longer in service. For example, KCP&L is in the process of
15 replacing its Automated Meter Reading (“AMR”) meters with Advance Metering
16 Infrastructure (“AMI”) technology due to obsolescence of the AMR meters, and the
17 Company is requesting the recovery of the unrecovered depreciation reserve associated
18 with the AMR. Public Counsel is concerned that should a similar event occur with the
19 electric vehicle charging stations, ratepayers would undoubtedly be at a disadvantage.

20

1 Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION REGARDING THIS
2 ISSUE.

3 A. Public Counsel's position is that Commission should not allow any costs relating to the
4 Clean Charge Network in KCP&L's rates for the reasons articulated above.

5
6 **V. CUSTOMER DEPOSITS.**

7 Q. HAVE YOU REVIEWED KCP&L'S TESTIMONY AND WORKPAPERS REGARDING
8 THIS ISSUE?

9 A. Yes. The Company proposes to include a March 31, 2014 Missouri jurisdictional customer
10 deposits amount of \$3,567,416 as a reduction to the Company's Missouri rate base because,
11 according to the Company, its analysis of customer deposits account balances from March
12 2013 through March 2014 shows a declining trend.

13
14 Q. WHAT IS THE MPSC STAFF'S POSITION ON THIS ISSUE?

15 A. The MPSC Staff proposes to include an amount of \$3,908,066 as a reduction to KCP&L's
16 rate base. The MPSC Staff calculated this amount based on a 6-month average of monthly
17 customer deposits account balances from July 2014 through December 2014.

1 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THIS ISSUE?

2 A. Consistent with my Direct Testimony, Public Counsel recommends that the Commission
3 should authorize KCP&L's to reduce its Missouri jurisdictional rate base investment by
4 an amount of \$3,730,309
5

6 Q. DOES PUBLIC COUNSEL HAVE ANY CONCERNS WITH KCP&L AND THE MPSC
7 STAFF RECOMMENDATIONS?

8 A. Yes. KCP&L's analysis respecting "customer deposit offset amount" is based on the test
9 year ended March 31, 2014. Public Counsel believes that the customer deposits amount to
10 be included as a reduction to the Company's rate base should extend beyond the test year to
11 capture the end of the update period authorized by the Commission in this case, December
12 31, 2014. Public Counsel also believes that the time period utilized by the MPSC Staff to
13 perform its analysis is too short a timeframe to analyze any discernible trend of a cost. The
14 Commission should therefore base KCP&L's awarded revenue requirement on Public
15 Counsel's recommendation which is based on monthly customer deposits account balances
16 from December 31, 2013 through December 31, 2014.
17

1 | **VI. INTEREST ON CUSTOMER DEPOSITS.**

2 | Q. WHAT IS THE INTEREST AMOUNT THAT KCP&L PROPOSES TO INCLUDE IN
3 | THE COMPANY'S COST OF SERVICE?

4 | A. The Company proposes to include Missouri jurisdictional interest amount of \$151,615 in
5 | its cost of service.

6 |
7 | Q. WHAT IS THE INTEREST AMOUNT THAT THE MPSC STAFF PROPOSES TO
8 | INCLUDE IN THE COMPANY'S COST OF SERVICE?

9 | A. The MPSC Staff proposes to include Missouri jurisdictional interest amount of \$166,093
10 | in the Company's cost of service.

11 |
12 | Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION FOR THE INTEREST ON
13 | CUSTOMER DEPOSITS AMOUNT THAT SHOULD BE INCLUDED IN KCP&L'S
14 | COST OF SERVICE?

15 | A. Public Counsel recommends that the Commission should authorize KCP&L to include an
16 | amount of \$158,538 (Missouri jurisdictional) in the Company's cost of service.
17 |

1 Q. WHY DOES PUBLIC COUNSEL'S RECOMMENDATION DIFFER FROM KCP&L
2 AND THE MPSC STAFF RECOMMENDATIONS?

3 A. The amount of interest on customer deposits to be included in the Company's cost of
4 service is reflective of the customer deposits offset amount included in the Company's
5 rate base. Even though the Company, the MPSC Staff, and OPC utilized the same
6 interest rate to calculate their respective interest on customer deposits amounts, the
7 resulting recommendations differ because of the varying customer deposits offset
8 amounts utilized. Public Counsel believes that the methodology it utilized to calculate
9 customer deposits offset amount is reasonable; thus, the Commission should base its
10 awarded revenue requirement on Public Counsel's recommendation for interest on
11 customer deposits.

12
13 **VII. CUSTOMER ADVANCES.**

14 Q. WHAT IS THE CUSTOMER ADVANCES AMOUNT THAT KCP&L PROPOSES TO
15 INCLUDE AS A REDUCTION TO ITS RATE BASE?

16 A. The Company proposes to reduce its rate base with Missouri jurisdictional amount of
17 \$167,781. The Company's recommendation is \$1,500,000 less than Public Counsel's
18 recommendation.

19

1 Q. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY'S
2 RECOMMENDATION?

3 A. No.
4

5 Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S RECOMMENDATION RELATING TO
6 THIS ISSUE.

7 A. Public Counsel recommends that the Commission should authorize KCP&L to reduce its
8 Missouri jurisdictional rate base by an amount of \$1,667,781—as supported in my Direct
9 Testimony. This amount was calculated based on the ending customer advances account
10 balance as of December 31, 2014 because the monthly account balances from December
11 31, 2013 through December 31, 2014 exhibit a consistent trend -- increasing.
12

13 Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT THE COMPANY'S
14 RECOMMENDATION IS NOT REASONABLE?

15 A. The Company's recommendation is based on a 13-month average ending in the test year,
16 March 31, 2014. Public Counsel's position is that the customer advances amount to be
17 included as a reduction to the Company's rate base should extend beyond the test year to
18 capture the known and measurable period authorized by the Commission. In this case,
19 December 31, 2014.
20

1 Q. WHAT IS THE MPSC STAFF'S POSITION RESPECTING THIS ISSUE?

2 A. The MPSC Staff's position is synonymous with Public Counsel's position. Mr. Joel A.
3 Molina proposes to deduct an amount of \$1,667,781 from KCP&L's rate base.
4

5 **VIII. VEGETATION MANAGEMENT COST.**

6 Q. WHAT IS THE ISSUE?

7 A. This issue is in regard to the normalized amount of vegetation management (VM) costs to
8 include in KCP&L's base rate at the conclusion of this case.
9

10 Q. WHAT IS THE NORMALIZED AMOUNT OF VEGETATION MANAGEMENT
11 COST THAT KCP&L PROPOSES TO INCLUDE IN RATES?

12 A. My review of Company workpaper, CS-43 Vegetation Management-KCPL-MO Direct,
13 and Company's response to Public Counsel's Data Request No. 1204 identified that the
14 total KCP&L test year vegetation management cost booked was \$15,980,982. In
15 addition, the Company has made an adjustment to add to the test year vegetation
16 management costs an amount of \$1,832,363 (total KCP&L) associated with three
17 vegetation management programs the Company is proposing in this case. These three
18 programs include: (1) implementing an ash tree mitigation plan due to Emerald Ash
19 Borer infestation; (2) expanding the vegetation management program to include triplex
20 circuits; and (3) aligning the trim cycles for the Urban and Rural area to four years. The

1 total amount of vegetation management costs KCP&L proposes to include in rates is,
2 therefore, \$17,813,345 (total Company).
3

4 Q. WHAT IS THE NORMALIZED AMOUNT OF VEGETATION MANAGEMENT
5 COSTS THAT THE MPSC STAFF PROPOSES TO INCLUDE IN KCP&L'S RATES?

6 A. My review of MPSC Staff's workpaper, Harris – 2014 Non-Wage Maintenance
7 Adjustments, shows that the MPSC Staff has included a total amount of \$15,017,350 in
8 USOA accounts 571.005, 571.006, and 593.000; accounts utilized by KCP&L to book
9 vegetation management costs.
10

11 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION?

12 A. Public Counsel recommends that the Commission should authorize KCP&L to include an
13 annualized amount of \$14,966,267 in rates—as supported in my Direct Testimony. This
14 amount is approximately a \$1,014,715 reduction in the Company's recommended amount
15 (excluding the costs associated with the three new programs.) Or, a reduction of
16 \$2,847,078 (including the costs associated with the three new programs.)
17

1 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE COMPANY AND THE
2 MPSC STAFF RECOMMENDATIONS?

3 A. Yes.
4

5 Q. PLEASE RESPOND TO THE COMPANY'S RECOMMENDATION.

6 A. KCP&L's recommendation is based on the test year ended March 31, 2014. Public
7 Counsel's position is that on-going vegetation management costs should reflect the
8 current trend being exhibited by the costs. As I explained in my Direct Testimony, I
9 performed a trend analysis of the vegetation management costs booked by KCP&L from
10 January 2009 through December 2014. The trend shows that KCP&L's booked
11 vegetation management costs peaked in year 2012 and has since assumed a declining
12 trend. It is, therefore, just and reasonable to utilize the known and measurable period
13 booked vegetation management costs in the development of future rates.
14

15 Q. PLEASE RESPOND TO THE MPSC STAFF'S RECOMMENDATION.

16 A. Although Public Counsel and the MPSC Staff utilized the known and measurable period
17 booked vegetation management costs as the basis for their respective recommendations, the
18 MPSC Staff's recommended amount is approximately \$51,075 more than Public Counsel's
19 recommended amount. Public Counsel has outstanding Data Request seeking additional

1 information from the Company regarding KCP&L's USOA account 593.000; and may
2 further address this issue, as appropriate.
3

4 Q. WHAT IS PUBLIC COUNSEL'S POSITION RESPECTING THE THREE NEW
5 PROGRAMS PROPOSED BY THE COMPANY?

6 A. As stated earlier in this testimony, Public Counsel's position is that the three new proposed
7 programs are outside the scope of the vegetation management rules promulgated by the
8 Commission, and the costs associated with the programs are not known and measurable;
9 thus, the Commission should disallow the costs.
10

11 **IX. IATAN 2 AND IATAN COMMON OPERATIONS AND MAINTENANCE (O&M)**
12 **TRACKER.**

13 Q. WHAT RATEMAKING ADJUSTMENT DID KCP&L PROPOSE REGARDING THIS
14 ISSUE?

15 A. The Company proposes to include an annual amortization expense amount of \$361,972 for
16 "Vintage 1" O&M costs in its cost of service. Furthermore, the Company made an
17 adjustment to include in its cost of service \$351,660 and \$(80,633) for "Vintage 2" and
18 "Vintage 3" O&M costs, respectively. According to the Company's workpaper, CS-48
19 Iatan 2 & Cmn O&M Tracker – KCPL – MO Direct, the Company proposes to include a
20 total amount of \$632,999 for "Vintages" 1, 2, and 3 in cost of service.

1 Q. PLEASE SUMMARIZE THE MPSC STAFF'S RECOMMENDATION RELATING TO
2 THIS ISSUE.

3 A. The MPSC Staff recommends that the Commission should authorize KCP&L to recover an
4 annual amortization amount of \$988,302 in rates. This amount comprises 3-year
5 amortization of "Vintages" 1, 2, 3, and 4 of Iatan 2 and Iatan Common operations and
6 maintenance expenses. As part of its recommendation, the MPSC Staff states:

7
8 As previously discussed, a three (3) year amortization of the excess Iatan
9 Unit 2 O&M expense over the base amount established in Case No ER-
10 2010-0355 was included in KCPL's cost of service in Case No. ER-2012-
11 0174. The effective date of rates in Case No.ER-2012-0174 was January
12 26, 2013. The amortization period for these costs will end on January 26,
13 2016. Given the limited experience with operating and maintaining Iatan
14 Unit 2, when it was placed in service, a maintenance tracker was
15 established to protect KCPL and its customers. The tracker is not intended
16 to allow KCPL to over recover the actual maintenance expenses incurred
17 for Iatan Unit 2 but to recover the actual reasonable and prudent costs. It
18 was not intended that the O&M tracker for Iatan Unit 2 allow for KCPL to
19 profit from its existence. Staff recommends the Commission require
20 KCPL to track any over recovery associated with any amortization
21 established as a result of the Iatan Unit 2 tracker and any over recovery
22 will be addressed in the next KCPL rate case.⁷
23

⁷ Staff's Report Revenue Requirement Cost of Service, page 117 through 118.

1 In summary, the MPSC Staff adopted the Company's methodology with the caveat that
2 the Commission requires the Company to track any over recovery associated with any
3 amortization.
4

5 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE COMPANY AND THE
6 MPSC STAFF'S RECOMMENDATIONS?

7 A. Yes. Public Counsel's position is that the Commission should authorize KCP&L to
8 aggregate all unamortized balances for Iatan 2 and Iatan Common operations and
9 maintenance expenses at the conclusion of this case so as to maintain only one tracker
10 balance going forward. Public Counsel's position is partly premised on the MPSC Staff's
11 concern that "Vintage 1" operations and maintenance expenses will be fully recovered on
12 January 26, 2016, approximately four months after the Operation of Law date in this case.
13 What this means is that KCP&L will invariably continue to over recover "Vintage 1"
14 operations and maintenance costs from February 2016 until the effective date of rates in the
15 Company's next general rate case. For example, if it takes KCP&L three years to revise the
16 rates that will go into effect in this instant case, KCP&L would have over recovered the
17 same "Vintage 1" O&M amount it had originally deferred. While the Company's
18 recommendation is silent on how it might want to treat the over recovery, the MPSC Staff's
19 recommendation will result in a situation where the Company will be tracking the over
20 recovery of "Vintage 1" O&M costs while at the same time recovering the costs for other

1 Vintages (2, 3, 4, and possibly 5.) Public Counsel believes that the only antidote to avoid
2 this “mismatch” is to maintain only one tracker balance going forward.
3

4 Q. HAS YOUR RECOMMENDATION FOR ANNUALIZED IATAN 2 AND IATAN
5 COMMON O&M AMOUNT CHANGED SINCE THE FILING OF DIRECT
6 TESTIMONY?

7 A. Yes. The Company has provided additional information relating to the deferral of Iatan 2
8 and Iatan Common “Vintage 4” O&M costs.
9

10 Q. WHAT IS PUBLIC COUNSEL’S RECOMMENDATION FOR ANNUALIZED IATAN
11 2 AND IATAN COMMON AMOUNT?

12 A. Public Counsel’s recommends that the Commission should authorize KCP&L to include an
13 amount of \$716,824 in the Company’s cost of service. I calculated this amount by
14 aggregating all the unamortized balances for Vintages 1, 2, 3, and 4 O&M costs as of April
15 2015, and then divided the result by a 3-year amortization period $(\$271,479 + \$1,054,983 +$
16 $\$(241,898) + 1,065,909/3)$ My workpaper, Iatan 2 and Iatan Common Tracker-WPR, shows
17 a detail calculation of this amount.
18

1 Q. IS THIS AMOUNT SUBJECT TO CHANGE?

2 A. Yes. It is my understanding that the Company is currently accumulating "Vintage 5" Iatan 2
3 and Iatan Common operations and maintenance expenses. Public Counsel will provide
4 updates in subsequent testimony, as appropriate.
5

6 Q. DOES PUBLIC COUNSEL HAVE ANY OTHER CONCERNS REGARDING THIS
7 ISSUE?

8 A. Yes. Public Counsel has outstanding Data Request seeking additional information from the
9 Company regarding the test year amount that the Company included in rates. Depending on
10 KCP&L's response, Public Counsel may further address this issue.
11

12 **X. EXCESS MARGIN REGULATORY LIABILITY.**

13 Q. WHAT IS THE ISSUE?

14 A. This issue relates to the methodology employed by both KCP&L and the MPSC Staff to
15 calculate the excess margin regulatory liability amount utilized as an offset to the
16 Company's retail revenues. The Company and the MPSC Staff did not utilize the correct
17 amount built into the Company's rates in Case No. ER-2012-0174 to construct their
18 respective workpapers in this case. Public Counsel is still in discussions with the
19 Company and the MPSC Staff and may further address this issue; as appropriate.
20

1 **XI. CORPORATE FRANCHISE TAX**

2 Q. WHAT IS THE COMPANY'S POSITION ON THIS ISSUE?

3 A. The Company proposes to include Missouri jurisdictional amount of ** ** in cost
4 of service. The calculation of this amount was based on nine months data from year 2013
5 and three months data from year 2014.

6
7 Q. WHAT IS THE MPSC STAFF'S POSITION ON THIS ISSUE?

8 A. The MPSC Staff essentially included the Company's proposed amount, adjusted by
9 an immaterial amount resulting from differences in jurisdiction allocation factors, in
10 the Company's cost of service.

11
12 Q. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY AND/OR THE MPSC
13 STAFF?

14 A. No. The Company and/or the MPSC Staff's methodology would be appropriate
15 and reasonable if not for a change in the law pertaining to the tax liability of the
16 Missouri corporate franchise tax going forward. As I explained in my Direct
17 Testimony, on April 26, 2011, Governor Jay Nixon signed Senate Bill 19, which
18 requires a gradual phase out of Missouri's corporate franchise tax over five years.
19 As a result, the Company's tax year 2015 tax liability will be based on a tax rate
20 of 1/150 of 1% which is approximately 50% less than the tax year 2014 tax rate.

1 Furthermore, the Company's Missouri corporate franchise tax liability in tax year
2 2016 will be zero because in 2016 the corporate franchise tax will be completely
3 phased out. Public Counsel's position is that the Company's on-going annualized
4 Missouri corporate franchise tax amount should be based on a normalization of
5 the actual tax year 2015 tax liability and the franchise tax rate for tax year 2015.
6

7 Q. HAS THE COMPANY PROVIDED YOU WITH THE ACTUAL TAX YEAR 2015
8 CORPORATE FRANCHISE TAX LIABILITY AMOUNT?

9 A. No. Public Counsel has outstanding Data Requests regarding this issue, and will
10 update its Direct Testimony recommendation upon receipt of the Company's
11 responses.
12

13 **XII. NORMALIZED RATE CASE EXPENSE.**

14 Q. WHAT IS THE MPSC STAFF'S POSITION REGARDING THE NORMALIZATION
15 PERIOD FOR RATE CASE EXPENSE?

16 A. MPSC Staff witness, Mr. Matthew R. Young, recommends that KCP&L be
17 authorized to recover rate case expense over three (3) years.⁸
18

⁸ Staff's Report Revenue Requirement Cost of Service, page 130.

1 Q. DO YOU AGREE WITH MPSC STAFF WITNESS, MR. YOUNG?

2 A. Yes. As of the time of filing direct testimony, information regarding KCP&L's next
3 rate case filing was not clear so I developed a two-year average based on the
4 Company's effective date of rates in Case Nos. ER-2010-0355, ER-2012-0174 and
5 the projected effective date of rates in this instant case, September 2015. However,
6 it became apparent after further review of the Company's workpapers, and in a
7 prehearing conference with the Company that KCP&L is leaning towards a three-
8 year timeframe to file its next rate case. The MPSC Staff's recommendation is,
9 therefore, reasonable.

10
11 Q. HAVE YOU UPDATED YOUR RATE CASE EXPENSE AMOUNT SINCE THE
12 FILING OF DIRECT TESTIMONY?

13 A. Yes. Invoices made available to Public Counsel through February 2015 show that
14 the Company has expended an amount of \$304,317 for rate case expense. The
15 breakdown of this amount is depicted on **Table 3** below.

16
17 Consistent with the reasons espoused in my Direct Testimony regarding this issue,
18 Public Counsel continues to advocate that prudently incurred rate case expenses
19 in this case should be shared equally between the Company's shareholders and
20 ratepayers. Aside from Gannett Fleming Valuation and Rate Case Consultants,

1 LLC invoices, Public Counsel recommends that the ratepayers' portion of rate
2 case expenses be normalized over a 3-year period. Public Counsel further
3 recommends that ratepayers' portion of Gannett Fleming Valuation and Rate Case
4 Consultants, LLC costs should be normalized over a 5-year period—consistent
5 with the requirements for electric utilities depreciation study.
6

Vendor	Description of Service	Amount
Siemens Industry, Inc.	Loss Study for KCP&L	** **
Gannett Fleming Valuation and Rate Case Consultants, LLC	Missouri Depreciation Study	** **
Management Application Consulting, LLC	Missouri Cost of Service Study	** **
Sussex Economic Advisors, LLC	Missouri ROE engagement	** **
Denton US LLP, Kansas City	Legal Services-Missouri Rate Case	** **
Fischer & Darity, PC	Legal Services-Missouri Rate Case	** **
Sega Inc	Decommissioning and Dismantlement Study	** **
Laser Cycle Inc	Toner	\$ 3.01
Unisource	Supplies	\$ -
Digital Evolution Group LLC	MO Rate Case - Google Media	** **
Versadox	Copying	\$ 1,175.79
Sumner Group Inc	Printing	\$ 2,907.00
Xerox Corporation	Printing	\$ 78.80
Miscellaneous Expenses	Lodging, Parking, Mileage, etc.	\$ 1,852.56
Total		\$ 304,316.68

7 *Table 3*

1 Q. HAVE YOU PERFORMED ANY PRUDENCE REVIEWS AND/OR MADE ANY
2 ADJUSTMENTS IN ARRIVING AT THE \$304,317 AMOUNT?

3 A. No. Public Counsel is still evaluating the prudence and reasonableness of the invoices
4 that the Company purports constitute rate case expenses; and, since rate case costs are
5 ongoing costs, Public Counsel will address the prudence and reasonableness of these
6 costs, as appropriate.

7
8 Q. WHAT RATE CASE EXPENSES SHOULD BE RECOVERED FROM
9 RATEPAYERS?

10 A. Rate case expenses should first be evaluated to determine if they have been prudently
11 and/or reasonably incurred. Any rate case expense found to be imprudently incurred
12 and/or unreasonably incurred should be disallowed. Public Counsel's position is that the
13 prudently incurred rate case expenses in this case should be shared equally between the
14 Company's shareholders and ratepayers.

15
16 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

17 A. Yes, it does.