Exhibit No.: 126
Issue: La Cygne Environmental Project Construction Accounting Deferrals; Jurisdictional Allocations; Transmission Revenues; Vegetation Management Costs
Witness: Ronald A. Klote
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
June 2015

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SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2014-0370

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: Are you the same Ronald A. Klote who pre-filed Direct and Rebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: In response to Rebuttal Testimony of certain witnesses for the Missouri Public Service Commission ("MPSC" or "Commission") Staff ("Staff"), Office of the Public Counsel ("OPC") and Missouri Industrial Energy Consumers ("MIEC"), I will address the following issues:

- Construction accounting deferrals related to the La Cygne Environmental project (in response to Staff);
- Bad debt gross-up (in response to Staff);
- Jurisdictional allocations (in response to Staff);
- Transmission revenues;
  - Return on Equity ("ROE") adjustment (in response to Staff and MIEC);
  - Region-wide projects (in response to Staff and MIEC);

- Vegetation management cost levels (in response to OPC).

La Cygne Environmental Project Construction Accounting Deferrals

Q: What is this issue?

A: Staff witness Majors recommends that the Commission deny rate recovery for the construction accounting deferrals recorded by Kansas City Power & Light Company ("KCP&L" or the "Company") in connection with the La Cygne Environmental project as authorized by the Commission in Case No. EU-2014-0255. Mr. Majors' Rebuttal Testimony on this topic is largely just repetition of the Rebuttal Testimony he filed in Case No. EU-2014-0255. I addressed Mr. Majors' primary argument – that construction accounting treatment should not have been authorized for the La Cygne Environmental project – in my Rebuttal Testimony (pages 41-42), and will not repeat that material here. Mr. Majors does make a few arguments that were not included in the Staff's Cost of Service/Revenue Requirement Report, and I will address those here.

Q: On pages 8-9 of his Rebuttal Testimony, Mr. Majors discusses construction accounting authorized by the Commission for the Iatan project as a part of its approval of a Stipulation and Agreement in Case No. EO-2005-0329. How do you respond?

A: The Stipulation and Agreement (page 53) approved by the Commission in Case No. EO-2005-0329 specifically provided that the agreement shall not be construed to have precedential impact in any other Commission proceeding. As such Mr. Majors' discussion of that Stipulation and Agreement is not particularly meaningful to the present dispute which involves rate recovery of construction accounting deferrals for the La Cygne Environmental project which the Commission has already authorized.

Q: On pages 9-11 of his Rebuttal Testimony, Mr. Majors discusses rate impacts customers have experienced since 2006. How do you respond?

A: KCP&L's rates have increased since 2006 for a variety of reasons – most of which relate to large capital expenditures the Company has made so that the Company can meet the needs of its customers now and for decades into the future. The Company is well aware that customers would prefer that rates not increase, but the Company needs to have the financial wherewithal to continue providing the service our customers expect and demand. As such, KCP&L has sought to increase rates when necessary. That is why KCP&L filed this rate increase request in October of 2014 and why rate recovery of the La Cygne Environmental project construction accounting deferrals is appropriate.

Q: On pages 11-24 of his Rebuttal Testimony, Mr. Majors re-states pages 18-34 of his Rebuttal Testimony from Case No. EU-2014-0255, concluding that rate recovery of the La Cygne Environmental project construction accounting deferrals should be denied because such construction accounting authority should not have been granted in the first place. How do you respond?

A: This is not a reasonable or sufficient basis to deny rate recovery of the deferrals recorded by KCP&L pursuant to a specific grant of Commission authority. Denial of rate recovery on this basis would undermine the ability to reasonably rely upon duly issued and final Commission orders.

Q: On pages 25-30 of his Rebuttal Testimony, Mr. Majors discusses a number of adjustments he recommends to the calculation of the La Cygne Environmental project construction accounting deferrals. How do you respond?

A: I refuted these adequately in my Rebuttal Testimony (pages 44-50).

Q: On pages 30-32 of his Rebuttal Testimony, Mr. Majors describes what he calls "other mitigating cost decreases" and recommends that these amounts be used as offsets to the amount of La Cygne Environmental project construction accounting deferrals to be included in rates in this case. How do you respond?

A: This proposal by Mr. Majors is also unreasonable because it ignores the fact that KCP&L's actual earnings since rates were last set in January 2013 have fallen substantially below the Company's Commission-authorized ROE. This is discussed in more detail by KCP&L witness Darrin Ives in his Direct, Rebuttal and Surrebuttal Testimonies.

Bad Debt Gross-Up

Q: What is this issue?

A: Although KCP&L agrees with the bad debt level Staff uses for the update period (the twelve months ending December 31, 2014), this level of bad debt expense does not reflect increased revenue levels resulting from this case, and the consequential increase in bad debt expense to be experienced by KCP&L after new rates take effect. KCP&L proposes to add additional bad debt expense to reflect the rate increase granted in this case, and Staff opposes this increase.

Q: Please discuss the issue related to a bad debt factor being applied to the rate increase in this case.

A: This issue has been addressed in several recent KCP&L rate cases and Staff repeatedly makes the same arguments. Specifically, this is the exact same issue that was decided by this Commission in the Company's favor in Case No. ER-2006-0314 ("2006 Case"). As the Commission decided in KCP&L's 2006 Case, KCP&L proposes that the bad debt expense built into rates should include consideration of the increased revenue requirement which is the basis for an increased percentage applied to tariff rates.

Q: Why is it necessary to add additional bad debt expense for the revenue increase resulting from this case?

A: The Company's historical bad debt levels occurred when overall revenue levels were lower than they will be after the rate increase ordered by the Commission in this case. For customers who were unable to pay all of their electric bills prior to the rate increase, there is no reason to believe that they will somehow be able to pay the entirety of the increased rates resulting from this rate case. It is therefore logical and intuitive that increased revenue as a result of an increased percentage applied to tariff rates will result in increased bad debt writeoffs.

Q: Can you link this argument to a typical customer bill?

A: Yes. Let us assume a customer currently has an average monthly bill of $100 and that the customer is in arrears. Assume for illustrative and simplicity purposes that rates increase 10%, resulting in this customer's bill now being $110. If that customer has been delinquent in paying his/her monthly $100 bills he/she will more than likely be delinquent paying a $110 bill; therefore, bad debt write-offs increase.

Q: Please discuss the MPSC's handling of this same issue in the 2006 Case.

A: In that case the Commission ruled in the Company's favor on this identical issue, described by the Commission as follows:

> Should the bad debt percentage be applied to reflect the total revenues, including any rate increase in Missouri jurisdictional retail revenues awarded in this proceeding?

Report and Order, p. 62, Case No. ER-2006-0314 (Dec. 21, 2006).

Q: Please state the Commission's decision in that case.

A: As stated on page 63 of the 2006 Case Report and Order:

> The Commission finds that the competent and substantial evidence supports KCPL's position, and finds this issue in favor of KCPL. The Commission understands Staff's argument that there is not a perfect positive correlation between retail sales and the percentage of bad debts. While it's possible that KCPL's bad debt expense could decrease, the Commission finds it more probable, and therefore just and reasonable, that an increase in the amount of revenue that KCPL is allowed to collect from its Missouri retail ratepayers will result in a corresponding increase in bad debt expense.

Q: Please quantify the impact of the rate increase issue on bad debt expense.

A: The impact is of course dependent on the rate increase granted in this case; therefore, quantification of this issue cannot be made at this time. The impact is also dependent on the bad debt write-off factor. Staff's bad debt write-off factor in their direct filing was .7033%, the impact on a $100 million rate increase would be approximately $703,000.

Q: Should the Commission be persuaded by Staff's argument in this case?

A: No. Staff has presented a number of charts attempting to show the relationship of bad debts to revenue increases and decreases. These relationships are the result of numerous factors impacting the revenue stream of a utility. But, applying the bad debt factor to the increased level of revenues that have been normalized in this case is a logical conclusion and should be re-affirmed by the Commission in this case.

Q: Should the Commission apply the "factor up" methodology to late payment fees as discussed in Staff's testimony?

A: Yes. As Staff discusses (Majors Rebuttal page 39-40), if the Commission grants the Company's request regarding the bad debt factor applied to the increased revenue requirement then the same methodology should be applied to late payment fees. The Company agrees with Staff that it is reasonable to apply the same methodology to late payment fees associated with an increased revenue requirement granted in this case. There is no reason that this approach should not also be applied to bad debt expense.

Jurisdictional Allocations-Demand

Q: What is Staff's position regarding the Demand Jurisdictional Allocation Factor?

A: Staff is proposing to use the 4-CP methodology to develop the Demand Jurisdictional Allocation Factor as opposed to the Company's direct filed position using the 12-CP methodology.

Q: What is the Company's position on this issue?

A: I provided Rebuttal Testimony on this issue. I will not repeat it here, but in summary the Company is not opposing Staff in the use of the 4-CP methodology to develop the demand allocation factor. The Company is opposing the period that Staff used to develop the demand allocation factor. Staff used the period of June 2014 through September 2014 to develop their demand allocation factor which is inconsistent with their development of the Energy Jurisdictional Allocation factor which is based on the test year period. The Company believes the test year period of June 2013 through September 2013 should be used to develop the Demand Allocation Factor. This period would be part of the test year in this case and would provide consistency with the Energy Jurisdictional Allocation Methodology. This position is discussed more thoroughly in my Rebuttal Testimony.

Q: Should the demand jurisdictional allocation factor be based on actual results or weather normalized results?

A: Staff witness Featherstone states in his Rebuttal Testimony that the demand jurisdictional allocation factor should be based on actual results for the period that is selected. I reviewed the prior two KCP&L rate cases and Staff used actual data to compute its demand jurisdictional allocation factor. In fact, Staff has used the actual results based on test period results in both of those cases. In past cases, the Company has requested weather normalized data be used for the periods selected to compute the demand allocation factor. The Company has requested this methodology to be consistent with the normalization treatment afforded many revenues and expenses in this case. By using weather normalized data you are able to take out the variations from peak day weather conditions that may not be indicative of conditions in future years. For the period June 2013 through September 2013, the weather normalized jurisdictional allocation factor would be 54.81%. Had the Company requested that the demand jurisdictional allocation factor be based on actual June 2013 through September 2013 results the allocation factor would have been 54.68%. As you can see the difference between the weather normalized period and the actual results were quite small during this period. However, the use of weather normalized data provides an appropriate allocation factor going forward.

Transmission Revenues and Related Adjustments

Q: What is this issue?

A: Staff witness Karen Lyons and MIEC/OPC witness James R. Dauphinais both filed Rebuttal Testimony on two issues ((i) ROE Adjustment on Transmission Revenue and (ii) Region-Wide Projects) related to several adjustments that the Company made to transmission revenues, rate base, and expense in its Direct Filing. Those KCP&L adjustments are described as follows:

ROE Adjustment on Transmission Revenue

- Adjustment R-80 adjusts transmission revenue for the difference between KCP&L's authorized FERC ROE of 11.1% and KCP&L's requested ROE in this case of 10.3%.

Region-Wide Projects

- Adjustment R-81 removes transmission revenues related to KCP&L's SPP-directed transmission projects that are subject to region-wide cost allocation.
- Adjustment RB-81 removes transmission plant related to KCP&L's SPP-directed transmission projects that are subject to region-wide cost allocation.
- Adjustment CS-81 removes transmission O&M related to KCP&L's SPP-directed transmission projects that are subject to region-wide cost allocation.

Ms. Lyons discussed these two issues on pages 29-39 of her Rebuttal Testimony and Mr. Dauphinais discussed these two issues on pages 23-25 of his Rebuttal Testimony. Because Ms. Lyons' and Mr. Dauphinais' Rebuttal Testimony arguments on these topics are the same, or similar, to those made in Staff's Direct Testimony Cost of Service Report, I will largely refer to my Rebuttal Testimony regarding these topics and will not completely repeat my responses here. I will, however, provide responses here to clarify a couple of points made in Ms. Lyons and Mr. Dauphinais' Rebuttal Testimonies.

Q: On Page 23-24 of his Rebuttal Testimony, Mr. Dauphinais characterizes the ROE Adjustment on Transmission Revenue (Adjustment R-80) issue as "an issue of important precedent with respect to the Commission potentially allowing jurisdictional electric utilities to "skim off" and retain the difference between the return earned from non-requirements wholesale sales of power and wholesale transmission service and the return authorized under retail electric rates in Missouri." How do you respond?

A: The Company also considers it to be an "issue of important precedent." Mr. Dauphinais' characterization of this ROE adjustment as "skimming off", however, is completely off base. The adjustment is necessary in order to allow the Company to actually earn the FERC-authorized return on charges to other Transmission Customers. Without this adjustment, Missouri retail customers will be subsidized by the revenues from other

Transmission Customers and will effectively pay less than the Missouri Commission authorized return. This result is not reasonable.

Q: On page 38 of her Rebuttal Testimony, Ms. Lyons suggests that "if the Commission agrees with KCPL's proposed reduction to transmission revenues, then Staff recommends the Commission order a corresponding adjustment to reduce transmission expense that includes a higher FERC ROE." How do you respond?

A: As I noted in my Rebuttal Testimony (on pages 6-7), "there is absolutely no basis, however, for KCP&L to make such an adjustment to the "Transmission by Others" expenses booked in FERC Account 565 that are charged to KCP&L as a transmission customer under the SPP OATT for the allocated use of transmission facilities that are <u>owned by other</u> transmission owners in SPP." The Company does, however, intend to adjust for the ROE difference on amounts that KCP&L as a Transmission Customer pays, through the SPP OATT, to KCP&L as a Transmission Owner. The Company intended for Adjustment R-80 to reflect this amount, but it did not in the Company's Direct Filing. The Company will adjust R-80 to reflect this amount in its May 31, 2015 true-up in this case.

Vegetation Management Cost Levels

Q: What is the Company's position in regards to vegetation management cost levels to include in this rate case proceeding?

A: The Company agrees with Staff's updated vegetation management costs that are included in its December 31, 2014 transmission and distribution maintenance adjustment, except that the Company is implementing the Emerald Ash Borer program and, therefore, the associated annual costs should be included in rates from this case. Please see the testimony of Company witness Mr. Jamie S. Kiely for further discussion on the issue.

Q: What is the impact of this issue at the KCPL-MO jurisdictional level?

A: If the Emerald Ash Borer program is included in this rate case proceeding it would increase Staff's revenue requirement by $103,610.

Q: Do Staff and OPC recommend the same update period and cost for vegetation management in this rate case proceeding?

A: Yes. Both OPC and Staff include vegetation management costs as of December 31, 2014. Yet, witness Addo in his testimony breaks out the actual vegetation management contractor costs included in accounts 571.005, 571.006 and 593.000. Staff has prepared their transmission and distribution maintenance adjustment in total which includes vegetation management contractor costs. It appears both have included the same vegetation management contractor costs in this rate case proceeding.

Q: Does this conclude your Surrebuttal Testimony?

A: Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2014-0370

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ronald A. Klote
Ronald A. Klote

Subscribed and sworn before me this 5th day of June, 2015.

Nicole A. Wehry
Notary Public

My commission expires: Feb 4 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200