

Exhibit No.:

Issue: Incentive Compensation, Bad Debt
Expense, Surveillance Reporting,
Transmission Expense

Witness: Ronald A. Klote

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2016-0285

Date Testimony Prepared: January 27, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

FILED
March 6, 2017
Data Center
Missouri Public
Service Commission

SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
January 2017**

KCPL Exhibit No. 134
Date 2-28-16 Reporter KF
File No. ER-2016-0285

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RONALD A. KLOTE
KANSAS CITY POWER & LIGHT COMPANY
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SURREBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2016-0285

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

2 A: My name is Ronald A. Klote. 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 Director, Regulatory Affairs.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L.

9 **Q: Are you the same Ronald A. Klote who filed Direct and Rebuttal Testimony in this**
10 **proceeding?**

11 A: Yes, I am.

12 **Q. What is the purpose of your surrebuttal testimony?**

13 A: I will offer Surrebuttal Testimony concerning issues addressed in the Missouri Public
14 Service Commission (“MPSC” or the “Commission”) Staff’s (“Staff”) Rebuttal
15 Testimony. Specific issues that I will be addressing are Staff witness Matthew Young’s
16 Rebuttal Testimony on the appropriate level of incentive compensation and bad debt
17 expense to include in cost of service. In addition, I will address Staff witness Keith
18 Major’s Rebuttal Testimony regarding the Company’s recently filed Surveillance Report.

1 Finally, I will address Staff witness Karen Lyon's Rebuttal Testimony concerning the
2 annualization of transmission expenses.

3 **INCENTIVE COMPENSATION**

4 **Q: What is the Company's position regarding incentive compensation costs that should
5 be included in the cost of service in this rate case proceeding?**

6 A: As discussed in my Rebuttal Testimony, for the ValueLink Incentive Plan, the Company
7 requests to include an annualized level of incentive compensation based on a target (95%
8 average) payout percentage multiplied by the December 2016 base salary for all
9 management employees. For the Officers Annual Incentive Plan ("AIP"), the Company
10 utilized target (100% average) percentages applied to the December 2016 base salary for
11 all officers, however, the Company conservatively excluded an amount related to the
12 Earnings Per Share ("EPS") metric and non-utility investments metrics (70%).

13 **Q: Does Staff witness Matthew Young agree with the Company's incentive
14 Compensation position in this case?**

15 A: No.

16 **Q: What is the main differences between Staff's position and the Company's position
17 regarding the recovery of incentive compensation costs?**

18 A: The Staff has used an averaging calculation based on past years incentive plans that are
19 structured differently than the 2016 ValueLink Plan and AIP Plan to determine incentive
20 compensation whereas the Company included the 2016 incentive plan that is currently in
21 effect.

1 **Q: Does there appear to be a discrepancy between the Staff's Direct filed position and**
2 **their Rebuttal position filed?**

3 A: Yes. I believe this may just be a typographical error, but in Staff's Direct testimony and
4 their supporting work papers to their EMS accounting schedules, they used a 3-year
5 average of the plan years 2012, 2014, and 2015 in the incentive calculation. However, in
6 the Rebuttal testimony of Staff witness Young, it states that incentive compensation
7 expense was calculated by averaging the actual incentive compensation payouts for the
8 plan years 2012, 2013, and 2015. It appears that the Rebuttal testimony included an
9 incorrect year and that the Commission should rely on Staff's Direct Testimony which is
10 consistent with the supporting work papers.

11 **Q: Staff contends in their Rebuttal Testimony that the compensation paid out for**
12 **incentive compensation is out-of-period. Does the Company agree?**

13 A: No. Incentive compensation expense is a cost that the Company incurs every year and
14 thus, should be included in the cost of service at an ongoing level. By including incentive
15 compensation expense at a target level with known and measurable management and
16 officer base salaries at December 31, 2016 and financial, operational and individual
17 metric components established in plan documents, the Company has utilized an averaging
18 calculation to set a reasonable level of cost in its cost of service. Since both the
19 ValueLink Plan and the AIP Plan include a range of possible payout outcomes above or
20 below the target payouts, an averaging component is already accounted for in the
21 calculation. This method more closely aligns the incentive compensation expense with
22 the current plans that are in effect at the true-up date. Staff relies on the fact that the 2016
23 plan will not be paid out until March of 2017 and argues that the payment is not known

1 and measurable. But, incentive compensation is an annual expense incurred by the
2 Company at varying levels each year. The Company's proposal has provided for the
3 most current plan to be used in this rate case proceeding which is in effect at the true-up
4 date to best align the annual average incentive cost for when rates are effective in this
5 case. Staff's approach of averaging prior year plans that have been restructured and no
6 longer in effect to calculate an average annual payout amount should not be used as it is
7 not reflective of the Company's on-going level of expense.

8 **Q: Staff expresses concerns in its Rebuttal Testimony relating to the metrics used in the**
9 **2016 plan. What is the Company's response to this?**

10 A: As I stated in my Rebuttal Testimony, the Company agrees with Staff's position to
11 exclude the 5% metric in the ValueLink Plan linked to the level of investment in
12 Transource and KLT since both of these are non-regulated. As such, in its true-up
13 adjustment, the Company will calculate a 95% target ValueLink payout on management
14 employees' base salary at December 31, 2016.

15 **Q: If the Commission wants to use an average of prior year payouts, does it make sense**
16 **to adjust out the amounts that are related to EPS in prior year's plans?**

17 A: No. The EPS metric does not match up with the current year 2016 plan and it does not
18 make sense to create an average annualized cost level which adjusts out financial
19 components that no longer exist and have been replaced with financial components that
20 provide benefits to all stakeholders. This methodology used by Staff is simply a way to
21 reduce the amount of incentive compensation that should be included in the Company's
22 cost of service. The EPS component was replaced with a Non-Fuel Operations and
23 Maintenance ("NFOM") goal in the 2016 ValueLink Plan which is a metric that provides

1 benefits to all stakeholders. It should be noted that Staff chose to use in their averaging
2 calculation the years 2012, 2014 and 2015 which were years in which the EPS metric
3 goal was not achieved. Staff chose to exclude the payout in 2013 which happened to be
4 the largest incentive payout year between 2012 and 2015. If the Commission decides to
5 use an average payout, then the 2013 year should be included in the averaging calculation
6 and the financial EPS component should not be excluded and instead be used as a proxy
7 to represent the financial NFOM component that is included in the current year plan
8 which provided benefits to all stakeholders.

9 **Q: Please provide the total incentive payouts on a total company basis for the last 5**
10 **years.**

11 A: Schedule RAK-12 details incentive payments for the past 5 years. As depicted in the
12 schedule, the Company's true-up cost level is very reasonable when compared to a 4-year
13 and also a 5-year average of incentive payouts. In addition, it is tied to the incentive
14 metrics that will be earned during the 12 months ending December 31, 2016 which is the
15 true-up period in this case.

16 **Q: What should the Commission do regarding the recovery of incentive compensation**
17 **in the Company's cost of service in this proceeding?**

18 A: The Commission should include the Company's target incentive payout (less the EPS
19 metric for the Officers AIP and non-utility investment metrics for both incentive plans)
20 that the Company has proposed as a true reflection of the level of ongoing incentive
21 expense to the Company. This calculation already includes an averaging component by
22 utilizing the target payout of 95% to be applied to management employees' base salary
23 amounts. The Company has removed the EPS component of the ValueLink Plan for the

1 2016 plan year. Thus, averaging prior year plans that included the EPS component
2 should be rejected by the Commission.

3 **BAD DEBT EXPENSE**

4 **Q: What is the position of Staff witness Matthew Young in Rebuttal Testimony**
5 **regarding bad debt expense?**

6 A: Staff witness Young disagrees with the Company adjusting bad debt expense that is
7 associated with the ultimate revenues that will result from this rate case.

8 **Q: Does the Company agree with this position?**

9 A: No. The Company, as in previous cases, disagrees with this Staff position. In fact, as I
10 stated in my Rebuttal Testimony, this position by Staff is contrary to a previous
11 Commission decision.

12 **Q: Why does the Company disagree with this position?**

13 A: As discussed in my Rebuttal Testimony, the Company and Staff appear to be aligned
14 regarding the calculation of the bad debt write-off factor, which is computed using
15 historical revenue and historical bad debt write-off amounts. But the Company and Staff
16 disagree on what level of revenues this write-off factor should be applied to.

17 **Q: Does the Company disagree with the financial analysis that Staff has performed**
18 **associated with bad debt expense?**

19 A: No. The Company has done similar analysis and does not disagree that bad debt expense
20 fluctuates over time. In fact, that is the exact reason why the Company and Staff develop
21 a bad debt write-off factor representing the relationship between revenues and bad debts
22 that is ultimately applied to the current revenues in this rate case proceeding.

1 **Q: What is the goal of the bad debt expense adjustment in this rate case proceeding?**

2 A: The ultimate goal of the bad debt expense adjustment in this rate case is to develop an
3 ongoing level of bad debt cost. By analyzing a 12 month period of revenues and
4 analyzing the associated bad debt write-offs associated with those revenues, Staff and
5 Company have developed a relationship between revenues and bad debts that should be
6 applied to the total revenues determined from this case. The resulting bad debt write-offs
7 that actually occur once rates are set will not be the exact number determined in this case.
8 But, the purpose of this adjustment is to set a reasonable level of bad debt expense based
9 on historical experience.

10 **Q: Is the analysis Staff conducted to refute the Company's position on this issue**
11 **relevant to deciding whether the bad debt factor should be applied to revenue levels**
12 **which include or exclude the increase awarded in this case in order to estimate going**
13 **forward bad debt expense to be included in rates?**

14 A: No. Staff and Company have typically agreed to base the bad debt write-off ratio on a
15 historical level of revenues and a historical level of bad debt write-offs. This is done
16 because the level of bad debts written off on a monthly basis varies month by month.
17 This level of historical revenues captures a point in time in order to develop a write-off
18 ratio to revenues that can be associated with the revenues that will be received at the
19 conclusion of this rate case. Much testimony has been provided on this issue in this rate
20 case and in previous rate cases. But, the issue really boils down to one simple factor for
21 this Commission to decide. Since the Company and Staff agree on how to calculate the
22 bad debt factor, should the agreed-upon bad debt factor be applied to the weather
23 normalized revenues that are prior to the rate increase in this case, as Staff has done, or to

1 the weather normalized revenue that include the rate increase resulting from this rate
2 case, as proposed by the Company? The Company believes that the correct amount of
3 bad debt expense that should result from this case can only be the latter since those are
4 the total revenues from which uncollectible revenues will be written off. The annualized
5 level of bad debt expense built into rates should therefore be based on total revenues
6 resulting from this rate case. Bad debt expenses level should be based on the true
7 revenues resulting from this case as those are the same revenues that will become the
8 source of future bad debt write-offs when new rates are in effect. Staff's approach simply
9 ignores this fact.

10 **Q: To better understand the Company's position, please describe the three components**
11 **that go in to developing the bad debt expenses in this rate case proceeding?**

12 **A:** The three components that go into developing bad debt expenses are revenues over a
13 selected 12 month period, bad debt write-offs over a selected 12 month period and the
14 resulting bad debt write-off ratio calculation. Component one is retail revenues over a 12
15 month period, which are sales to residential, commercial, and industrial customers.
16 Component two is bad debt write-offs which are the amounts of unpaid bills from retail
17 revenue sales. In general, an unpaid bill becomes a write-off approximately 6 months
18 after the non-payment occurrence. Component three is the bad debt write-off ratio which
19 is the percentage resulting from dividing the bad debt write-offs by the corresponding
20 retail revenue period total. This bad debt write-off ratio produces the relationship
21 between revenue and bad debts and is used to estimate future bad debt expense on
22 revenue levels that will be in place after this rate case proceeding. The bad debt write-off
23 ratio is applied to revenues in a two-step process. First, it gets applied to weather

1 normalized revenue (before the rate increase) available in this case. Second, the bad debt
2 write-off ratio gets applied to the revenue increase. This two-step process is required
3 because the revenue increase must first be calculated in order to determine what the
4 ultimate revenue level that will be required to be collected once the case is complete.
5 Staff's position simply stops at step one of the process and does not appropriately look at
6 the revenue levels that are determined as the result of this rate case. Staff has established
7 a relationship between revenues and bad debt write-offs from a historical period and then
8 only applies it to revenues prior to the rate increase.

9 **Q: Does the bad debt write-off ratio already take into consideration the monthly**
10 **fluctuation identified by Staff that occurs between bad debts and revenues?**

11 A: Yes it does.

12 **Q: Has the Company analyzed data concerning bad debt expense and the bad debt**
13 **write-off ratio?**

14 A: Yes. The Company has provided bad debt expense data annually to Staff as a part of this
15 rate case and previous rate cases. This is the information Staff has used in their analysis
16 included in Staff witness Young's testimony. The following chart shows how the bad
17 debt write-off ratio has fluctuated over the last ten years.

Annual Bad Debt Ratio



1

2 **Q: What does this chart graphically demonstrate?**

3 A: This chart graphically demonstrates the annual bad debt write-off ratio for the last 10
4 years. The chart demonstrates that the annual bad debt ratio does fluctuate. The
5 fluctuation in bad debts is a function of many influences including the amount of revenue
6 billed, the ability of the customer to pay and the level and effectiveness of debt collection
7 measures. These factors have influenced the volatility in the level of bad debts associated
8 with revenues billed over time. Yet, Staff illogically assumes that because bad debts are
9 not consistent year over year then they simply should not be applied to the revenue
10 increase in this case and should be applied to an annual revenue that fails to consider the
11 ultimate resulting revenues from this case.

12 **Q: How should the Commission rule on this issue?**

13 A: The Commission should rule the exact same way as it did in Case No. ER-2006-0314,
14 where on page 63 of its Order it stated:

15 The Commission finds that the competent and substantial evidence supports
16 KCPL's position, and finds this issue in favor of KCPL. The Commission
17 understands Staff's argument that there is not a perfect positive correlation
18 between retail sales and the percentage of bad debts. While it's possible that
19 KCPL's bad debt expense could decrease, the Commission finds it more probable,

1 and therefore, just and reasonable, that an increase in the amount of revenue that
2 KCPL is allowed to collect from its Missouri retail ratepayers will result in a
3 corresponding increase in bad debt expense.
4

5 The Commission in this case must link the bad debt write-off factor to the ultimate
6 revenues determined in this case as those are the revenues that will be billed and
7 collected and subsequently written off if not paid.

8 **Q: Does the Company agree with Staff that late payment fees (forfeited discounts)**
9 **should be factored up associated with the final revenues in this rate case if bad debt**
10 **expense is factored up?**

11 **A:** Yes. The Company and Staff are in agreement.

12 SURVEILLANCE REPORTS

13 **Q: What is the purpose of Staff witness Majors' section of testimony titled "Earnings**
14 **From Surveillance Reports" beginning on page 3 of his Rebuttal Testimony?**

15 **A:** It appears Staff witness Major's testimony in this area can be summed up in the following
16 question and answer which states:

17 Q: Does KCPL rely on returns from surveillance reports to justify alternative
18 ratemaking treatment for some costs?
19

20 A: Yes. Throughout the testimony in the current case and Case No. ER-
21 2014-0370, KCPL witnesses repeatedly reference KCPL's past reported returns on equity
22 to justify KCPL's requests for alternative ratemaking for transmission and property tax
23 expense. Now that KCPL has achieved and exceeded its authorized rate of return, the
24 argument that KCPL's actual earned ROE justifies these requests is completely inapt.
25 The Commission has previously rejected the use of a tracking mechanism for these types
26 of on-going operating expenses, and should reject these requests in this case.

1 **Q: Staff spends a great deal of time making the claim that KCPL is now earning its**
2 **authorized ROE in the 12 months ending September 30, 2016. Should the**
3 **Commission be persuaded by this claim?**

4 A: No. The regulatory lag associated with transmission expense and property tax expense
5 have not changed from previous cases and is still impacting the Company. Staff witness
6 Major's statement that in the 12 months ending September 30, 2016 the Company was
7 able to earn its authorized return does not prove that the Company did not experience
8 regulatory lag in these areas. Staff witness Majors has provided very little analysis
9 concerning the KCP&L surveillance results in the year following a general rate increase.
10 Instead, witness Majors chose to analyze KCP&L's Greater Missouri Operations
11 Company's ("GMO") surveillance report to somehow support his argument regarding
12 KCP&L. It's interesting why he chose to analyze GMO's results versus KCP&L-MO
13 results since GMO's Surveillance Reports in previous periods provide a more compelling
14 story than just one 12 month period of KCP&L-MO jurisdictional results which was on
15 the heels of a positive weather normalized revenue summer. GMO's surveillance report
16 results have nothing to do with the results of KCP&L and should not be a consideration
17 in this case.

18 **Q: What do you agree with regarding Staff witness Major's surveillance report claims**
19 **concerning KCP&L?**

20 A: The Company did file a quarterly surveillance report on November 23, 2016 for the 12
21 month period ending September 30, 2016. This report showed an ROE of 9.88% for the
22 first 12 month period following KCP&L-MO's last general rate case ER-2014-0370. In
23 addition, on page 8 of Staff witness Major's testimony he states that "the most significant

1 impact since the last KCPL rate case is the Commission's authorization of KCP&L's
2 FAC." The Company did get approval for the use of a Fuel Adjustment Clause ("FAC")
3 in the Company's last general rate case ER-2014-0370.

4 **Q: Did the Company's FAC impact the Company's ability to earn its authorized**
5 **return?**

6 A: Yes. It did, absolutely. By obtaining the use of an FAC the Company has taken a step
7 forward in being able to manage some of the volatility of its fuel and purchased power
8 cost which can only aid in allowing the Company to earn closer to its authorized ROE.
9 However, as the Company has discussed and requested of this Commission, fuel and
10 purchased power expense are not the only factors that have created significant negative
11 regulatory lag and kept the Company from earning its authorized return in the past, and
12 this is forecasted to continue in the future.

13 **Q: Are the Company's arguments surrounding its inability to achieve its authorized**
14 **ROE on a consistent basis "inapt", as Staff alleges?**

15 A: No they are not. The Company's regulatory lag arguments are hardly "inapt" since there
16 has been only one 12 month period since KCP&L surveillance reports results began to
17 significantly lag their authorized return levels which began in 2008. I would hardly call
18 this a trend or a consistent achievement. In all other years except for the 12 months
19 ending September 30, 2016, the Company has significantly lagged its authorized return
20 levels since 2008.

1 **Q: Ultimately, should the Commission consider the results of one 12 month period**
2 **surveillance report when deciding whether to adopt forecasted levels of expense and**
3 **a tracker for transmission and property tax expense?**

4 A: No it should not.

5 **Q: Why not?**

6 A: The Company has filed this rate increase request that encompasses a test year 12 month
7 period ending December 31, 2015 and a true-up 12 month period ending December 31,
8 2016. This means that the entire 12 month surveillance report results period that Staff
9 has provided testimony on is encompassed within the true-up period of this rate case.
10 The Commission can decide for itself with the detailed evidence presented in this case
11 whether there is significant regulatory lag pressures on earnings in the areas of
12 transmission expense and property tax expense that warrant the use of forecasted levels in
13 cost of service to help enable the Company to achieve its authorized ROE for more than
14 one 12 month period. A general rate case as is filed in this proceeding provides the
15 opportunity for all parties to this case to take a very deep dive into the Company's
16 financial performance. The Company would not have filed a rate case if the Company
17 had the ability to earn its authorized return on a consistent basis.

1 **Q: Staff witness Majors includes in his Rebuttal Testimony a section analyzing**
2 **KCP&L's SEC 10K earnings and utility industry average ROE's dating back to**
3 **1993. Are ROE's granted during the 1990's and industry averages during the**
4 **1990's in anyway applicable to the current environment in which utilities are**
5 **operating?**

6 **A:** No. KCP&L's environment today and the regulatory lag issues that it has been facing
7 have been discussed in numerous past cases and continues into this case regarding
8 transmission expense, property tax expense and the lack of revenue growth in use per
9 customer. Providing testimony and pointing out ROE's that were granted in the 1990's is
10 not addressing in any way the environment that utilities are operating in now. The one
11 factor that is clear from the table that Mr. Majors included on page 25 of his Rebuttal
12 Testimony is that since 2008, KCP&L's SEC ROEs and Surveillance Report ROEs have
13 significantly lagged the authorized ROEs that were granted during that time period. This
14 is due, in part, to the significant regulatory lag pressures that increasing transmission and
15 property tax expenses, and lack of revenue growth in usage per customer have caused.
16 Comparing to industry averages that are over two decades old are not applicable to the
17 environment KCP&L is operating in today.

18 **TRANSMISSION EXPENSE**

19 **Q: How did Staff annualize transmission expense in this rate case?**

20 **A:** In Staff's Cost of Service Report and discussed further in Karen Lyon's Rebuttal
21 Testimony, Staff chose to use for the annual cost of transmission expense the 12 months
22 ended June 30, 2016. In addition, Staff mentions that transmission expense will be
23 reviewed in the true-up phase of this rate case proceeding.

1 **Q: What is the Company's proposal for inclusion of transmission expenses in cost of**
2 **service in this rate case proceeding?**

3 A: The Company has requested to include in its cost of service an annualized level of
4 transmission expense that is based on an average of the projected level of 2017 and 2018
5 transmission expenses recorded to FERC account 565 – Transmission of Electricity by
6 Others. By using this projected level, the Company is better able to match the actual
7 transmission expense cost levels with the rate period in which the expenses are being
8 recovered from customers.

9 **Q: Has there been opposition to this approach by Staff and other intervening parties to**
10 **this rate case proceeding regarding the use of projected transmission expenses?**

11 A: Yes. Please see the Rebuttal and Surrebuttal testimony of Company witness Tim Rush
12 concerning the use of these projected expenses in its cost of service.

13 **Q: If the Commission chooses not to use forecasted transmission expenses in this rate**
14 **case proceeding, should the Staff simply use the 12 months ending December 31,**
15 **2016 transmission expenses to annualize transmission expense?**

16 A: No it should not. The Company believes using forecasted expense is the appropriate
17 methodology, but if the Commission decides not to include forecasted amounts in its cost
18 of service then there are certain issues that the Staff must consider in its true-up filing.
19 Simply using the 12 months ending December 31, 2016 as the annual level of
20 transmission expense in this rate case proceeding as was done in Staff's direct filed case
21 when they used the 12 months ending June 30, 2016 will not appropriately annualize the
22 going forward annual cost of transmission that the Company will be incurring.

1 **Q: Why should Staff use something different than the 12 months ending December 31,**
2 **2016?**

3 A: In order to provide an appropriate annualized level on a going forward basis, simply
4 using a 12 month period ending at the true-up date does not always provide an
5 appropriate cost level to use in the cost of service as it is not reflective of changing
6 factors that occurred during the 12 month period. Factors that change or impact the level
7 of cost during the year must be considered in setting the appropriate level of annualized
8 expense. Examples of changing factors that could exist could be instances of costs that
9 are increasing in value due to rising cost levels during the period or new costs that may
10 have begun or ceased sometime during the period that should be considered on a going
11 forward basis in developing a 12 month annualized cost level. In either instance, simply
12 using the existing 12 month true-up cost period ending December 31, 2016 in this case
13 will not provide for an appropriate level of annualized cost going forward. In order to
14 appropriately annualize transmission costs, the 12 month period should be analyzed
15 month by month to determine if there are certain months that are more reflective of a
16 going forward monthly cost level in order to pick up the changing factors during the 12
17 month period.

18 **Q: What are the factors that are impacting transmission expense in 2016 that must be**
19 **considered in the calculation?**

20 A: Several factors should be considered when calculating an annualized level of
21 transmission expense in this rate case if forecasted levels are not used. These factors
22 include ongoing revenues and expenses that have resulted from the implementation of
23 Attachment Z2 (“Z2”) of the SPP Open Access Transmission Tariff (“OATT”) as well as

1 factors associated with Independence Power & Light (“IPL”) being included in the
2 KCP&L SPP transmission pricing zone. The annualized level of expense should include
3 KCP&L’s share of adjusted Z2 Direct Assigned Upgrade Charges (DAUC) at true-up to
4 reflect known and measureable charges during the true-up period. Transmission charges
5 associated with IPL being included in KCP&L’s SPP pricing zone should also be
6 considered when calculating transmission expense at the true-up. IPL transmission
7 charges are an ongoing level of expense that has been set as a result of the stipulation in
8 the IPL FERC case (FERC Docket No. ER15-1499) and the appropriate level of ongoing
9 cost should be considered in the true-up of this case. Attachment Z2 and IPL issues are
10 discussed in the Rebuttal testimony of Company witness Don Frerking.

11 **Q: Did Staff in their rebuttal testimony identify the factors above that could impact**
12 **transmission expense?**

13 A: Yes. But, it appears Staff identified these factors more to point out that it would impact
14 KCP&L’s forecasted level versus how the factors may impact an annualization
15 calculation for the period ending December 31, 2016.

16 **Q: If forecasted transmission expenses are not used in this rate case proceeding, will the**
17 **above inclusion of annualized transmission expenses provide the next best**
18 **alternative in providing recovery of KCP&L-MO’s increasing transmission**
19 **expenses on a going forward basis?**

20 A: Yes.

1 **Q: Did Staff state in their Rebuttal Testimony that they would review transmission**
2 **expenses in the true-up phase of this case?**

3 A: Yes. On page 6 of Staff witness Lyon's testimony it states that "transmission expenses
4 will be further reviewed in the true-up phase of this case."

5 **Q: Does the Company also believe that the same type of analysis should be completed**
6 **on transmission revenues in this case to ensure factors occurring during the 12**
7 **month period ending December 31, 2016 are considered?**

8 A: Yes. The same type of annualization adjustment analysis should be completed
9 concerning transmission revenues.

10 **Q: Does this conclude your testimony?**

11 A: Yes it does.

<u>Plan Year</u>	2011	2012	2013	2014	2015	4-year avg	5-year avg	Company True-Up
Value-Link	8,353,108	10,413,127	12,966,212	2,317,662	9,273,885	8,742,722	8,664,799	10,923,111
Annual Incentive Plan (AIP)	2,231,989	1,792,789	2,556,702	1,043,406	355,087	1,436,996	1,595,995	777,420
Total Company	10,585,097	12,205,916	15,522,914	3,361,068	9,628,972	10,179,718	10,260,793	11,700,531
Total KCPL-MO estimated (Note 1)	2,518,475	2,843,693	3,695,189	762,219	2,167,358	2,367,115	2,397,387	2,592,612
Avg ValueLink plan achievement %	89.0%	103.9%	124.1%	21.9%	84.7%			95.0%

<u>Plan Year</u>	2011	2012	2013	2014	2015	3-year avg 2012,2014,2015
Value-Link	8,353,108	10,413,127	12,966,212	2,317,662	9,273,885	7,334,892
Remove Value-Link EPS	-	-	(8,070,256)	-	-	-
Annual Incentive Plan (AIP)	2,231,989	1,792,789	2,556,702	1,043,406	355,087	1,063,761
Remove AIP EPS	-	(371,332)	(1,550,806)	-	-	(123,777)
Total Company	10,585,097	11,834,584	5,901,851	3,361,068	9,628,972	8,274,875
Total KCPL-MO		(Note 2)		(Note 2)	(Note 2)	1,865,991

Note 1: KCPL-MO amounts are O&M only and net of Joint Partner Billings, used 920000 jurisdictional factor from annual surveillance reports for prior years and true-up model.

Note 2: Shaded amounts are included in Staff's position