

Exhibit No.:  
Issues: Revenue Requirement  
Witness: Greg R. Meyer  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Missouri Industrial Energy Consumers  
and Midwest Energy Consumers Group  
Case No.: ER-2012-0174  
Date Testimony Prepared: August 2, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

Filed  
December 04, 2012  
Data Center  
Missouri Public  
Service Commission

\_\_\_\_\_  
In the Matter of Kansas City Power &  
Light Company's Request for Authority  
to Implement a General Rate Increase  
for Electric Service  
\_\_\_\_\_

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)  
) **Case No. ER-2012-0174**  
) Tracking No. YE-2012-0404  
)  
)

Direct Testimony and Schedule of

**Greg R. Meyer**

On behalf of

**Missouri Industrial Energy Consumers  
and  
Midwest Energy Consumers Group**

**NON-PROPRIETARY VERSION**

August 2, 2012

**BAI**  
BRUBAKER & ASSOCIATES, INC.

~~MIEC Exhibit No. 400  
Date 8-22-12 Reporter KF  
File No. ER-2012-0174~~

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

**In the Matter of Kansas City Power &  
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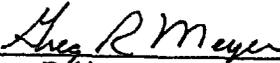
**Case No. ER-2012-0174  
Tracking No. YE-2012-0404**

STATE OF MISSOURI     )  
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COUNTY OF ST. LOUIS    )

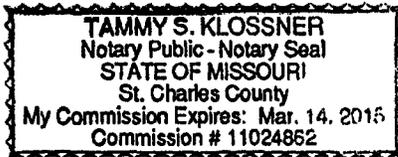
**Affidavit of Greg R. Meyer**

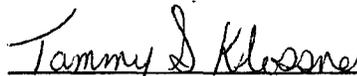
Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers and Midwest Energy Consumers Group in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedule which were prepared in written form for introduction into evidence in the Missouri Public Service Commission Case No. ER-2012-0174.
3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

  
\_\_\_\_\_  
Greg R. Meyer

Subscribed and sworn to before me this 1<sup>st</sup> day of August, 2012.



  
\_\_\_\_\_  
Notary Public



**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

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**In the Matter of Kansas City Power &  
Light Company's Request for Authority  
to Implement a General Rate Increase  
for Electric Service**

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) Tracking No. YE-2012-0404  
)  
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**Direct Testimony of Greg R. Meyer**

1    **Q    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    **A    Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,**  
3    **Chesterfield, MO 63017.**

4    **Q    WHAT IS YOUR OCCUPATION?**

5    **A    I am a consultant in the field of public utility regulation and an Associate with**  
6    **Brubaker & Associates, Inc., energy, economic and regulatory consultants.**

7    **Q    PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8    **A    This information is included in Appendix A to my testimony.**

9    **Q    ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

10   **A    This testimony is presented on behalf of Missouri Industrial Energy Consumers**  
11   **("MIEC") and Midwest Energy Consumers Group ("MECG"). These companies**  
12   **purchase substantial amounts of electricity from Kansas City Power & Light Company**  
13   **("KCPL" or "Company") and the outcome of this proceeding will have an impact on**  
14   **their cost of electricity.**

**Greg R. Meyer  
Page 1**

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A** In addition to a discussion of the adjustments and issues I am sponsoring, I will  
3 summarize all of the revenue requirement areas addressed by MIEC/MECG  
4 witnesses. In addition, I will provide a recommendation on the continuation of KCPL's  
5 off-system sales ("OSS") tracker.

6 I am recommending several adjustments and disallowances to the Company's  
7 proposed revenue requirement. In total, they reduce KCPL's proposed revenue  
8 requirement by \$8.495 million. Listed below is each adjustment and disallowance I  
9 am sponsoring with a short explanation discussing the adjustment and the  
10 approximate value of the issue.

- 11 1. Renewable Energy Standard ("RES") Cost – I recommend that all prudently  
12 incurred costs through March 31, 2012 be included in rate base and the  
13 operating expenses reflect a six-year amortization. I am also recommending  
14 that these amounts should be trued-up based on the prudently incurred costs  
15 deferred through August 31, 2012. I am recommending that the normalized  
16 level of solar rebate costs allowed in the last rate case, Case  
17 No. ER-2010-0355, be discontinued. Approximate value \$2.1 million.
- 18 2. Organizational Realignment and Voluntary Separation Program – I recommend  
19 that KCPL's amortization of the cost of this program be disallowed since KCPL  
20 will realize off-setting savings during the period from implementation of the  
21 program to effective date of rates in this case. Approximate value \$1 million.
- 22 3. Bad Debts Expense – I recommend the use of a lower bad debt write-off factor  
23 than KCPL, based on an historic average. I also recommend that the  
24 Commission disallow the factoring-up of the revenue requirement in this case for  
25 additional bad debts expense as proposed by KCPL. Approximate value  
26 \$2.8 million.
- 27 4. Property Tax Tracker – I recommend that the Commission reject KCPL's  
28 proposal to institute a property tax tracker. Value \$0.
- 29 5. Overtime – I recommend the normalization of overtime based on the overtime  
30 hours experienced by KCPL during the 12 months ended May 31, 2012.  
31 Approximate value \$0.810 million.
- 32 6. Southwest Power Pool ("SPP") Line Loss Charges – I recommend that these  
33 charges be disallowed. KCPL is proposing to reduce OSS margins originating in  
34 the SPP footprint for sales outside the SPP footprint, but fails to recognize the  
35 higher sales price of these sales. Approximate value \$0.775 million.

**Greg R. Meyer**  
**Page 2**

- 1 7. Adjustment for Purchase for Resale – I recommend that the Commission not  
2 recognize the losses associated with the difference between the prices paid for  
3 purchased power and the revenues received from sales into SPP on a bilateral  
4 basis. Approximate value \$0.521 million.
- 5 8. SPP Revenue Neutrality Uplift (“RNU”) Charges – I recommend that these net  
6 costs be included as a component of fuel expense rather than being reflected as  
7 a reduction to KCPL’s OSS margins. Value \$0.
- 8 9. Flood Cost Amortization – I am recommending that the Commission disallow the  
9 lost OSS portion of this amortization which reflects lost profits from hypothetical  
10 sales. Value \$0.<sup>1</sup>
- 11 10. Interim Energy Charge (“IEC”) – I recommend that the Commission deny  
12 KCPL’s request for an IEC. The form of this mechanism is contrary to the terms  
13 of the Stipulation and Agreement in the Company’s Regulatory Plan, eliminates  
14 the Company’s incentive to minimize fuel and purchased power costs, and is  
15 unwarranted based on the fuel price volatility faced by KCPL. Value \$0.
- 16 11. Mutual Assistance – During my review and audit of KCPL’s workpapers and  
17 data request responses, I discovered some inconsistencies in the booking of  
18 costs for mutual assistance that KCPL provides to other utilities. KCPL has  
19 reviewed the problem and believes a correction to its case is appropriate.  
20 Approximate value \$0.468 million.
- 21 12. Off-System Sales – In conjunction with MIEC/MECG witness Phillips, I  
22 recommend that the Commission set OSS margins at a normalized level.  
23 Specifically, Mr. Phillips has conducted a RealTime analysis that demonstrates  
24 normalized OSS margins of \*\*\* \*\*\*. If the Commission adopts the  
25 Northbridge model, a normalized level of OSS margins would be at the 50<sup>th</sup>  
26 percentile. In conjunction with using a normalized level of OSS margins, I  
27 recommend that the Commission discontinue the use of the OSS tracker.

28 The fact that I do not address an issue should not be interpreted as approval  
29 or acceptance by MIEC or MEGC of any position taken by KCPL, unless I state  
30 otherwise in my testimony.

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<sup>1</sup>MIEC and MEGC oppose KCPL's proposal to recover lost OSS margins. KCPL has not included any value for this issue in its filed revenue requirement but intends to update its case as part of the true-up.

1 Q PLEASE SUMMARIZE THE REVENUE REQUIREMENT ADJUSTMENTS  
2 SPONSORED BY MIEC AND MECG.

3 A Please see Schedule GRM-RR-1 attached to this testimony for a list of issues and  
4 adjustments by witness and adjustment value. The following witnesses are  
5 sponsoring revenue requirement testimony in this case.

6 ➤ **James Dauphinais:** Mr. Dauphinais is not proposing any adjustments to revenue  
7 requirement in the direct testimony filing. However, he is recommending that the  
8 Commission require KCPL to annualize its transmission revenues based on  
9 actual values and rates at the end of the true-up period in the same manner the  
10 Company is proposing to do for its transmission expenses and rate base. In  
11 addition, Mr. Dauphinais recommends that the Commission deny KCPL's request  
12 for a transmission tracker to defer the difference between the actual transmission  
13 cost incurred and the level set in this case, for recovery in the Company's next  
14 rate proceeding.

15 ➤ **Nicholas L. Phillips:** Mr. Phillips presents the results of our production cost  
16 modeling and proposes several adjustments. He recommends a \$.812 million  
17 reduction to KCPL's proposed fuel costs. In conjunction with his production cost  
18 modeling, Mr. Phillips also conducted an analysis of KCPL's OSS margins. He  
19 recommends that OSS margins be set at a normalized level of  
20 \*\*\* \*\*.

21 ➤ **Greg Meyer:** As shown on Schedule GRM-RR-1, my adjustments to operation  
22 and maintenance ("O&M") expenses, including the related rate base effects, for  
23 the RES costs; Organizational Realignment and Voluntary Separation Program  
24 ("ORVS"); bad debts; SPP line loss charges; adjustment for purchase for resale;  
25 flood amortization; mutual assistance and overtime have a revenue requirement

NP  
Greg R. Meyer  
Page 4

1 impact of \$8.495 million. I am also providing testimony on KCPL's proposal for a  
2 property tax tracker, an interim energy charge and SPP revenue neutrality uplift  
3 charges, which do not impact revenue requirement in this case.

4 **Q WHAT DOES SCHEDULE GRM-RR-1 SHOW?**

5 A It shows that we have identified \$8.495 million of non-fuel related revenue  
6 requirement claims that should be disallowed. In addition, we have identified  
7 \*\*\* of fuel-related costs that are not reasonable to include in the  
8 annualization of fuel costs.

9 **Renewable Energy Standard Cost**

10 **Q PLEASE BRIEFLY EXPLAIN THIS ISSUE.**

11 A In November 2008, Missouri voters approved Proposition C, which mandates that by  
12 2021, 15% of the energy sales by the state's four investor-owned electric utilities  
13 must be derived from renewable sources, including 0.3% of total sales (2% of 15%)  
14 from solar applications. In June 2010, the Missouri Public Service Commission  
15 ("MPSC") established 4 CSR 240-20.100 ("RES Rule") for compliance with  
16 Proposition C, including the recovery of related costs.

17 **Q WHAT OPTIONS ARE AVAILABLE TO UTILITY COMPANIES TO RECOVER THE  
18 COST OF COMPLYING WITH THE RULE?**

19 A The rule allows a utility company to request recovery of RES costs through a  
20 regulatory accounting mechanism ("RESRAM") that allows for rate changes between  
21 rate cases. In the alternative, a utility may defer RES costs for recovery in  
22 subsequent rate cases.

**NP**  
**Greg R. Meyer**  
**Page 5**

1 **Q WHAT HAS KCPL PROPOSED IN THIS CASE FOR RES COSTS?**

2 A KCPL is proposing to include \$4.6 million in rate base associated with actual deferred  
3 RES costs through March 31, 2012 and estimated deferrals through December  
4 31, 2012, and a \$0.9 million amortization of these deferrals in expense over a  
5 five-year period. In addition, KCPL has included an ongoing expense level, equal to  
6 2012 budgeted solar rebates and the 2011 Renewable Energy Credits ("RECs") of  
7 \$1.7 million in operating expense.

8 **Q HAS KCPL REQUESTED A RESRAM?**

9 A No. Therefore, I recommend that the RES costs incurred by KCPL be addressed  
10 through deferral and amortization. This option is discussed in Commission Rule 4  
11 CSR 240-20.100(6)(D):

12 "In the interim between general rate proceedings the electric utility may  
13 defer the costs in a regulatory asset account, and monthly calculate a  
14 carrying charge on the balance in that regulatory asset account equal  
15 to its short-term cost of borrowing. All questions pertaining to rate  
16 recovery of the RES compliance costs in a subsequent general rate  
17 proceeding will be reserved to that proceeding, including the prudence  
18 of the costs for which rate recovery is sought and the period of time  
19 over which any costs allowed rate recovery will be amortized."

20 **Q IS THIS TREATMENT CONSISTENT WITH THE NON-UNANIMOUS STIPULATION  
21 AND AGREEMENT IN CASE NO. EU-2012-0131?**

22 A Yes. As a result of the Stipulation and Agreement, KCPL was allowed to defer all  
23 incremental RES costs, primarily solar rebates and RECs, through the Company's  
24 next rate case and accrue a carrying cost based on the Company's short-term debt  
25 rate.

**Greg R. Meyer**  
**Page 6**

1 **Q WHAT LEVEL OF RES COSTS ARE YOU RECOMMENDING FOR INCLUSION IN**  
2 **THIS RATE CASE?**

3 A In response to MPSC Staff Data Request No. 393, KCPL provided an update of the  
4 RES costs incurred through March 31, 2012, which I have used in my calculations. In  
5 compliance with 4 CSR 240-20.100(6)(D), I recommend that all prudently incurred  
6 RES costs through March 31, 2012 (in excess of the amount of solar rebate expense  
7 established in the last rate case, Case No. ER-2010-0355) be included in rate base,  
8 and that operating expenses reflect an amortization of this amount over a six-year  
9 period. These amounts should be trued-up based on the prudently incurred costs  
10 deferred through the August 31, 2012 true-up cut-off date. I also recommend that  
11 any RES costs incurred after the true-up cut-off date in this case be deferred and  
12 addressed in the next general rate proceeding in compliance with 4 CSR  
13 240-20.100(6)(D).

14 This section of the RES Rule does not contemplate an ongoing or normalized  
15 level of expense, other than amortization of prior deferrals. As a result, I am not  
16 recommending a continuation of the solar rebate expense established in the last rate  
17 case or the on-going RES expense proposed by KCPL in this case. Therefore, it is  
18 necessary to adjust the test year expense to remove any RES expense.

19 **Q WHY IS A SIX-YEAR AMORTIZATION APPROPRIATE?**

20 A Section (4)(C) of the RES Rule states that:

21 "The installed solar electric systems must remain in place on the  
22 account holder's premises for the duration of its useful life which is  
23 deemed to be ten (10) years unless determined otherwise by the  
24 commission."

25 To date, most of the RES costs incurred by KCPL relate to solar rebates  
26 which, based on the RES Rule, should provide compliance benefits for 10 years. I

**Greg R. Meyer**  
**Page 7**

1 believe a 10-year amortization is justified for the deferrals to date. However, I am  
2 recommending a conservative amortization period of only six years and also being  
3 consistent with the Commission's ordered amortization period for deferred energy  
4 efficiency costs.

5 **Q HOW DOES YOUR RECOMMENDATIONS AFFECT THE REVENUE**  
6 **REQUIREMENT CALCULATED BY KCPL IN THIS CASE?**

7 A My recommendations reduce KCPL's rate base and operating expenses by  
8 approximately \$0.8 million and \$1.9 million, respectively, prior to the true-up. These  
9 adjustments to KCPL's case reduce the revenue requirement by approximately  
10 \$2.1 million.

11 **Q DO YOU HAVE ANY ADDITIONAL CONCERNS REGARDING KCPL'S**  
12 **CALCULATION OF RES COSTS?**

13 A Yes. The Stipulation and Agreement in Case No. EU-2012-0131 and the RES Rule  
14 specify a carrying cost based on the Company's short-term debt rate. In its  
15 calculations, KCPL has used its Allowance for Funds Used During Construction  
16 ("AFUDC") rate. KCPL's calculations should be modified to the extent the AFUDC  
17 rate differs from the required short-term debt rate.

18 **Q WHAT IS YOUR RESPONSE TO KCPL'S REQUEST FOR A TRACKER FOR RES**  
19 **COSTS?**

20 A I am generally opposed to trackers because they single out selective expense items  
21 for special regulation treatment and give no consideration to potential changes in the

Greg R. Meyer  
Page 8

1 other items of the cost of service. In addition, a tracker is not one of the options  
2 afforded to a utility for compliance cost recovery in the RES Rule.

### 3 **Organizational Realignment and Voluntary Separation Program**

4 **Q PLEASE DESCRIBE THIS ISSUE.**

5 A As discussed in the testimony of KCPL witness Kelly R. Murphy, in March 2011,  
6 KCPL announced the Organizational Realignment and Voluntary Separation Program  
7 (“ORVS”) to “enhance organizational efficiency and to assist in the management of  
8 overall labor costs.” ORVS offered any non-union employee two weeks of salary for  
9 every year of employment, with a minimum severance payment of 14 weeks of salary.  
10 Employees were also offered career transition services. Of the 140 employees who  
11 accepted the offer, the majority separated by April 2011.

12 **Q WHAT LEVEL OF SAVINGS DOES KCPL EXPECT TO REALIZE FROM ORVS?**

13 A Ms. Murphy identified \$20 million as the total annual savings, including employee  
14 benefits. Multiplying this savings level by the O&M factor shown in KCPL’s payroll  
15 workpapers of 73%, results in an expense savings of approximately \$14.6 million  
16 annually.

17 **Q WHAT WAS THE COST OF ORVS?**

18 A The total cost of the program was approximately \$12.9 million (\$9.3 million on a  
19 KCPL basis) including career transition services. This amount was charged to  
20 operating expense during the test year ended September 30, 2011.

1 **Q IS KCPL REQUESTING RECOVERY OF THIS AMOUNT IN THE COST OF**  
2 **SERVICE?**

3 **A** Yes. KCPL is requesting to include this amount in the cost of service through a  
4 five-year amortization, by including 20% of the cost in operating expense in this case.

5 **Q DO YOU AGREE WITH KCPL'S PROPOSED AMORTIZATION?**

6 **A** No. KCPL has proposed to annualize the ongoing reduction to labor, benefit and  
7 payroll tax expenses resulting from the implementation of ORVS. However,  
8 ratepayers will not realize the benefit of those expense reductions until the rates  
9 resulting from this rate case are effective. There is no question that KCPL incurred  
10 upfront costs to implement ORVS, and that ORVS has resulted in expense reductions  
11 or savings. However, KCPL's proposed five-year amortization of the ORVS costs  
12 fails to recognize KCPL's retention of all off-setting cost savings from the date the  
13 program was implemented and extending through the date that the rates resulting  
14 from this rate case become effective . Since the majority of the employees separated  
15 by April 2011, KCPL alone will enjoy the savings resulting from ORVS for  
16 approximately 20 months before rates from this case become effective. The expense  
17 savings during this period equals approximately \$24 million (\$14.6 million of annual  
18 expense savings times 20 months) and will more than offset the cost of ORVS.

1 Q ARE YOU PROPOSING ANY REGULATORY TREATMENT FOR THE SAVINGS IN  
2 EXCESS OF THE COSTS ENJOYED BY KCPL DURING THE PERIOD FROM  
3 IMPLEMENTATION OF ORVS TO THE EFFECTIVE DATE OF RATES IN THE  
4 CURRENT CASE?

5 A No. My proposal will allow KCPL to retain all the savings from ORVS prior to the  
6 effective date of rates in this case, and likewise all the costs. My proposal  
7 appropriately matches the benefits created from implementation through the effective  
8 date of rates in the current case with the costs of ORVS.

9 Q HOW DOES YOUR RECOMMENDATION FOR TREATMENT OF THE ORVS COST  
10 AFFECT KCPL'S COST OF SERVICE ON A TOTAL COMPANY BASIS?

11 A My recommendation reduces KCPL's cost of service by approximately \$1 million  
12 which reflects one year of the five-year amortization proposed by the Company for  
13 the cost of ORVS.

14 **Bad Debts Expense**

15 Q DID KCPL PROPOSE TO INCLUDE AN ALLOWANCE FOR BAD DEBTS  
16 EXPENSE IN COST OF SERVICE?

17 A Yes. KCPL has proposed to include a level of bad debts expense of \$7.6 million in its  
18 cost of service. The \$7.6 million is comprised of: (1) the test year level of bad debts  
19 expense as recorded on the books of KCPL of \$6.3 million; (2) the increase in the test  
20 year level of bad debts expense of \$0.3 million related to revenue adjustments; and  
21 (3) an increase in bad debts expenses of \$1 million that will allegedly arise as a result  
22 of the increased revenue requirement for this case.

1 **Q DO YOU AGREE WITH THE LEVEL PROPOSED BY KCPL?**

2 **A** No. I recommend that the level of bad debts expense be \$4.8 million. Therefore, I  
3 am recommending that KCPL's proposed level of bad debts expense be reduced by  
4 \$2.8 million.

5 **Q WHAT IS THE BASIS FOR YOUR ADJUSTMENT?**

6 **A** First, the net bad debt write-off factor used by KCPL is too high when compared to  
7 historic results. Second, KCPL has provided no evidence to suggest that an increase  
8 in the revenue requirement will result in an increase in bad debts expense. Finally,  
9 any increase in bad debts expense associated with KCPL's revenue requirement that  
10 may occur will be realized outside of the true-up period in this rate case and is  
11 currently only speculative.

12 **Q PLEASE DESCRIBE THE TERM NET BAD DEBT WRITE-OFF FACTOR.**

13 **A** Net bad debt write-off factor is the level of bad debt write-offs, net of bad debts later  
14 collected, expressed as a percentage of revenues for a period of time. In his direct  
15 testimony, KCPL witness John Weisensee testifies that a six-month lag exists  
16 between the recording of revenues and the recognition of bad debts expense. I have  
17 accepted that argument for purposes of my analysis and to calculate the net bad debt  
18 write-off factor.

1 Q WHY DO YOU BELIEVE THE NET BAD DEBT WRITE-OFF FACTOR KCPL USED  
2 IS TOO HIGH?

3 A KCPL proposes a bad debt write-off factor of 0.9475%. I have calculated the net bad  
4 debt write-off factor for calendar years 2007-2010. Table 1 below shows the results  
5 of that analysis compared to the factor proposed by KCPL.

<b><u>Year</u></b>	<b><u>Factor Percentage</u></b>
2007	0.7286%
2008	0.6331%
2009	0.5418%
2010	0.8128%
KCPL Proposed	0.9475%

6 The calendar year percentages listed above compare calendar year revenues  
7 to net write-offs for July - June of the following year. For example, year 2007 would  
8 include revenues for the calendar year 2007 compared to net write-offs for  
9 July 2007 - June 2008. Therefore, a bad-debt write-off factor for 2011 will not  
10 become known until bad debts through June 2012 have become known.

11 As can be seen from Table 1 above, the factor used by KCPL is too high when  
12 compared to prior calendar years.

13 Q WHAT FACTOR DO YOU PROPOSE FOR ANNUALIZING BAD DEBTS EXPENSE  
14 FOR THIS RATE CASE?

15 A I propose a weighted four-year average of the net bad debts write-off factor of  
16 0.6840% for annualizing bad debts expense. I calculated this factor by determining  
17 the percentage reflecting the summed net write-offs for the four years divided by the  
18 revenues summed for the four years based on a six-month lag.

Greg R. Meyer  
Page 13

1 I believe an averaging method is appropriate for this case since there is no  
2 discernible trend in the level of bad debts or the related factor. Using KCPL's method  
3 will overstate bad debts expense.

4 **Q WHAT IS THE RESULT OF YOUR ANNUALIZATION METHOD?**

5 A Using a net bad debt write-off factor of 0.6840% reduces KCPL's annualized bad  
6 debts expense by \$1.8 million.

7 **Q DO YOU RECOMMEND THAT THE INCREASE IN BAD DEBTS EXPENSE**  
8 **PROPOSED BY KCPL RELATING TO THE INCREASED REVENUE**  
9 **REQUIREMENT IN THIS CASE BE DISALLOWED?**

10 A Yes.

11 **Q WHAT IS THE BASIS FOR THAT DISALLOWANCE?**

12 A As I stated previously, KCPL has provided no evidence to suggest that increased  
13 revenues automatically results in increased bad debts expense. In fact, when  
14 reviewing the data from 2007 - 2010, no correlation can be established. I have listed  
15 in Table 2, below, the revenues and net write-offs assuming the six-month lag  
16 described above for calendar years 2007 - 2010.

<b><u>Revenues Compared to Net Write-Offs</u></b>		
<b><u>Year</u></b>	<b><u>Revenues (\$000)</u></b>	<b><u>Net Write-Offs (\$000)</u></b>
2007	\$551,830	\$4,021
2008	\$572,503	\$3,625
2009	\$585,977	\$3,175
2010	\$683,109	\$5,552

Greg R. Meyer  
Page 14

1           The totals listed above reveal that there is no direct correlation between the  
2 level of revenues and the amount of net write-offs.

3   **Q    EARLIER, YOU ALSO DISCUSSED YOUR CONCERN THAT THIS ADJUSTMENT**  
4   **GOES BEYOND THE TRUE-UP PERIOD IN THIS CASE. PLEASE EXPLAIN.**

5   **A**Considering the effective date of rates and the six-month lag between revenues and  
6 write-offs, the adjustment proposed by KCPL will not be fully recognized on the books  
7 of KCPL until June 2014. This is 22 months beyond the true-up date of  
8 August 31, 2012 in this case. KCPL's proposed adjustment is also 18 months  
9 beyond the operation of law date. Effectively, KCPL is attempting to collect rates for  
10 bad debt that won't fully be realized for another 18 months. The adjustment clearly  
11 violates the test year concept of a rate case whereby all relevant factors are analyzed  
12 to a consistent point in time. Therefore, I propose that the Commission disallow  
13 KCPL's proposed increase in bad debts expense of \$1 million relating to the  
14 increased revenue requirement of this case.

15   **Property Tax Tracker**

16   **Q    PLEASE BRIEFLY DESCRIBE THIS ISSUE.**

17   **A**KCPL has requested a property tax tracker in this case. The Company, primarily  
18 through the testimonies of Darren R. Ives and Harold S. Smith, claims that due to the  
19 recent increase in the amount of property tax, over which the utility has no control,  
20 KCPL needs a special regulatory mechanism to recover this cost.

1 Q HAS THE COMPANY SHOWN THAT PROPERTY TAXES HAVE NOT BEEN  
2 TIMELY ADDRESSED IN THE COST OF SERVICE DEVELOPED IN PREVIOUS  
3 RATE CASES?

4 A No. Mr. Smith simply provides a table that shows the level of property taxes paid  
5 from 2007 through 2011.

6 Q HAS MR. SMITH PROVIDED THE AMOUNTS THAT ARE CHARGED TO  
7 EXPENSE AND PROPERLY CHARGED TO MISSOURI CUSTOMERS?

8 A No. These amounts are the total property taxes paid. The Company's property tax  
9 expense workpapers suggest that the Missouri jurisdictional amount included in the  
10 determination of revenue requirement is significantly less than the total amount paid.

11 Q IS SOME OF THE INCREASE IN PROPERTY TAX EXPENSE DUE TO LESS  
12 CAPITALIZATION OF PROPERTY TAXES?

13 A Yes. On page 3 of his testimony, Mr. Smith discusses the fact that property taxes  
14 previously capitalized as part of the construction cost of the latan project will now be  
15 expensed due to the completion of construction and the recognition of the plant in  
16 rates. This increase in property tax expense will be addressed in this case.

17 Q DO YOU AGREE THAT THE COMPANY HAS NO CONTROL OVER ITS LEVEL OF  
18 PROPERTY TAX PAID?

19 A. No. The Company has significant control over when it begins construction projects  
20 and adds new plant to its tax base. Since the taxes paid December 31<sup>st</sup> are based on  
21 assessed value as of the prior January 1<sup>st</sup>, any plant added after January 1<sup>st</sup> of the  
22 current year will not be taxed until December 31<sup>st</sup> of the following year. Therefore,

Greg R. Meyer  
Page 16

1 based on the timing of plant additions, the Company can delay paying property taxes  
2 for up to two years.

3 Finally, the Company cannot know with certainty that the assumed  
4 relationship between property taxes and plant will continually result in increased  
5 property taxes.

6 **Q HOW WOULD THE TRACKER PROPOSED BY KCPL FUNCTION?**

7 A As described by Mr. Ives, an annualized level of property tax expense would be  
8 included in the cost of service and would be the base used for the tracker. Future  
9 changes in property tax expense would be compared to this base, and the difference  
10 would be deferred and recognized in the next rate case. Between rate cases, the  
11 balance would be factored-up for a carrying cost. According to KCPL's proposal, this  
12 deferral would be recognized in the next rate case by including the deferred balance  
13 in rate base and an amortization of this balance in expense.

14 **Q DO YOU BELIEVE THAT A TRACKER FOR PROPERTY TAX EXPENSE IS**  
15 **APPROPRIATE?**

16 A. No. I am generally opposed to the use of trackers for expense. I believe a much  
17 better regulatory approach is to consider all relevant facts when setting rates. To  
18 selectively carve out portions of the total cost of service calculation and provide  
19 tracking deviates from the all relevant factors concept.

20 In addition, the Company can file a rate case and/or time its rate case filings to  
21 address significant changes in property tax expense. The Company could also  
22 pursue an Accounting Authority Order ("AAO") to address significant changes in  
23 property tax expense between rate cases.

Greg R. Meyer  
Page 17

1 **Overtime**

2 **Q PLEASE EXPLAIN THIS ISSUE.**

3 A KCPL has included an amount of non-Wolf Creek overtime based on an average of  
4 the actual experience during the 2.75 years ended September 30, 2011. As part of  
5 the average calculation, KCPL also adjusted the 2011 overtime to eliminate the  
6 amount related to the flooding at Iatan.

7 **Q DO YOU AGREE WITH THIS LEVEL OF OVERTIME?**

8 A No. I recommend using the actual non-Wolf Creek overtime experienced through  
9 May 31, 2012. This level of overtime reflects the most current annual period  
10 available.

11 **Q DO YOU RECOMMEND UPDATING THIS AMOUNT AS PART OF THE TRUE-UP?**

12 A I will continue to monitor this level of overtime through the true-up period to determine  
13 if further adjustment is necessary.

14 **Q WHAT EFFECT DOES YOUR RECOMMENDATION HAVE ON KCPL'S REVENUE  
15 REQUIREMENT?**

16 A My recommendation reduces KCPL's revenue requirement by \$0.8 million.

17 **SPP Line Loss Charges**

18 **Q PLEASE EXPLAIN THE ISSUE AS IT RELATES TO THE TRANSMISSION LINE  
19 LOSSES FROM OSS.**

20 A When KCPL makes OSS outside of the SPP Energy Imbalance Service ("EIS")  
21 market footprint, KCPL incurs a line loss charge from SPP (SPP loss charges) which

Greg R. Meyer  
Page 18

1           compensates transmission owners for system energy losses. SPP collects these  
2           charges and then distributes them back (SPP loss revenues) to SPP transmission  
3           owners according to a specific formula.

4   **Q     DURING THE 12 MONTHS ENDED NOVEMBER 2011, WHAT AMOUNTS DID**  
5   **KCPL RECORD AS SPP LOSS CHARGES AND SPP LOSS REVENUES?**

6   A     KCPL recorded SPP loss charges of \$1.363 million and SPP loss revenues of  
7           \$0.463 million on a total Company basis. The KCPL Missouri jurisdictional amounts  
8           are \$0.775 million and \$0.263 million, respectively.

9   **Q     WHY ARE YOU PROPOSING TO DISALLOW THE \$1.363 MILLION OF SPP LOSS**  
10 **CHARGES?**

11 A     As KCPL witness Burton L. Crawford explains in his direct testimony, SPP loss  
12           charges are incurred when KCPL makes an OSS outside of the SPP footprint.  
13           However, KCPL witness Schnitzer determines the level of OSS for KCPL through  
14           sales at a regional SPP-North market price. In essence, by forecasting OSS margins  
15           using the SPP-North market price, Mr. Schnitzer is assuming that all OSS are made  
16           within the SPP-North footprint.

17           In reality, however, KCPL makes a significant amount of OSS in markets other  
18           than SPP-North and at prices other than the SPP-North price. To the extent that  
19           KCPL makes an OSS outside of the SPP footprint, KCPL should receive a premium  
20           above the SPP-North market prices to offset the additional transmission cost that will  
21           be charged to KCPL. If KCPL didn't receive such a premium, then it would not make  
22           the sale and would avoid the associated loss charge.

Greg R. Meyer  
Page 19

1           KCPL is reducing margins which originate in the SPP footprint for sales  
2 outside the SPP footprint, but fails to recognize the higher sales price for those sales.  
3 As a result, it is inappropriately lowering the margins from OSS.

4 **Q    ARE YOU DISPUTING THAT KCPL INCURRED THOSE COSTS DURING THE**  
5 **TEST YEAR?**

6 A    No. I am disputing whether those costs should be deducted from Mr. Schnitzer's  
7 forecasted level of OSS margins, which does not include sales outside the SPP  
8 footprint.

9 **Q    ARE YOU PROPOSING TO DISALLOW THE SPP LOSS REVENUES RECEIVED**  
10 **BY KCPL?**

11 A    No. Those revenues represent a distribution back to SPP members of the SPP loss  
12 charges collected from OSS outside the SPP footprint. Including those revenues in  
13 KCPL's revenue requirement is the proper ratemaking concept and is not inconsistent  
14 with my position on SPP loss expenses.

15 **Q    PLEASE SUMMARIZE YOUR POSITION.**

16 A    I propose to disallow the KCPL Missouri Jurisdictional SPP loss charge of  
17 \$0.775 million. Those charges are for OSS made outside the SPP footprint that  
18 should be made at a price greater than one would get within the SPP footprint. KCPL  
19 is attempting to unjustifiably lower the OSS margins proposed by Mr. Schnitzer to  
20 account for this expense. I propose that this expense be disallowed.

1 **Adjustment for Purchase for Resale**

2 **Q PLEASE DESCRIBE THE PURCHASE FOR RESALE ADJUSTMENT TO OSS.**

3 A KCPL has proposed that the level of OSS margins determined by KCPL witness  
4 Schnitzer be increased by \$1.744 million on a total Company basis and \$0.992 million  
5 on a KCPL Missouri jurisdictional basis, to reflect net gains KCPL claims it  
6 experiences on Purchase for Resale transactions during the test year.

7 **Q HAS KCPL DEVELOPED CATEGORIES FOR DIFFERENT PURCHASE FOR**  
8 **RESALE TRANSACTIONS?**

9 A Yes. KCPL has created four categories of Purchase for Resale transactions. These  
10 categories reflect the fact that the purchases can be made from two different sources:  
11 (1) bilateral purchases, and (2) SPP market purchases; and can be resold to two  
12 different purchasers: (1) SPP market participants, and (2) bilateral sales with specific  
13 entities. Therefore, the four categories of Purchase for Resale are:

- 14 1. Sales into SPP from bilateral purchases;  
15 2. Bilateral sales from bilateral purchases;  
16 3. Sales into SPP from SPP purchases; and  
17 4. Bilateral sales from SPP purchases.

18 During the period of the 12 months ended October 2011, KCPL realized a  
19 profit from the category bilateral sales from SPP purchases. KCPL recorded losses  
20 for the other three categories of sales.

21 **Q CAN YOU DESCRIBE THOSE TYPES OF TRANSACTIONS?**

22 A Generally, these transactions arise from differences in: (1) generation and  
23 purchases, and (2) KCPL's native load and OSS. In this instance, during November

1 2010 - October 2011, KCPL claims that the difference between the prices paid for  
2 purchased power and revenues received from: (1) sales into SPP, and (2) sales on a  
3 bilateral basis arising out of a bilateral purchase produced a net loss of \$0.916 million  
4 on a total Company basis and \$0.521 million on a KCPL Missouri jurisdictional basis.

5 **Q WHAT ARE YOUR GENERAL CONCLUSIONS REGARDING THE APPROPRIATE**  
6 **TREATMENT FOR THESE TYPES OF PURCHASE FOR RESALE**  
7 **TRANSACTIONS?**

8 A I believe that customer rates already encompass reflection of the losses  
9 contemplated by KCPL's adjustment.

10 **Q CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THIS SITUATION?**

11 A Yes. Assume that KCPL needed to purchase 100 MWs of power to meet its peak  
12 load requirements from 2 p.m. to 6 p.m., and that KCPL could buy that power at  
13 \$90 a MW (total cost = \$36,000).

14 Also assume, however, KCPL power traders discovered that they could buy  
15 an eight-hour strip of power from 2 p.m. to 10 p.m. for \$40 a MW (total  
16 cost = \$32,000). During the period from 2 p.m. to 6 p.m., the eight-hour strip of power  
17 produced substantial savings from the peak purchase price (\$90 - \$40). However,  
18 from 6 p.m. to 10 p.m. the price of power dropped to \$35 per MW. KCPL sold the  
19 excess energy back to SPP at \$35 per MW and lost \$5 per MW for each MW per hour  
20 (loss = \$2,000).

21 Through its adjustment, KCPL is attempting to separate the loss from the gain.  
22 KCPL's effectively proposes that the gain remain with shareholders, but that it be  
23 allowed to recover the loss (in this example, \$2,000 from ratepayers) by reducing Mr.

Greg R. Meyer  
Page 22

1 Schnitzer's OSS margin levels. This adjustment should not be recognized because  
2 there is no consideration given to the savings generated by the purchase during the  
3 peak hours. Since KCPL does not operate under a fuel adjustment clause ("FAC"),  
4 any savings that it recognizes in fuel and purchased power expense, relative to the  
5 cost built into rates, will inure directly to the benefit of its shareholders. Historically,  
6 KCPL shareholders would receive the net benefit (i.e., the gain portion less the loss  
7 portion). By making this adjustment, however, KCPL separates the gain portion of  
8 the transaction from the loss portion of the transaction. Once separated, KCPL  
9 proposes that its shareholders receive the entirety of that gain while customers bear  
10 the burden of any loss. The equitable treatment would be that KCPL's shareholders,  
11 as the recipients of the gain, also bear the associated loss.

12 **Q WHY DO YOU SAY THAT NO CONSIDERATION WAS GIVEN TO SAVINGS**  
13 **DURING THE PEAK HOURS?**

14 **A** In my example, the production cost model, as used by KCPL to calculate annual fuel  
15 expense, would have bought the power for those four hours at \$90 per MW for a fuel  
16 expense of \$36,000. In this instance, KCPL would have saved \$20,000 of fuel  
17 expense from that which was included in the revenue requirement during the peak  
18 hours, but would have lost \$2,000 during the non-peak hours. At the conclusion of  
19 the transaction, KCPL would have saved fuel expense from the level built into the  
20 revenue requirement.

1 Q DO YOU HAVE ANY OTHER SITUATIONS WHICH SHOULD BE CONSIDERED  
2 REGARDING THESE LOSSES?

3 A Yes. In response to Staff Data Request No. 506 from Case No. ER-2009-0089,  
4 KCPL listed several reasons why the Company proposed an adjustment for the  
5 claimed Purchase for Resale losses. Included in the list were the following:

- 6 > Purchased energy to fulfill a sale during transmission constraints;
- 7 > Purchased energy to fulfill a sale during loss of generation;
- 8 > Purchased energy to fulfill a sale during unexpected generation  
9 derates;
- 10 > Purchased energy to fulfill a sale during higher than expected retail  
11 loads; and
- 12 > Purchased energy for a few peak hours to fulfill a 16-hour  
13 day-ahead sales commitment.

14 The situations listed above are events which are not modeled by either KCPL  
15 in determining annualized fuel expense or Mr. Schnitzer in determining the level of  
16 OSS margins. Neither KCPL's fuel model nor Mr. Schnitzer's determinations of OSS  
17 margins can model simultaneous sales and purchases of energy.

18 However, KCPL has modeled generation derates and forced outages of its  
19 power plants in its production cost model. These events are included in the  
20 annualization of fuel expense. KCPL has failed to demonstrate that the generation  
21 derates and forced outages included in its fuel expense annualization have not  
22 already accounted for the expenses being proposed in the Purchase for Resale  
23 adjustment.

1 **SPP Revenue Neutrality Uplift Charges**

2 **Q DOES KCPL PROPOSE TO REDUCE OSS MARGINS FOR THE NET EFFECT OF**  
3 **RNU CHARGES?**

4 **A** Yes. KCPL witness Crawford proposes to reduce OSS margins by approximately  
5 \$1.191 million on a total Company basis and \$0.678 million on a KCPL Missouri  
6 jurisdictional basis for the effect of RNU charges.

7 **Q WHAT ARE SPP RNU CHARGES?**

8 **A** When SPP settles the energy imbalance market, SPP does not always collect the  
9 exact amount of revenues needed to disburse back to its market participants. If SPP  
10 is short, then a charge is imposed on market participants. If SPP has collected too  
11 much, a credit is given to market participants.

12 KCPL records any charge as purchased power expense and any credit as  
13 OSS revenue.

14 **Q HAS KCPL SHOWN THAT THESE COSTS/REVENUES ARE ATTRIBUTABLE TO**  
15 **OSS?**

16 **A** No. KCPL has not provided any information which shows that these net charges are  
17 related to OSS.

18 **Q ARE YOU PROPOSING TO DISALLOW THESE NET COSTS FROM KCPL'S**  
19 **COST OF SERVICE?**

20 **A** No. I recognize that these net costs are a component of cost of service. KCPL could  
21 be susceptible to these costs/revenues whether they make OSS or not. I am

1 proposing that these net costs be included in annualized fuel expense and not  
2 reflected as a reduction to KCPL's OSS margins.

3 **Flood Cost Amortization**

4 **Q PLEASE EXPLAIN THIS ISSUE.**

5 A In 2011, KCPL experienced flooding along the Missouri River. As a result of the  
6 flooding, KCPL experienced reduced availability for some of its generating units.  
7 KCPL has calculated that this situation caused a loss of OSS margins (OSS revenues  
8 net of fuel cost).

9 **Q IS KCPL SEEKING RECOVERY OF THE LOST MARGINS?**

10 A Yes. KCPL proposes to defer the lesser of its calculated amount of lost margins, or  
11 the difference between the actual margins and level included in base rates. KCPL is  
12 proposing to include 20% of the lost OSS margins in operating expense in this case  
13 to reflect a five-year amortization. The approximate amount of lost OSS margins  
14 calculated by the Company is \*\*\* on a KCPL Missouri jurisdictional  
15 basis. KCPL did not include this amortization in its filed case, but intends to include  
16 the updated amounts in the true-up.

17 **Q WHAT IS YOUR RESPONSE TO THE COMPANY'S PROPOSAL?**

18 A The lost OSS represents sales that did not occur and profits which were not realized.  
19 My position is in alignment with arguments the Missouri Public Service Commission  
20 has previously heard regarding lost revenues and profits as a result of the Joplin  
21 tornado (which affected sales in the service territories of the Empire District Electric

**NP**  
**Greg R. Meyer**  
**Page 26**

1 and Missouri Gas Energy companies). In those instances, the lost profits resulting  
2 from lost sales were not recognized.

3 **Interim Energy Charge**

4 **Q DID KCPL PROPOSE AN IEC IN THE CURRENT RATE CASE?**

5 A Yes. KCPL witness Tim Rush describes the Company's proposal for an IEC on  
6 pages 10-16 of his direct testimony.

7 **Q WHY DID KCPL CHOOSE TO REQUEST AN IEC INSTEAD OF AN FAC?**

8 A As a result of a Stipulation and Agreement approved by the Commission on  
9 July 25, 2005, KCPL's Experimental Regulatory Plan ("Regulatory Plan") was  
10 implemented. As a condition of the Regulatory Plan, KCPL agreed not to seek an  
11 FAC prior to June 1, 2015. However, in exchange for that commitment, the parties  
12 agreed that KCPL could propose an IEC. It is imperative to recognize this important  
13 distinction that, in lieu of committing not to seek an FAC, KCPL was allowed to file an  
14 IEC. I will discuss later in this testimony the relevance of this important distinction.

15 **Q DO YOU BELIEVE KCPL SHOULD BE GRANTED AN IEC IN THIS CASE?**

16 A No, I do not. I will discuss several reasons why the Commission should reject KCPL's  
17 proposed IEC.

18 **Q WERE THERE ANY PARAMETERS THAT KCPL HAD TO AGREE TO IN ORDER  
19 TO PROPOSE AN IEC?**

20 A Yes. In Case No. EO-2005-0329, in the Stipulation and Agreement dated  
21 May 25, 2005 and approved by the Commission in its Report and Order dated

Greg R. Meyer  
Page 27

1 July 25, 2005, on pages 7-8, KCPL agreed to several parameters. Included in those  
2 was a requirement for an IEC rate ceiling.

3 (iii) The IEC rate "ceiling" may be based on both historical data and  
4 forecast data for fuel and purchased power costs, forecasted  
5 retail sales, mix of generating units, purchased power, and other  
6 factors including plant availability, anticipated outages, both  
7 planned and unplanned, and other factors affecting the costs of  
8 providing energy to retail customers.

9 **Q HAS KCPL COMPLIED WITH THE IEC CEILING PARAMETER?**

10 **A** No. In my opinion, KCPL has not met the IEC ceiling requirement. That parameter  
11 requires the recognition of an IEC rate ceiling. In an IEC, the Company collects a  
12 base level of fuel and purchased power expense in permanent rates. In addition, the  
13 Company collects an additional amount that is interim, subject to refund. The fact  
14 that this amount is collected on an interim basis is what gives the mechanism the  
15 name Interim Energy Charge. By collecting the permanent amount plus the interim  
16 amount, the Company is at risk if fuel and purchased power expense exceeds the  
17 permanent plus interim amount. The practical effect of the ceiling, therefore, is to  
18 provide the incentive for the Company to minimize fuel costs while also protecting  
19 against the tremendous volatility that was being experienced in the natural gas  
20 market.

21 KCPL has in the context of this case proposed no ceiling by essentially  
22 establishing a zero \$0.00 kWh IEC rate. Instead, KCPL asks that any amount of  
23 increased or decreased fuel and purchased power expenses be deferred for later  
24 recovery. This is entirely contrary to the design of an IEC. Effectively, KCPL wants  
25 unlimited protection against increases in fuel prices. Furthermore, by not providing a  
26 ceiling, KCPL will have zero motivation to minimize fuel prices. This type of proposal

1 is completely contradictory to the IECs that the Commission has approved in prior  
2 Missouri rate cases.

3 **Q YOU MENTIONED PRIOR MISSOURI RATE CASES. PLEASE DESCRIBE THE**  
4 **PRIOR MISSOURI UTILITY RATE CASES WHERE AN IEC HAS BEEN ADOPTED**  
5 **BY THE COMMISSION.**

6 A Empire District Electric Company received an IEC in Case Nos. ER-2001-299 and  
7 ER-2004-0570. Aquila received an IEC in Case No. ER-2004-0034.

8 **Q WHAT WAS THE BASIS OR RATIONALE FOR GRANTING IEC'S TO THESE**  
9 **UTILITIES?**

10 A In the case of Empire, the IEC was designed to attempt to address the potential  
11 volatility in natural gas and wholesale electricity prices.<sup>2</sup> In regard to Aquila, the IEC  
12 was granted again due to volatile gas commodity markets as described in the direct  
13 testimony of Keith G. Stamm in Case No. ER-2004-0034.

14 **Q DO THESE CONDITIONS EXIST TODAY FOR KCPL?**

15 A No. KCPL does not rely on natural gas as a significant fuel source to meets its native  
16 load requirements. KCPL also is not a net buyer of interchange power in the  
17 wholesale market. In its current fuel expense annualization, KCPL projects  
18 \$2.96 million for natural gas expense and 114,670 MWhs generated from gas-fired  
19 generators. This represents less than 1% of both metrics for KCPL. Therefore,  
20 KCPL does not face the same price volatility as Empire or Aquila did when they

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<sup>2</sup>Supplemental Testimony of Brad P. Beecher, Case No. ER-2001-299, page 3.

1 received IECs in the past. Similarly, KCPL has in this case failed to demonstrate  
2 what aspect of its fuel costs experience the volatility that would justify an IEC.

3 **Q YOU MENTIONED EARLIER THAT THE PARTIES TO THE STIPULATION AND**  
4 **AGREEMENT FOR THE REGULATORY PLAN AGREED THAT IN EXCHANGE**  
5 **FOR THE COMMITMENT OF KCPL NOT TO SEEK AN FAC BEFORE**  
6 **JUNE 1, 2015, KCPL WOULD BE ENTITLED TO FILE FOR AN IEC. WHY DO**  
7 **YOU BELIEVE THIS IS AN IMPORTANT PART OF THE STIPULATION AND**  
8 **AGREEMENT AS IT RELATES TO THIS CASE?**

9 **A** I have included below the language from the Stipulation and Agreement from Case  
10 No. EO-2005-0329, page 7, that discusses this commitment.

11 "KCPL agrees that, prior to June 1, 2015, it will not seek to utilize any  
12 mechanism authorized in current legislation known as "SB 179" or  
13 other change in state law that would allow riders or surcharges or  
14 changes in rates outside of a general rate case based upon a  
15 consideration of less than all relevant factors. In exchange for this  
16 commitment, the Signatory Parties agree that if KCPL proposes an  
17 Interim Energy Charge ("IEC") in a general rate case filed before  
18 June 1, 2015 in accordance with the following parameters, they will not  
19 assert that such proposal constitutes retroactive ratemaking or fails to  
20 consider all relevant factors:"

21 As can be seen from the above language, in exchange for committing not to  
22 file an FAC, the parties to the Stipulation and Agreement agreed to allow KCPL to file  
23 an IEC. From this language it is clear that there was going to be a distinction  
24 between an IEC and an FAC. However, KCPL's current IEC proposal is nothing more  
25 than an FAC. In fact, it is more generous than any of the FACs previously authorized  
26 in Missouri because it does not even recognize the 95%/5% sharing that the  
27 Commission has implemented for FACs. KCPL has attempted to disguise its FAC  
28 request with an IEC title.

Greg R. Meyer  
Page 30

1 **Q IF FUEL PRICE VOLATILITY IS NOT THE JUSTIFICATION FOR KCPL'S IEC, IS**  
2 **THERE ANOTHER REASON WHY YOU BELIEVE KCPL HAS PROPOSED THE**  
3 **IEC IN THE MANNER IT DID?**

4 A Yes. I believe KCPL has proposed this IEC to protect itself from its perceived risk  
5 associated with the margins from OSS that the Commission ordered in KCPL's last  
6 rate case. I believe that is the main reason KCPL assigned a zero IEC rate to initially  
7 establish the IEC. In that way, KCPL would be 100% protected from any loss of OSS  
8 margin in the rate case. I do not believe that the purpose of an IEC, as the  
9 Commission has historically used the mechanism, is to protect a utility's OSS margin  
10 revenues.

11 **Q ARE THERE OTHER DEVELOPMENTS IN KCPL'S OPERATIONS WHICH COULD**  
12 **AFFECT THE LEVEL OF OSS MARGINS THEY WILL RECEIVE?**

13 A Yes. As Mr. Rush testified, the Southwest Power Pool will introduce the SPP  
14 Integrated Marketplace in April 2014. This new structure will operate similar to the  
15 Midwest Independent Transmission System Operator ("MISO") market. To the extent  
16 that KCPL is a low cost generator of power in that market, its opportunities for greater  
17 OSS will be enhanced. This new market implementation is scheduled 15 months  
18 after the rates go into effect for this case.

19 **Q PLEASE SUMMARIZE YOUR POSITION.**

20 A I believe KCPL's IEC should be rejected for several reasons:

- 21 1. KCPL has failed to correctly address Parameter (iii) in the Stipulation and  
22 Agreement for the Regulatory Plan. Specifically, KCPL has not identified a  
23 specific ceiling amount.
- 24 2. KCPL's proposed IEC provides it zero incentive to minimize fuel costs.

- 1 3. KCPL has failed to demonstrate what portion of its fuel expense has shown the  
2 price volatility to warrant an IEC. KCPL's reliance on natural gas is minimal and  
3 KCPL does not significantly rely on the purchased power market to meet its native  
4 load requirements.
- 5 4. KCPL's requested IEC is nothing more than an FAC with a different name. This is  
6 contrary to the terms agreed to in the Stipulation and Agreement for the  
7 Regulatory Plan.
- 8 5. KCPL's proposed IEC is a mechanism to protect KCPL from any inability to meet  
9 the level of OSS margins built into base rates. This is not the purpose of an IEC.

10 For all of these reasons, I propose that KCPL's IEC be rejected by the  
11 Commission.

## 12 **Mutual Assistance**

13 **Q PLEASE DESCRIBE YOUR UNDERSTANDING OF MUTUAL ASSISTANCE FOR A**  
14 **UTILITY.**

15 **A** If a utility's service territory is severely affected by a storm or other natural disaster  
16 and requires extensive repairs or replacement of utility property, the utility can contact  
17 other utilities for mutual assistance. Generally, mutual assistance occurs in the  
18 Midwest after severe storms disrupt service to a large number of customers.

19 When a utility sends its crews to another utility for mutual assistance, it is  
20 compensated for its out-of-pocket expenses, and sometimes overhead expenses.  
21 Out-of-pocket expenses generally relate to the labor, employee benefits' expenses,  
22 vehicle expenses, etc. The utility which provides mutual assistance generally records  
23 its expense to a work order and, once all costs are accumulated, bills the utility for  
24 which service was provided.

1 **Q HAS KCPL PROVIDED MUTUAL ASSISTANCE TO OTHER UTILITIES?**

2 A Yes, during the test year, KCPL provided mutual assistance to Ameren,  
3 Commonwealth Edison, Entergy, Empire District Electric Company, and United  
4 Illuminating.

5 **Q HOW DOES KCPL ACCOUNT FOR THE COSTS ASSOCIATED WITH MUTUAL**  
6 **ASSISTANCE?**

7 A As I previously stated, initially KCPL will create a work order to capture all charges for  
8 KCPL to provide mutual assistance. The vast majority of the expense KCPL incurs to  
9 provide mutual assistance is for employee labor.

10 Once all costs have been accumulated, KCPL records the cost to  
11 Account 186 – Other Billing Work Orders. This account is included in KCPL's payroll  
12 distribution and is used for determining annualized payroll in a rate case. By  
13 including these costs in its payroll distribution, KCPL is removing a certain percentage  
14 of payroll from O&M expense and assigning those labor dollars to mutual assistance.

15 **Q DO YOU HAVE ANY CONCERNS WITH THIS PROCESS?**

16 A Yes, I checked the amounts assigned to Account 186 for the test year and found that  
17 there were insufficient labor dollars charged to Account 186 when compared to the  
18 labor dollars recorded in the work orders for each of the mutual assistance events I  
19 previously identified.

20 I sent my analysis to KCPL and asked why the amount recorded in  
21 Account 186 was less than the amount recorded on the mutual assistance bills.  
22 KCPL responded that, upon review, it discovered a problem with the way mutual

1 assistance costs were recorded. This problem resulted in an understatement of the  
2 payroll charged to Account 186, and an overstatement in O&M expense.

3 **Q HAS KCPL INDICATED IF IT WILL CORRECT THIS PROBLEM?**

4 A Yes. KCPL indicated that it intends to do a more in-depth analysis and incorporate  
5 this correction in its true-up filing.

6 **Q WHAT IS THE VALUE OF THIS CORRECTION?**

7 A KCPL has estimated that the correction will decrease KCPL's revenue requirement by  
8 approximately \$468,000.

9 **Q DO YOU HAVE ANY OTHER CONCERNS REGARDING THIS ISSUE?**

10 A Yes. I want to further discuss with KCPL the other charges that may be included in  
11 the mutual assistance bills. I am still concerned with any charges for overheads that  
12 may be included in the bills as well as any management overheads or labor charges.

### 13 **Off-System Sales**

14 **Q WHAT IS KCPL'S POSITION WITH REGARDS TO OSS?**

15 A KCPL has conducted, through Northbridge, an analysis of OSS in 2013. That  
16 analysis runs 1,000 different scenarios of KCPL's projected level of OSS based upon  
17 different assumptions related to market prices, fuel prices and other inputs. After  
18 completion of the Northbridge analysis, KCPL has proposed that permanent rates be  
19 established based upon the 40<sup>th</sup> percentile of results from the 1,000 scenarios. KCPL  
20 then proposes to track and return to ratepayers any OSS between the 40<sup>th</sup> and 60<sup>th</sup>

1 percentile. Finally, KCPL proposes to share in any OSS that exceed the 60<sup>th</sup>  
2 percentile.

3 **Q PLEASE EXPLAIN WHAT IS MEANT BY THE VARIOUS PERCENTILE POINTS IN**  
4 **THE NORTHBRIDGE ANALYSIS.**

5 A The Northbridge analysis produces a bell curve of results from the 1,000 scenarios.  
6 The 50<sup>th</sup> percentile is the median point of the 1,000 results. At this point, therefore,  
7 the Northbridge model assumes that KCPL has an equal opportunity to exceed this  
8 point as it does to fall short of this point.

9 **Q HOW ARE REVENUES AND EXPENSES TRADITIONALLY DETERMINED FOR**  
10 **RATEMAKING PURPOSES?**

11 A Historically, the Commission establishes rates based upon a normalized levels of  
12 revenues and expenses. Using the traditional use of normalized level of revenues  
13 and expenses then, the Commission would utilize the 50<sup>th</sup> percentile of the possible  
14 outcomes. Under traditional ratemaking, the utility assumes the risk that OSS fall  
15 short of the 50<sup>th</sup> percentile. In return, however, the utility has the opportunity to keep  
16 100% of all OSS that exceed this point. The use of traditional ratemaking, therefore,  
17 provides the utility with an incentive to maximize its level of OSS.

18 With the execution of the Regulatory Plan and the construction of Iatan 2,  
19 however, KCPL requested and the Commission adopted the use of the 25<sup>th</sup>  
20 percentile. At this point, one would expect KCPL to exceed the 25<sup>th</sup> percentile three  
21 out of four years. In the last case with the completion of the Iatan 2 generating unit  
22 and after recognizing the decreased incentives for KCPL to make OSS, the  
23 Commission increased the level of OSS in rates to the 40<sup>th</sup> percentile.

Greg R. Meyer  
Page 35

1 Q WHAT NORMALIZED LEVEL OF OSS DO YOU RECOMMEND BE BUILT INTO  
2 RATES?

3 A Using the RealTime model, we have undertaken an analysis of the expected level of  
4 OSS KCPL should realize. The model indicates that rates should include  
5 \*\*\* of OSS. In the alternative, the Commission should utilize the  
6 50<sup>th</sup> percentile on the Northbridge model corrected for faulty inputs. We have  
7 received the Northbridge model and corrected these faulty inputs. At the 50<sup>th</sup>  
8 percentile, the Northbridge model indicates that KCPL has the same probability to  
9 exceed as to fall short. The level of OSS that equates to the 50<sup>th</sup> percentile in the  
10 Northbridge model is \*\*\*. Furthermore, KCPL has indicated a  
11 desire to be provided incentives to participate in the wholesale market. By using a  
12 normalized level of OSS and eliminating the tracker mechanism, KCPL will be  
13 provided incentives to maximize OSS. Specifically, KCPL will be permitted to retain  
14 all OSS margins that exceed the normalized level of OSS built into rates.

15 Q DO YOU RECOMMEND THAT OSS MARGINS CONTINUE TO BE TRACKED?

16 A No. The tracker mechanism was created at KCPL's sole request. The tracker, as  
17 with all trackers, eliminates KCPL incentive to minimize costs or, in this case, to  
18 maximize OSS revenues. By eliminating the tracker mechanism, KCPL is provided  
19 incentives to maximize its OSS revenues. Therefore, the elimination of the tracker  
20 mechanism is good for the utility as well as for ratepayers.

21 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

22 A Yes, it does.

23

NP  
Greg R. Meyer  
Page 36

**Qualifications of Greg R. Meyer**

1    **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A     Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,  
3           Chesterfield, MO 63017.

4    **Q     PLEASE STATE YOUR OCCUPATION.**

5    A     I am an Associate in the field of public utility regulation with the firm of Brubaker &  
6           Associates, Inc. (BAI), energy, economic and regulatory consultants.

7    **Q     PLEASE    SUMMARIZE    YOUR    EDUCATIONAL    BACKGROUND    AND**  
8           **EXPERIENCE.**

9    A     I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree  
10          in Business Administration, with a major in Accounting. Subsequent to graduation, I  
11          was employed by the Missouri Public Service Commission. I was employed with the  
12          Commission from July 1, 1979 until May 31, 2008.

13                I began my employment at the Missouri Public Service Commission as a  
14          Junior Auditor. During my employment at the Commission, I was promoted to higher  
15          auditing classifications. My final position at the Commission was an Auditor V, which I  
16          held for approximately ten years.

17                As an Auditor V, I conducted audits and examinations of the accounts, books,  
18          records and reports of jurisdictional utilities. I also aided in the planning of audits and  
19          investigations, including staffing decisions, and in the development of staff positions in  
20          which the Auditing Department was assigned. I served as Lead Auditor and/or Case

**Greg R. Meyer**  
**Appendix A**  
**Page 1**

1 Supervisor as assigned. I assisted in the technical training of other auditors, which  
2 included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I presented  
4 testimony in numerous electric, gas, telephone and water and sewer rate cases. In  
5 addition, I was involved in cases regarding service territory transfers. In the context of  
6 those cases listed above, I presented testimony on all conventional ratemaking  
7 principles related to a utility's revenue requirement. During the last three years of my  
8 employment with the Commission, I was involved in developing transmission policy  
9 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

10 In June 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant.  
11 Since joining the firm, I have presented testimony and/or testified in the state  
12 jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and Washington. I  
13 have also appeared and presented testimony in Alberta and Nova Scotia, Canada.  
14 These cases involved addressing conventional ratemaking principles focusing on the  
15 utility's revenue requirement. The firm Brubaker & Associates, Inc. provides  
16 consulting services in the field of energy procurement and public utility regulation to  
17 many clients including industrial and institutional customers, some utilities and, on  
18 occasion, state regulatory agencies.

19 More specifically, we provide analysis of energy procurement options based  
20 on consideration of prices and reliability as related to the needs of the client; prepare  
21 rate, feasibility, economic, and cost of service studies relating to energy and utility  
22 services; prepare depreciation and feasibility studies relating to utility service; assist  
23 in contract negotiations for utility services, and provide technical support to legislative  
24 activities.

**Greg R. Meyer**  
**Appendix A**  
**Page 2**

1                    In addition to our main office in St. Louis, the firm has branch offices in  
2                    Phoenix, Arizona and Corpus Christi, Texas.

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**Greg R. Meyer**  
**Appendix A**  
**Page 3**

**Kansas City Power & Light Company  
Case No. ER-2012-0174**

**MIEC's and MECG's Adjustments to Kansas City  
Power & Light Company's Proposed Revenue Requirement<sup>1</sup>**

Line	Category of Adjustment	Amount of Reduction (\$000)	Witness
1	Renewable Energy Standard Cost	\$ 2,072	Meyer
2	Organizational Realignment and Voluntary Separation Program	\$ 1,005	Meyer
3	Bad Debts Expense	\$ 2,844	Meyer
4	Property Tax Tracker	\$ 0	Meyer
5	Overtime	\$ 810	Meyer
6	SPP Line Loss Charges	\$ 775	Meyer
7	Adjustment for Purchase for Resale	\$ 521	Meyer
8	SPP Revenue Neutrality Uplift Charges	\$ 0	Meyer
9	Flood Cost Amortization	\$ 0 <sup>2</sup>	Meyer
10	Interim Energy Charge	\$ 0	Meyer
11	Mutual Assistance	<u>\$ 468</u>	Meyer
12	Total Non-Fuel	<u>\$ 8,495</u>	
13	Fuel Costs	\$ 812	Phillips
14	OSS Revenues	<u>***      ***</u>	Phillips
15	Total Fuel	<u>***      ***</u>	
16	Total Reduction	<u>***      ***</u>	

<sup>1</sup>MIEC and MECG have adopted the midpoint cost of capital of Public Counsel witness Michael P. Gorman for determining the revenue requirement of rate base adjustments.

<sup>2</sup>MIEC and MECG oppose KCPL's proposal to recover lost OSS margins. KCPL has not included any value for this issue in its filed revenue requirement but intends to update its case as part of the true-up.