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Issue: A&G Expenses
Witness: Ryan A. Bresette
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Case No.: ER-2014-0370
Date Testimony Prepared: May 7, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

REBUTTAL TESTIMONY

OF

RYAN A. BRESETTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
May 2015

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed.**
Certain Schedules Attached To This Testimony Designated "(Highly Confidential)" Have Been Removed Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

RYAN A. BRESETTE

Case No. ER-2014-0370

Q: Please state your name and business address.

A: My name is Ryan A. Bresette. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company") as Assistant Controller.

Q: On whose behalf are you testifying?

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

Q: What are your responsibilities?

A: As Assistant Controller, I have responsibility for leading the Company's monthly forecasting and annual budgeting process. In addition, I oversee margin accounting (revenue, fuel, purchased power and transmission), the monthly accounting close process, and external reporting.

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

A: I graduated from Rockhurst University in Kansas City, Missouri in December 1994 with a Bachelor of Science in Business Administration with a major in Accounting. In 1997, I passed the Certified Public Accountant's exam. In May 2010, I graduated from the University of Missouri-Kansas City with a Masters in Business Administration. I have previously worked with Sprint, Applebee's International and Interstate Bakeries

Corporation in a variety of accounting and finance roles prior to joining KCP&L in December 2004. I joined the Company as an Accounting Policy Specialist and have also held the positions of Manager Corporate Accounting, Director Revenue and Energy Accounting and Director Accounting before assuming my current position in May 2011.

Q: **Have you previously testified in a proceeding before the Missouri Public Service Commission ("MPSC" or "Commission") or before any other utility regulatory agency?**

A: Yes. I previously provided testimony to both the MPSC and the Kansas Corporation Commission ("KCC").

Q: **What is the purpose of your Rebuttal Testimony?**

A: My testimony is to refute the direct testimony of MPSC Staff ("Staff") on pages 234-240 of the Staff Report, starting with Section B. Administrative and General ("A&G") Expenses and pages 4-15 of Mr. Lane Kollen's direct testimony on behalf of the Midwest Energy Consumers' Group and the Missouri Office of the Public Counsel related to KCP&L's A&G expense.

In addition, I will provide an overview of the Company's accounting for Asset Retirement Obligations under Accounting Standards Codification ("ASC") 410 or as referred to by Staff as Standard of Financial Accounting Standards ("SFAS") No. 143.

Finally, I will respond to the testimony of Ms. Lena M. Mantle on behalf of the Office of Public Counsel regarding the use of FERC accounts in the proposed fuel adjustment clause ("FAC").

Administrative and General Expenses

Q: What are A&G expenses?

A: A&G expenses are the costs not directly associated with generating, transmitting or delivering power to customers. These costs are incurred by utilities in order to provide support to the operations of the Company. These costs include, but are not limited to, regulatory, finance, accounting, information technology, human resources, and legal labor and non-labor expenses.

Q: What data did Mr. Kollen and Staff use in their A&G comparisons?

A: Mr. Kollen and Staff use Federal Energy Regulatory Commission ("FERC") Form 1 data in their A&G comparisons.

Q: Is the use of FERC Form 1 data appropriate for A&G comparisons among utilities?

A: Absolutely not. The recording of expenses to A&G by utilities is very subjective and open to interpretation under the FERC Uniform System of Accounts. Not every cost is recorded to the same FERC account for every utility. For example, one utility might record compensation to a FERC A&G account where another utility made the interpretation to record the same expense to a FERC operations account. In addition, a FERC Form 1 comparison does not take into account that utilities engage in different activities. It is common for a company to undertake individual initiatives that that other utilities do not engage in. These initiatives require administrative support which other utilities would not incur and would not be recorded on FERC Form 1. An example would be KCP&L's energy efficiency programs. The energy efficiency programs require administrative support to manage the programs. Depending on the programs in place or energy efficiency strategy of the utility, a utility may require more administrative support based on the number of products and services. Another example is the provision of solar rebates by a utility. In these examples, KCP&L reports administrative support costs for energy efficiency and solar rebate programs in its FERC Form 1 whereas a utility that does not have extensive energy efficiency or solar rebate programs, such as Westar Energy, Inc. or The Empire District Electric Company ("Empire"), would record little or no costs in this area. Other types of initiatives that vary among utilities are Federal and state environmental and safety regulations. These mandated requirements impact utilities differently. A good example would be costs to comply with Nuclear Regulatory Commission ("NRC") regulations. Utilities with ownership in nuclear generation will have O&M costs to comply with NRC requirements, utilities with no ownership in nuclear generation will not. Because of this differing impact, utilities need different levels of support to ensure compliance with the regulations mandated by the Federal and State governments.

Q: Has the Commission recognized the inappropriateness of using FERC Form 1 data to make comparisons between utilities?

A: Yes. The Commission rejected Missouri Gas Energy's ("MGE") request for an return on equity adder based on a comparison of FERC data among gas utilities. The Commission determined:

> As was demonstrated in this case, there is really no way to determine with any degree of certainty that one company is more efficient than another. MGE attempted to do so by comparing its annual operating and maintenance expense to that of other Missouri gas companies. However, as Staff pointed out, operating and maintenance expenses are subject to many variables and are not a good basis for determining management efficiency. Although none of the evidence presented actually demonstrates that MGE is any more or less efficient than other gas companies, there was a lot of evidence filed on that question and its presentation took up a good deal of hearing time. The Commission does

> not wish to encourage a flood of indeterminate and ultimately pointless testimony on the question of management efficiency in future rate cases (footnotes omitted)[1].

Q: How do Companies compare their A&G expenditures to those of other utilities?

A: Because of the inherent difficulties in making comparisons with FERC Form 1 data, companies participate in benchmarking studies in an attempt to make comparisons amongst companies as meaningful as possible. These studies do not rely upon FERC Form 1 data.

Q: Has KCP&L recently participated in a benchmarking study with other utilities?

A: Yes, in 2014, Great Plains Energy Incorporated ("GPE") (KCP&L/KCP&L Greater Missouri Operations Company ("GMO")) participated in a benchmarking study facilitated by PA Consulting Group based on 2013 financial statements. The benchmarking study primarily focused on A&G expenses.

Q: How many other utilities participated in the benchmarking survey?

A: There were 14 other utilities in addition to KCP&L/GMO. Twelve (12) of these utilities are investor owned, while two (2) are publicly owned. All of the participating utilities have at their core an electric distribution business. In addition to the common denominator of an electric distribution business, thirteen (13) panel members, including GPE, own and operate electric generating assets, seven (7) own and operate gas distribution assets, and six (6), including GPE, have unregulated revenues.

The panel members represent a range of business size from medium size enterprises to some of the largest utility businesses in the United States, with GPE being roughly in the middle of the size range. In terms of annual revenues, the panel members

[1] In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service, GR-2004-0209, Report and Order, p. 28.

range from $800M to over $15Bn, with GPE at the panel median with $2.5Bn. In terms of net assets, the panel members range from $2.1Bn to over $30Bn, with Great Plains Energy at the median with $7Bn of net assets. Finally, in terms of employees, the panel members range from 1,100 to over 22,000, with Great Plains again at the panel median with 2950 total employees.

Q: Please describe the benchmarking process.

A: As indicated in the Schedule RAB-2 (HC) on page 3 thru 6, the benchmarking study consisted of PA Consulting working with a group of utilities across the United States to benchmark Corporate and Shared Services. This benchmark analysis evaluated the Corporate and Shared Services costs both in aggregate and major functional categories. The objective was to identify the costs involved in those activities that are either necessary for overall corporate governance or for activities which are normally shared across multiple lines of business in order to achieve economies of scale or scope. The group worked together with PA Consulting to understand and benchmark their Corporate and Shared Services activities. The process included reviews and revisions of questionnaire, input and review of data collection and entry, data validation, reporting results and a knowledge sharing sessions. All companies provided feedback for the questions and breadth of the survey. The process included extensive validation of data through on-site visits, peer-to-peer networking, meetings, conference calls, ad-hoc surveys and one-on-one dialogs. In addition, statistical and performance report comparisons were used to identify differences to validate. When data is determined final for all participating companies, a normalization process is used for reporting. The normalization approach gives equal weight to the company's gross margin, net assets, and number of full time employees. KCP&L's process included all of the above and several internal meetings and reviews with the business. Each division participated in providing data and reviewing data in reference to the definition of each category to provide consistent comparisons of benchmarking reports. In this benchmarking study costs are reviewed to provide apples to apples comparison across utility companies for each category as opposed to a one size fits all used for FERC reporting.

Q: Mr. Kollen and Staff produce several charts in testimony comparing KCP&L's A&G to other utilities near KCP&L. Do you agree with the comparisons Mr. Kollen and Staff have provided in testimony?

A: No, I do not. Mr. Kollen and Staff have provided comparisons of A&G without pension expense and are attempting to take a complex area of A&G recording that is very subjective and trying to make a simple comparison. Mr. Kollen and Staff have taken a simplistic approach to benchmarking KCP&L's A&G costs to compare to other utilities. This type of benchmarking is not appropriate because it relies upon subjective data which is not consistent among utilities.

Q: Does the FERC Uniform System of Accounts provide clear guidance for recording of all expenses on the income statement?

A: The FERC Uniform System of Accounts provides an outline of accounts to be used for expenses. It is not possible for FERC to have a policy for every situation. As I described above, there is subjectivity in many accounts. However, there are areas of the FERC Uniform System of Accounts that are very clear as to where to record expenses that allow for a much better comparison between utilities. For example, FERC accounts 403, 501, 509, 518, 547, 555, 561.4, 561.8, 565, 575.7, 440, 442, 444, 445, 447, 931 and 456.1 are accounts that provide more specific and defined guidance as to the costs to be recorded to these accounts for the generation or purchase and transmission of electricity or sale of electricity or transmission.

Q: **What other issues do you have with Mr. Kollen's and Staff's A&G comparisons?**

A: Mr. Kollen and Staff have only excluded pension expense because it has a direct revenue offset. While excluding pension expense is a good first step to get a comparison, it does not go far enough. Other expenses that have direct revenue offsets, such as regulatory asset and liability amortizations and energy efficiency customer program expenses, should also be removed to gain a better insight to the Company's cost structure. Mr. Kollen and Staff have failed to make other adjustments that, if made, would produce a better comparison. For example, KCP&L leases the headquarters at 1200 Main Street. Therefore, KCP&L records its jurisdictional share of lease expense to FERC account 931. Union Electric Company d/b/a Ameren Missouri ("Ameren Missouri") and Empire own their corporate headquarters and the costs of those buildings are included in rate base. In addition, because Ameren Missouri and Empire rate base their corporate headquarters, Ameren Missouri and Empire earn a return on the investment. Ameren Missouri and Empire are required by the FERC Uniform System of Accounts to record depreciation expense on their headquarters building in FERC account 403 which is not a component of A&G. KCP&L is required to record the lease expense to FERC Account 931 as prescribed by the FERC Uniform System of Accounts.

Q: Are there other areas of A&G expense Mr. Kollen and Staff should have considered.

A: Yes. There are several areas Mr. Kollen should have adjusted rather than just using FERC Form 1 data. I will give a few examples below of the type of analysis that would need to be done to conduct a comparison. The examples below are not exhaustive.

Q: Please explain.

A: For example, Mr. Kollen and Staff ignored the amortization of regulatory assets and liabilities that are components of A&G. The amortizations of regulatory assets and liabilities are mandated by each company's regulatory commissioners and are outside of the Company's control. For example, the Company has a number of regulatory assets and liabilities, such as solar rebates (regulatory asset) and SO_2 allowances (regulatory liability), that have been deemed prudent for the Company to recover from or refund to its customers. When these types of costs are deemed prudent for recovery or refund, the Commission determines the time period to recover or refund these costs. As the recovery of these assets is determined in separate rate cases, the time period to recover theses costs varies among utilities. For example, one utility could be amortizing a regulatory asset in Missouri over five years whereas Kansas could authorize recovery over 10 years for a different utility. The difference in time recovery would impact the amount of A&G expense that a company recognizes in a given year. In addition, Mr. Kollen and Staff have made a comparison to expenses as a percentage of operating revenues. The other utilities that Mr. Kollen and Staff have compared KCP&L to in testimony all have a FAC. With a FAC, companies that under-collect fuel, purchased power and transmission expenses record the under-collection as part of operating revenues.

Q: For 2013, what is the dollar value associated with amortization of regulatory assets and liabilities, energy efficiency program costs and lease expense for the Company's headquarters?

A: In 2013, the KCP&L/GMO recognized expenses of $36.9 million for regulatory amortizations, $8.3 million in energy efficiency program costs and $5.4 million in lease expense. In total, the KCP&L/GMO recorded $50.6 million of expenses for these items. The magnitude of these expenses distorts a comparison of A&G costs between utilities by solely relying on FERC Form 1 data. FERC Form 1 does not provide enough detail to make valid comparisons of all A&G costs.

Q: Why would the comparison of KCP&L MO for A&G as a percentage of operating revenues create an issue?

A: In the time periods that Mr. Kollen and Staff have referred to in testimony, KCP&L MO did not have a FAC mechanism. The other utilities would have the ability to have increased revenues for higher fuel and purchased power costs due to a number of valid reasons where KCP&L MO would not have the same comparison.

Q: What consideration should the Commission place on Mr. Kollen's and Staff's A&G comparisons?

A: The Commission should disregard the testimony of Mr. Kollen and Staff due to the number of flaws that are inherent in comparisons as discussed above in my testimony.

Q: What do you recommend the Commission do regarding Mr. Kollen's recommendation for KCP&L to undergo a management audit by an independent auditor?

A: I recommend that the Commission reject Mr. Kollen's proposal. As discussed above, KCP&L/GMO participated in a benchmarking study for the 2013 calendar year. In addition, KCP&L/GMO is participating in the same study for the 2014 calendar year. The benchmarking study of KCP&L/GMO is an in-depth study that compares A&G costs of participating utilities. As shown in Schedule RAB-1 (HC), KCP&L/GMO's A&G costs are not excessive and are, in fact, below the median of the other utilities that participated in the benchmarking study. While there were 14 utilities participating in the benchmarking, there were 7 utilities that provided data for all processes analyzed in the benchmarking study. These processes included Communications & Advertising, Environmental Affairs, Facilities, Finance, Governmental Affairs, HR, Health & Safety, IT, Legal, Regulatory Affairs and Security. As shown on Schedule RAB-1 (HC), Company **[redacted]** is significantly below the median. In the benchmarking study, each utility was not required to provide data for every area. KCP&L/GMO, along with six other utilities, provided data for all of the processes in the benchmarking study.

Depreciation Expense – ASC 410 previously referred to as SFAS 143 Accounting Future Cost of Removal

Q: Please explain this issue.

A: In Staff Cost of Service Report page 170, Staff expert Witness Derick A. Miles states "Staff recommends the Commission order KCPL to keep records of the amount of net salvage contained in depreciation reserves and to follow the SFAS 143 guidelines." It appears Staff believes KCP&L has not implemented SFAS 143 and is basing their recommendation on the misunderstanding of the response to data request MPSC-0137. Company witness John J. Spanos discusses the response to data request MPSC-0137 in his Rebuttal Testimony. My rebuttal is limited to the Company's implementation of SFAS 143.

Q: Does KCP&L follow SFAS 143 guidelines?

A: Yes.

Q: Does KCP&L, in fact, keep records of the amount of net salvage contained in depreciation reserves as part of following SFAS 143 guidelines?

A: Yes.

Q: What is the purpose of SFAS 143?

A: SFAS143 - Accounting for Asset Retirement Obligations (ARO) addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

Q: What was the effective date for SFAS 143?

A: SFAS 143 was effective beginning with the 2003 accounting year.

Q: When did KCP&L implement SFAS 143?

A: KCP&L implemented SFAS 143 for the 2003 accounting year. KCP&L'S 2003 10-K, page 109, note 15 discusses KCP&L's implementation of SFAS 143 (ARO). In every year since information has been provided in the 10-K as to KCP&L'S accounting for SFAS 143 (ARO).

Fuel Adjustment Clause

Q: What portion of OPC witness Ms. Lena M. Mantle's testimony will you be responding to?

A: On page 30 of Ms. Mantle's testimony, she asserts the FAC should only include costs "explicitly identified along with the FERC account and the resource code in which KCPL will record the actual cost/revenue."

Q: Why is Ms. Mantle's recommendation regarding explicit identification of FERC account and resource code problematic?

A: Only FERC can change its Uniform Chart of Accounts. Whereas, Resource Codes are part of the Company's managerial accounting system. They can and do change to meet the then prevailing needs of the Company. Requiring that resource codes be specified in a Company's tariff will not improve the information provided to support FAC calculations. Instead it will interfere with the Company's efforts to manage its business and the costs reflected in those accounts.

Ms. Mantle apparently believes that using Resource Codes will limit what is in the FAC. FERC Account numbers do have such limits because FERC defines what is included in one of its account numbers and KCP&L cannot change FERC's definition. The Company defines what is included in a Resource Code and can change that definition at will, but any such change made by KCP&L would have no effect on the FERC account definition. Assuming Ms. Mantle wants only a subset of those items included the specific FERC accounts to be included in the FAC, her objective would be better served following the Company's approach in its proposed FAC. Using words to describe what is included or excluded from the FERC account definition in a manner consistent with the

Company's proposed FAC allows the Company to manage its business while giving the Commission and our customers assurance about what is in or not in the FAC.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF RYAN A. BRESETTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ryan A. Bresette, being first duly sworn on his oath, states:

1. My name is Ryan A. Bresette. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fourteen (14) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

Ryan A. Bresette
Ryan A. Bresette

Subscribed and sworn before me this 7th day of May, 2015.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2019

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

SCHEDULES RAB-1 THROUGH RAB-3

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