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CASE NO.: ER-2016-0285

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
July 2016

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KANSAS CITY POWER & LIGHT COMPANY

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DIRECT 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 “Company”) as
6 Director – Regulatory Affairs.

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

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

9 **Q: What are your responsibilities?**

10 A: My responsibilities include the coordination, preparation and review of financial
11 information and schedules associated with Company rate case filings and other regulatory
12 filings.

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

14 A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of
15 Missouri-Columbia. In May 2016, I completed my Master of Business Administration
16 Degree from the University of Missouri – Kansas City. I am a Certified Public
17 Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur
18 Andersen, LLP holding various positions of increasing responsibilities in the auditing
19 division. I conducted and led various auditing engagements of company financial

1 statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior
2 Accountant. This position involved operational and financial analysis of water
3 operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This
4 position involved special accounting and auditing projects in the electric, gas,
5 telecommunications and cable industries. In 2002, I joined Aquila, Inc. ("Aquila")
6 holding various positions within the Regulatory department until 2004 when I became
7 Director of Regulatory Accounting Services. This position was primarily responsible for
8 the planning and preparation of all accounting adjustments associated with regulatory
9 filings in the electric jurisdictions. As a result of the acquisition of Aquila by Great
10 Plains Energy Incorporated ("GPE"), I began my employment with KCP&L as Senior
11 Manager, Regulatory Accounting in July 2008. In April 2013, I joined the Regulatory
12 Affairs department as a Senior Manager remaining in charge of Regulatory Accounting
13 responsibilities. In December 2015, I became Director, Regulatory Affairs responsible
14 for the coordination, preparation and filing of rate cases in our electric jurisdictions.

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

18 A: Yes. I have testified before the MPSC, Kansas Corporation Commission, California
19 Public Utilities Commission, and the Public Utilities Commission of Colorado.

20 **Q: What is the purpose of your testimony?**

21 A: The purpose of my testimony is to: (i) describe the revenue requirement model and
22 schedules that are used to support the rate increase KCP&L is requesting in this
23 proceeding (Schedules RAK-1 through RAK-3 attached to this testimony); and (ii)

1 support various accounting adjustments listed on the Rate Base and Summary of
2 Adjustments (Schedule RAK-2 and RAK-4 attached to this testimony).

3 **REVENUE REQUIREMENT MODEL AND SCHEDULES**

4 **Q: What is the purpose of Schedules RAK-1 through RAK-3?**

5 A: These schedules represent the key outputs of the Company's revenue requirement model
6 used to support the rate increase that KCP&L requests in this proceeding. Schedule
7 RAK-1 shows the revenue requirement calculation. Schedule RAK-2 lists the rate base
8 components, along with the sponsoring witnesses. Schedule RAK-3 is the adjusted
9 income statement.

10 **Q: Were the schedules prepared either by you or under your direction?**

11 A: Yes, they were.

12 **Q: Please describe the process the Company used to determine the requested rate
13 increase.**

14 A: We utilized our historical ratemaking preparation process to determine the rate increase
15 request. We used historical test year data from the financial books and records of the
16 Company as the basis for operating revenues, operating expenses and rate base. We then
17 adjusted the historical test year data to reflect: (i) normal levels of revenues and expenses
18 that would have occurred during the test year; (ii) annualizations of certain revenues and
19 expenses; (iii) amortizations of regulatory assets and liabilities; and (iv) known and
20 measurable changes that have been identified since the end of the historical test year. We
21 then allocated the adjusted test year data to arrive at operating revenues, operating
22 expenses, and rate base applicable to the Missouri jurisdiction. We subtracted operating
23 expenses from operating revenues to arrive at operating income. We multiplied the net

1 original cost of rate base times the requested rate of return to determine the net operating
2 income requirement. This was compared with the net operating income available to
3 determine the additional net operating income before income taxes that would be needed
4 to achieve the requested rate of return. Additional current income taxes were then added
5 to arrive at the gross revenue requirement. This requested rate increase is the amount
6 necessary for the post-increase calculated rate of return to equal the rate of return
7 supported by KCP&L witnesses Robert B. Hevert and Kevin Bryant in their Direct
8 Testimonies.

9 **TEST YEAR**

10 **Q: What historical test year did KCP&L use in determining rate base and operating**
11 **income?**

12 A: The revenue requirement schedules are based on a historical test year of the 12 months
13 ending December 31, 2015, with known and measurable changes projected through
14 December 31, 2016. We will update the schedules as of the cut-off date used by Staff in
15 this rate case. In addition, we will then true up to actuals as part of the true-up process.

16 **Q: Why was this test year selected?**

17 A: The Company used the 12-month period ending December 31, 2015 for the test year in
18 this rate proceeding because that period reflects the most currently available quarterly
19 financial information to provide adequate time to prepare the revenue requirement for this
20 case.

21 **Q: Does test year expense reflect an appropriate allocation of KCP&L overhead to**
22 **KCP&L Greater Missouri Operations Company (“GMO”) and other affiliated**
23 **companies?**

1 A: Yes, KCP&L incurs costs for the benefit of GMO and other affiliated companies and
2 these costs are billed out as part of the normal accounting process. Certain projects and
3 operating units are set up to allocate costs among the various affiliated companies based
4 on appropriate cost drivers while others are set up to assign costs directly to the
5 benefiting affiliate.

6 **Q: Does GMO incur costs that are allocated to KCP&L?**

7 A: Yes, although not as significant as costs allocated by KCP&L, GMO does incur certain
8 costs that are allocated to KCP&L.

9 **Q: Why is a true-up period needed for this rate case?**

10 A: Historically, rate cases have included true-up periods which provide for updates to test
11 year data. This process allows for changes in cost levels included in the test year to be
12 updated to the most current information as of a specified date which is closer to the date
13 rates are effective. This allows for a proper matching of rate base, revenues and expenses
14 to account for known and measureable changes that have occurred since the end of the
15 test year. As stated above the Company is requesting a true-up date effective of
16 December 31, 2016 in order to provide this update to rate base, revenues and expenses in
17 this rate case.

18 **JURISDICTIONAL ALLOCATIONS**

19 **Q: Why is it necessary to allocate revenues, expenses and rate base to the Company's
20 various jurisdictions?**

21 A: KCP&L does not have separate operating systems for its Missouri, Kansas, and firm
22 wholesale jurisdictions. It operates a single production and transmission system that is
23 used to provide service to retail customers in Missouri and Kansas, as well as the full-

1 requirements firm wholesale customers. Therefore, jurisdictional allocations of operating
2 expenses, certain operating revenues and rate base are necessary.

3 **Q: Why is the method by which the allocations are made critical?**

4 A: First, the method of allocation is critical to ensure that the rates charged to each
5 jurisdiction of customers reflect the full cost of serving those customers but not the cost
6 of serving customers in other jurisdictions. Second, and very important, is the method of
7 allocation must allow the Company the opportunity to recover fully its prudently incurred
8 costs of serving those customers. That is, if the sum of the allocation factors allowed in
9 each jurisdiction is less than 100%, then the Company is unable to recover its prudently
10 incurred cost of service and return on rate base.

11 **Q: What allocators did the Company use?**

12 A: The allocators that were utilized can be classified as input allocators and calculated
13 allocators. The input allocators are based on weather-normalized demand and energy,
14 described in the Direct Testimony of KCP&L witness Albert R. Bass, Jr., and customer
15 information. Attached as Schedule RAK-6 is a listing of the allocation factors for this
16 rate proceeding. The calculated allocators are, at their root, based on the Demand,
17 Energy, and Customer allocators. The calculated allocators are calculated as a
18 combination of amounts that have previously been allocated using one or more of the
19 input allocators.

20 **Q: Please describe the Demand allocator.**

21 A: The Demand allocator used for this case is 4-month weather normalized average of the
22 coincident peak demands for the Missouri and Kansas retail jurisdictional customers and

1 the firm wholesale jurisdiction which covered the period January 2015 to December
2 2015.

3 **Q: Please describe the Energy allocator.**

4 A: The Energy allocator is based on the total weather-normalized kilowatt-hour usage by the
5 Missouri and Kansas retail customers and the firm wholesale jurisdiction which covered
6 the period January 2015 to December 2015 with customer growth through December
7 2016.

8 **Q: Please describe the Customer allocator.**

9 A: The Customer allocator is based on the average number of customers in Missouri,
10 Kansas, and the firm wholesale jurisdiction which covered the period January 2015 to
11 December 2015 with customer growth through December 2016.

12 **Q: Please explain how the various revenue, expense and rate base components are
13 allocated among KCP&L's regulatory jurisdictions.**

14 A: Attached as Schedule RAK-7 is a narrative describing the allocation methodology.

15 **ACCOUNTING ADJUSTMENTS**

16 **Q: Please discuss Schedule RAK-4.**

17 A: This schedule presents a listing of adjustments to net operating income for the 12 months
18 ended December 31, 2015, along with the sponsoring Company witnesses. Various
19 Company witnesses will support, in their direct testimonies, the need for each of these
20 adjustments.

1 **Q: Please explain the adjustments to reflect normal levels of revenues and expenses.**

2 A: Adjustments are made to reflect “normal” levels of revenues and expenses; for example,
3 retail revenues are adjusted to reflect if the weather had been “normal” during the test
4 year.

5 **Q: Please explain the adjustments to annualize certain revenues and expenses.**

6 A: Revenues are annualized to reflect anticipated customer growth during the true-up period.
7 Annualization adjustments have been made to reflect an annual level of expense in cost
8 of service, such as the annualization of payroll and depreciation expenses. The former
9 reflects a full year’s impact of recent and expected pay increases, while the latter reflects
10 the impact of a full year’s depreciation on plant additions included in rate base.

11 **Q: Please explain the adjustments to amortize regulatory assets and liabilities.**

12 A: Various regulatory assets and liabilities have been established in past Missouri rate cases.
13 These assets/liabilities are then amortized over the number of years authorized in the
14 orders for the applicable rate cases. Adjustments are sometimes necessary to annualize
15 the amortization amount included in the test year or remove amortizations that have
16 ceased during the test year.

17 **Q: Did the Company comply with the prospective tracking of regulatory assets and**
18 **liabilities as agreed to in the Partial Non-Unanimous Stipulation and Agreement As**
19 **To Certain Issues from Rate Case No. ER-2014-0370 (“2014 Case”)?**

20 A: Yes. In this rate case filing KCP&L complied with this agreement and reflected the
21 prospective treatment of regulatory assets and liabilities in accordance with this
22 agreement. Please see the individual regulatory asset and regulatory liability adjustments
23 described later in my testimony that describes the prospective treatment where applicable.

1 **Q: Please explain the adjustments to reflect known and measurable changes that have**
2 **been identified since the end of the historical test year.**

3 A: These adjustments are made to reflect changes in the level of revenue, expense, rate base
4 and cost of capital that either have occurred or are expected to occur prior to the true-up
5 date in this case. For example, payroll expense and fuel costs have been adjusted for
6 known and measurable changes.

7 **Q: Do the adjustments listed on Schedule RAK-4 and discussed throughout the**
8 **remainder of this testimony entail an adjustment of test year amounts?**

9 A: Yes, the adjustments summarized on Schedule RAK-4 and discussed in this testimony
10 reflect adjustments to the test year ended December 31, 2015.

11 **RB-20 PLANT IN SERVICE**

12 **Q: Please explain adjustment RB-20.**

13 A: KCP&L rolled the test year end December 31, 2015 plant balances forward to December
14 31, 2016, by using the Company's actual results through December 2015 and the 2016
15 capital budgets for subsequent additional capital additions post December 2015.
16 Projected plant additions net of projected retirements were added to actual balances
17 through December 2015 to arrive at projected plant balances at December 31, 2016.

18 **Q: Does RB-20 include amounts associated with the Clean Charge Network?**

19 A: In January 2015 KCP&L announced a plan to install and operate more than 1,000 electric
20 vehicle charging stations throughout the Greater Kansas City region. Included in
21 adjustment RB-20 are the actual and projected capital costs for the Clean Charge
22 Network through the true-up date in this case December 31, 2016. Please see the

1 testimony of Company witness Tim Rush for further explanation of the Clean Charge
2 Network.

3 **Q: Does the projected retirements include the retirement of the Montrose generating**
4 **station?**

5 A: Included in adjustment RB-20 are estimated retirements through the true-up date in this
6 rate case December 31, 2016. Included in the retirement estimate is the retirement of the
7 Montrose 1 generating station. As of April 16, 2016 the Montrose 1 generating station
8 was taken out of service and is no longer generating electricity with no plans to return the
9 unit to service. As such, RB-20 estimated retirement amount includes the Montrose 1
10 retirement.

11 **Q: Please explain the adjustment column titled "Allconnect Assets" included in**
12 **adjustment RB-20?**

13 A: The Report and Order from File Number EC-2015-0309 involved KCP&L's Direct
14 Transfer Services Agreement with Allconnect, Inc. involving the offering of assistance
15 with the establishment of household services such as communication bundles, video,
16 internet, home phone, and home security through a variety of service providers. KCP&L
17 has historically accounted for the revenue and expenses associated with this activity as
18 non-regulated and have not included the revenue and expenses in the utilities cost of
19 service when setting rates. In the EC-2015-0309 Report and Order, the Commission
20 ordered that the revenue and expenses associated with the Allconnect relationship should
21 be treated as regulated revenue. There are certain capital costs associated with software
22 installations that were required in order to have the functionality to make the call
23 transfers. These capital costs had historically been removed from regulated plant in

1 service. As such, adjustment RB-20 includes an adjustment including the capital costs as
2 part of plant in service for this rate case proceeding.

3 **RB-25/CS-111 IATAN 1 & IATAN COMMON REGULATORY ASSET**

4 **Q: Please explain adjustment RB-25.**

5 A: As continued from the 2014 Case, KCP&L included in a regulatory asset depreciation
6 expense and carrying costs for the Iatan Unit 1 Air Quality Control System and Iatan
7 common plant. Adjustment RB-25 establishes the anticipated rate base value as of
8 December 31, 2016 by rolling forward the regulatory asset balance, which is recorded on
9 a Missouri jurisdictional basis, from December 31, 2015 to December 31, 2016.

10 **Q: Was this regulatory asset included in rate base in the 2014 Case?**

11 A: Yes.

12 **Q: Please explain adjustment CS-111.**

13 A: We continued the amortization of this regulatory asset based on the amortization levels
14 established in the 2014 Case. The test year properly reflected the annual level of
15 amortization expense.

16 **RB-26/CS-112 IATAN 2 REGULATORY ASSET**

17 **Q: Please explain adjustment RB-26.**

18 A: As continued from the 2014 Case, KCP&L included in a regulatory asset construction
19 accounting impacts which included depreciation, carrying costs, operations and
20 maintenance expenses and fuel and revenue impacts for the Iatan Unit 2 construction
21 project. Adjustment RB-26 establishes the anticipated rate base value as of December
22 31, 2016 by rolling forward the regulatory asset balance, which is recorded on a Missouri
23 jurisdictional basis, from December 31, 2015 to December 31, 2016.

1 **Q: Was this regulatory asset included in rate base in the 2014 Case?**

2 A: Yes.

3 **Q: Please explain adjustment CS-112.**

4 A: We continued the amortization of this regulatory asset based on the amortization levels
5 established in the 2014 Case. The test year properly reflected the annual level of
6 amortization expense.

7 **RB-30 RESERVE FOR DEPRECIATION**

8 **Q: Please explain adjustment RB-30.**

9 A: This adjustment rolls forward the Missouri-basis Reserve for Depreciation from
10 December 31, 2015 to balances projected as of December 31, 2016.

11 **Q: How was this roll-forward accomplished?**

12 A: The depreciation/amortization provision component was calculated in two steps: (i) the
13 December 2015 depreciation provision was multiplied by twelve months to approximate
14 the provision that will be charged to the Reserve for Depreciation from January 2016
15 through December 2016 for plant existing at December 31, 2015; and (ii) by estimating
16 the depreciation/amortization through December 31, 2016 attributable to projected net
17 plant additions from January 2016 through December 2016. In the second step, we
18 assumed the net plant additions occurred ratably over this period.

19 **Q: Was the impact of retirements included in the roll-forward?**

20 A: Yes. Projected retirements for the period January 2016 through December 2016 were
21 based on actual test period retirements with adjustments to include projected Montrose 1
22 retirements and exclude retirements that occurred in the test period for LaCgyne
23 Environmental and AMR meters.

1 RB-50 PREPAYMENTS

2 **Q: Please explain adjustment RB-50.**

3 A: We normalized this rate base item based on a 13-month average of prepayment balances.
4 Prepayment amounts can vary widely during the course of the year and an averaging
5 method minimizes these fluctuations.

6 **Q: What accounts are included in prepayments?**

7 A: The most significant relate to prepaid insurance, postage and software maintenance.

8 **Q: What period was used for the 13-month averaging?**

9 A: We used the period December 2014 through December 2015.

10 RB-55/CS-22 EMISSION ALLOWANCES

11 **Q: Please explain adjustment RB-55.**

12 A: The Regulatory Plan Stipulation and Agreement (“Regulatory Plan S&A”) agreed to in
13 Case No. EO-2005-0329, with amendments approved on August 23, 2005, included an
14 SO₂ Emission Allowance Management Policy. This policy provided for KCP&L to sell
15 sulfur dioxide (“SO₂”) emission allowances in accordance with the initial SO₂ Plan
16 submitted to the MPSC, the MPSC Staff and other parties in January 2005, as updated.

17 The Regulatory Plan S&A required KCP&L to record all SO₂ emission allowance
18 sales proceeds as a regulatory liability in Account 254. The liability was reduced by
19 premiums that resulted from the Company’s purchase of lower sulfur coal than specified
20 under contracts, through the December 31, 2010 true-up date in Case No. ER-2010-0355
21 (“2010 Case”). Subsequent to December 31, 2010, the liability has been increased by
22 sales of allowances through the Environmental Protection Agency’s (“EPA”) annual
23 auction and reduced by amortization of the December 31, 2010 regulatory liability

1 beginning in May 2011. In October 2015 with the implementation of the Fuel
2 Adjustment Clause (“FAC”), Missouri jurisdictional revenues received from EPA
3 auctions will now flow through the FAC directly back to the customer.
4 Adjustment RB-55 reflects a net reduction in the regulatory liability balance through
5 December 31, 2016 resulting from the amortization.

6 **Q: Please explain adjustment CS-22.**

7 A: This adjustment reflects an annualization of the amortization of this December 31, 2016
8 projected SO₂ proceeds regulatory liability.

9 **Q: Over what time period is this regulatory liability to be amortized?**

10 A: The Non-Unanimous Stipulation and Agreement As To Miscellaneous Issues in the 2010
11 Case, approved by the Commission on April 12, 2011, provided that the amortization
12 period for the SO₂ regulatory liability would be 21 years beginning with the May 2011
13 effective date of rates in the 2010 Case.

14 **CS-61/RB-61 OTHER POST-EMPLOYMENT BENEFITS**

15 **Q: Please explain adjustments CS-61 and RB-61.**

16 A: CS-61 is the adjustment of other post-employment benefits (OPEB) expense as recorded
17 under Accounting Standards Codification No. 715, Compensation-Retirement Benefits to
18 an annualized level for ratemaking purposes for KCP&L’s portion of the GPE Non-
19 Union and Joint Trusteed Post Employment Retirement Plans. Previously the accounting
20 guidance was referred to as Financial Accounting Standards No. 106 “Employers’
21 Accounting for Postretirement Benefits Other Than Pensions” (FAS 106) and this
22 description will continue to be used in the regulatory process. CS-61 also includes an

1 adjustment for the Wolf Creek generation station's OPEB expense based on the cash
2 amount paid to Wolf Creek (WCNOC) rather than the FAS 106 expense amount.

3 RB-61 is the roll forward of the FAS 106 regulatory liability and the prepaid
4 OPEB regulatory asset to the projected December 31, 2016 balance.

5 **Q: Do these adjustments take into consideration OPEB expense billed to joint
6 partners, billed to affiliated companies, and charged to capital?**

7 A: Yes, for adjustment CS-61 total company costs are adjusted to exclude the amortization
8 of unrecognized OPEB costs related to the acquisition of Aquila by GPE in 2008 and
9 adjustments were made for projected billings to affiliates and joint partners and charges
10 to capital, based on data from the payroll adjustment discussed later in this testimony
11 (adjustment CS-50). Adjustment RB-61 also takes into account billings to joint partners
12 and affiliates but the balances are before charges to capital.

13 **Q: Please explain the components of adjustment CS-61.**

14 A: CS-61 has three components which include (1) the annualized FAS 106 expense for the
15 Company's Non-Union and Joint Trusteed plans based on the projected 2016 total
16 company amount provided by the Company's actuary, Willis Towers Watson; (2) the
17 Company's portion of the Wolf Creek generation station OPEB benefits based on the
18 amount contributed to the plan, also referred to as the "pay as you go" amount; and (3)
19 the five-year amortization of the FAS 106 regulatory liability.

20 **Q: Was annualized OPEB expense determined in accordance with established
21 regulatory practice?**

22 A: Yes, annualized OPEB expense was determined based on the methodology established in
23 the Non-Unanimous Stipulation and Agreement in the 2014 Case.

1 **Q: What is the amount of FAS 106 expense on a total company Missouri basis**
2 **currently built into rates?**

3 A: The Non-Unanimous Stipulation and Agreement in the 2014 Case established the annual
4 FAS 106 amount in rates at \$3,592,420 (total company), after removal of capitalized
5 amounts and the portion of KCP&L's annual OPEB cost allocated to KCP&L's joint
6 partners, but before the inclusion of FAS 106 amortization and the Company's portion of
7 WCNOB OPEB benefits.

8 **Q: What is the comparable level of FAS 106 expense on a total company Missouri basis**
9 **included in cost of service for this case?**

10 A: The comparable amount included in cost of service in this case is \$1,223,948.

11 **Q: Please explain the FAS 106 regulatory liability.**

12 A: The regulatory liability represents the cumulative unamortized difference in FAS 106
13 OPEB expense for ratemaking purposes and the post retirement expense built into rates.

14 **Q: How was the FAS 106 regulatory liability rolled forward to the December 31, 2016**
15 **balance?**

16 A: The total company FAS 106 OPEB regulatory liability balance at May 31, 2015 was
17 adjusted by the projected total company difference between FAS 106 expense for
18 Missouri ratemaking purposes and the FAS 106 amount built into rates for the period
19 June 1, 2015 through December 31, 2016. The balance was also adjusted for the
20 projected amortizations for the June 1, 2015 through December 31, 2016 time period.
21 Before inclusion in rate base, the appropriate Missouri jurisdictional allocation factor was
22 applied to the total company amount.

1 **Q: Was the Company's portion of WCNOG costs included in the FAS 106 regulatory**
2 **liability adjustment for the June 1, 2015 through December 31, 2016 period?**

3 A: No, the WCNOG portion was not included per the Non-Unanimous Stipulation and
4 Agreement in the 2014 Case.

5 **Q: What is the projected FAS 106 regulatory liability balance at December 31, 2016 on**
6 **a total company basis?**

7 A: The FAS 106 regulatory liability on a total company basis is projected to be \$4,942,389
8 at December 31, 2016.

9 **Q: Is the FAS 106 regulatory liability properly includable in rate base?**

10 A: Yes, the FAS 106 regulatory liability is included in rate base consistent with the Non-
11 Unanimous Stipulation and Agreement in the 2014 Case.

12 **Q: Please explain the prepaid OPEB regulatory asset.**

13 A: The prepaid OPEB regulatory asset represents the cumulative difference between the
14 FAS 106 OPEB expense and contributions made to the OPEB trusts.

15 **Q: How was the prepaid OPEB regulatory asset rolled forward to December 31, 2016?**

16 A: The total company prepaid OPEB regulatory asset balance at May 31, 2015 was adjusted
17 by the projected FAS 106 expense and contributions for Missouri ratemaking purposes
18 for the period June 1, 2015 through December 31, 2016.

19 **Q: What is the projected cumulative prepaid OPEB regulatory balance at December**
20 **31, 2016 on a total company Missouri basis?**

21 A: The balance for the prepaid regulatory asset at December 31, 2016 is projected to be zero.

22 **Q: Is the regulatory treatment of OPEB costs in this rate filing consistent with the Non-**
23 **Unanimous Stipulation and Agreement in the 2014 Case?**

1 A: Yes it is consistent.

2 **Q: Does the Company request to continue the regulatory treatment of OPEB costs?**

3 A: Yes it does.

4 **CS-65/RB-65 PENSION COSTS**

5 **Q: Please explain adjustments CS-65 and RB-65.**

6 A: CS-65 is the adjustment of pension expense as recorded under Accounting Standards
7 Codification No. 715, Compensation-Retirement Benefits to an annualized level for
8 ratemaking purposes. Previously the accounting guidance was referred to as Financial
9 Accounting Standards No. 87 “Employers’ Accounting for Pensions” (FAS 87) and No.
10 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit
11 Pension Plans and for Termination Benefits” (FAS 88) and these descriptions will
12 continue to be used in the regulatory process.

13 RB-65 is the roll forward of the FAS 87, FAS 88 and prepaid pension regulatory
14 assets to the projected December 31, 2016 balance.

15 **Q: Do these pension adjustments take into consideration pension expense billed to joint
16 partners, billed to affiliated companies, and charged to capital?**

17 A: Adjustment CS-65 takes into account billings to joint partners and affiliates and charges
18 to capital based on data from the payroll adjustment CS-50. Adjustment RB-65 also
19 takes into account billings to joint partners and affiliates but the balances are before
20 charges to capital.

21 **Q: Do these pension adjustments include the effects of the Company’s interest in the
22 Wolf Creek generating station pension plan?**

23 A: Yes, they do.

1 **Q: Please explain the components of adjustment CS-65, pension expense.**

2 A: The FAS 87 cost was annualized based on the projected 2016 total company cost
3 provided by the Company's actuarial firm, Willis Towers Watson. In addition,
4 annualized pension expense includes the five-year amortization of the FAS 87 and FAS
5 88 regulatory assets.

6 **Q: Was annualized pension expense determined in accordance with established
7 regulatory practice?**

8 A: Yes, annualized pension expense was determined based on the methodology documented
9 in the 2014 Case.

10 **Q: What is the amount of FAS 87 expense on a total company Missouri basis currently
11 built into rates?**

12 A: The Non-Unanimous Stipulation and Agreement in the 2014 Case established the annual
13 amount built into rates at \$46,897,314, (total company), after removal of capitalized
14 amounts and the portion of KCP&L's annual pension cost that is allocated to KCP&L's
15 joint partners associated with the Iatan and La Cygne generating stations, and before
16 inclusion of the amortization of the FAS 87 and FAS 88 regulatory assets and
17 Supplemental Executive Retirement Plan ("SERP") expense.

18 **Q: What is the comparable level of FAS 87 expense on a total company Missouri basis
19 included in cost of service for this case?**

20 A: The comparable amount included in cost of service in this rate case is \$39,926,526 (total
21 company).

1 **Q: Please explain the FAS 87 regulatory asset.**

2 A: This regulatory asset represents the cumulative unamortized difference in FAS 87
3 pension expense for ratemaking purposes and pension expense built into rates for the
4 corresponding periods.

5 **Q: How was the FAS 87 regulatory asset rolled forward to the December 31, 2016
6 balance?**

7 A: The total company FAS 87 pension regulatory asset balance at May 31, 2015 was
8 adjusted by the projected total company difference between FAS 87 expense for Missouri
9 ratemaking purposes and the FAS 87 expense built into rates for the period June 1, 2015
10 through December 31, 2016. The regulatory asset balance was also reduced by the
11 projected amortizations for the June 1, 2015 through December 31, 2016 period. Before
12 inclusion in rate base, the appropriate Missouri jurisdictional allocation factor was
13 applied to the total company amount.

14 **Q: What is the projected FAS 87 regulatory asset balance at December 31, 2016 on a
15 total company basis?**

16 A: The FAS 87 regulatory asset on a total company basis is projected to be \$13,585,937 at
17 December 31, 2016.

18 **Q: Is the FAS 87 regulatory asset properly includable in rate base?**

19 A: Yes, it is included in rate base per the Non-Unanimous Stipulation and Agreement in the
20 2014 Case.

21 **Q: Please explain the FAS 88 regulatory asset.**

22 A: This regulatory asset represents the cumulative deferred costs for pension plan
23 settlements accounted for under FAS 88. Because these do not occur on a regular basis,
24 they are tracked by vintage for ease of calculation and discussion. This case includes

1 three vintages: (1) the 2011 vintage which was approved in Case No. ER-2012-0174 and
2 reaffirmed in the 2014 Case for amortization over five years; (2) the 2013 vintage for
3 settlements related to the Joint Trusteed Pension Plan during 2013 which was approved in
4 the 2014 Case for amortization over five years; and, (3) the 2014 vintage for settlements
5 related to the Non-Union Pension Plan also approved in the 2014 Case and amortized
6 over five years.

7 **Q: How was the FAS 88 regulatory asset rolled forward to the December 31, 2016**
8 **balance?**

9 A: As noted above this regulatory asset is tracked by vintage. For the 2011 vintage the total
10 company FAS 88 pension regulatory asset balance at May 31, 2015 was reduced by the
11 projected amortizations for the June 1, 2015 through December 31, 2016 period. For
12 both the 2013 and 2014 vintages, the May 31, 2015 balances were reduced by the
13 projected amortization for October 1, 2015 through December 31, 2016.

14 **Q: What is the cumulative FAS 88 regulatory balance at December 31, 2016 on a total**
15 **company basis?**

16 A: The projected FAS 88 regulatory asset at December 31, 2016 is \$15,033,138 on a total
17 company basis which consists of \$2,425,731 for the 2011 vintage, \$5,068,399 for the
18 2013 vintage and \$7,539,008 for the 2014 vintage.

19 **Q: Is the FAS 88 regulatory asset included in rate base?**

20 A: No, it is not included in rate base consistent with the Non-Unanimous Stipulation and
21 Agreement in the 2014 Case.

- 1 **Q: Please explain the prepaid pension regulatory asset.**
- 2 A: The prepaid pension regulatory asset represents the cumulative difference between the
- 3 FAS 87 regulatory pension expense and contributions made to the pension trusts.
- 4 **Q: How was the prepaid regulatory asset rolled forward to the December 31, 2016**
- 5 **balance?**
- 6 A: The total company prepaid pension regulatory asset balance at May 31, 2015 was
- 7 adjusted by the projected FAS 87 regulatory expense and contributions for Missouri
- 8 ratemaking purposes for the periods June 1, 2015 through December 31, 2016. Before
- 9 inclusion in rate base, the appropriate Missouri jurisdictional allocation factor was
- 10 applied to the total company amount.
- 11 **Q: What is the projected cumulative prepaid pension regulatory balance at December**
- 12 **31, 2016 on a total company Missouri basis?**
- 13 A: The balance for the prepaid pension regulatory asset as of December 31, 2016 is
- 14 projected to be zero.
- 15 **Q: Is the regulatory treatment of pension costs in this rate filing consistent with the**
- 16 **Non-Unanimous Stipulation and Agreement in the 2014 Case?**
- 17 A: Yes it is.
- 18 **Q: Does the Company request to continue the regulatory treatment of pension costs?**
- 19 A: Yes it does.

1 **RB-70 CUSTOMER DEPOSITS**

2 **Q: Please explain adjustment RB-70.**

3 A: We examined customer deposit balances for Missouri customers from December 2014
4 through December 2015. The analysis observed a fluctuating balance during this period.
5 Therefore, we chose to use the 13 month average of customer deposits in rate base.

6 **RB-71 CUSTOMER ADVANCES**

7 **Q: Please explain adjustment RB-71.**

8 A: We examined customer advance balances for Missouri customers from December 2014
9 through December 2015 and observed that the balance was unchanged during this period.
10 Therefore, we used the December 2015 balance in rate base.

11 **RB-72 MATERIALS AND SUPPLIES**

12 **Q: Please explain adjustment RB-72.**

13 A: We reviewed the individual materials and supplies category balances during the period
14 December 2014 through December 2015 to determine if there was a discernable trend,
15 either upward or downward. If there was a trend the test year-end balance was not
16 adjusted. Otherwise, a 13-month average was used.

17 **RB-75 NUCLEAR FUEL INVENTORY**

18 **Q: Please explain adjustment RB-75.**

19 A: We normalized this balance based on an 18-month average, to coincide with the
20 18-month Wolf Creek refueling cycle. Nuclear fuel inventory balances increase
21 significantly at the time of a refueling outage and then decrease systematically until the
22 next refueling outage. An averaging method minimizes these changes.

1 **Q: What period was used for the 18-month averaging?**

2 A: We used the period July 2015 through December 2016.

3 **RB-100/CS-100 PRE-MEEIA DSM PROGRAMS**

4 **Q: Please explain adjustment RB-100.**

5 A: KCP&L have implemented demand-side management programs since 2005. A
6 regulatory asset account is in place to allow full recovery of all DSM program costs.
7 These programs were terminated on July 6, 2014, when KCP&L's MEEIA programs
8 became effective as a result of Case No. EO-2014-0095. This adjustment rolls forward
9 the unamortized deferred DSM program costs from May 31, 2015, the true-up period in
10 the 2014 case, to December 31, 2016 for DSM program vintages 1-6. Also included in
11 this adjustment is vintage 7 deferrals representing actual costs incurred from June 2015
12 through April 2016 and projected carrying costs on unrecovered balances through
13 December 31, 2016.

14 **Q: Please explain adjustment CS-100.**

15 A: This adjustment includes an annual amortization of deferred pre-MEEIA costs based on
16 the projected deferred cost balance included in adjustment RB-100. The amortization
17 period included for this case for vintages 1 – 4 is ten years and for vintages 5 – 7 is 6
18 years which is consistent with prior cases.

19 **Q: Please discuss the Pre-MEEIA opt out component of adjustment CS-100?**

20 A: KCP&L is making this adjustment to comply with conditions of the MPSC Order
21 Approving Stipulation and Agreement in Case No. EO-2014-0029. The parties agreed
22 that customers who opt-out of demand-side management programs would receive a credit
23 on their monthly bills equivalent to the non-MEEIA energy efficiency charges built into

1 rate base. The agreement also allowed KCP&L to defer the amounts credited to
2 customers in a separate account.

3 KCP&L was granted deferral treatment of the “opt out” costs for determination of
4 recovery in a future rate case. The deferral includes two components: 1) prospective
5 crediting of opt-out charges, and 2) retroactive crediting of opt-out charges. The 2014
6 Case established the amortization level of the unamortized deferred balance which
7 includes actual opt-out costs incurred through May 2015. The costs, tracked as vintage 1,
8 are being amortized over six years. There is no rate base treatment of deferred pre-
9 MEEIA opt-out amounts. The Pre-MEEIA Opt-Outs adjustment provides the annual
10 amortization expense for vintage 1. In addition, the Company is proposing the annual
11 amortization of deferred costs recorded from May 2015 through December 2016, which
12 is tracked as vintage 2, to also be amortized over six years.

13 **RB-125 ACCUMULATED DEFERRED INCOME TAXES**

14 **Q: Please explain adjustment RB-125.**

15 A: We adjusted December 31, 2015 Accumulated Deferred Income Taxes (“ADIT”) in
16 adjustment RB-125. Deferred income taxes represent the tax on timing differences for
17 deductions and income reported on KCP&L’s income tax returns compared to what is
18 reported for book purposes. ADIT represents the accumulated balance of these income
19 tax timing differences at a point in time.

20 **Q: What are the ADIT adjustments to KCP&L’s rate base?**

21 A: Adjustment RB-125 related to items included in KCP&L’s rate base or net operating
22 income. This schedule reflects the deferred tax liabilities relating to depreciation and
23 other expenses deducted for the tax return in excess of book deductions (including bonus

1 depreciation), resulting in a rate base decrease. This adjustment also reflects deferred tax
2 assets that serve to increase rate base. The most significant of the deferred tax assets is
3 the net operating losses. For tax purposes, the deductions for accelerated depreciation
4 (including bonus depreciation) created a net operating loss for KCP&L. Under the
5 Internal Revenue Service normalization rules, deferred tax liabilities that have not been
6 used to reduce the tax liability of the company should not be included as a rate base
7 reduction. The inclusion of the deferred tax assets related to net operating losses created
8 by accelerated depreciation deductions partially offsets the deferred tax liabilities for
9 accelerated depreciation deduction in order to reflect the proper amount of deferred taxes
10 in rate base for the Company.

11 **Q: Why does ADIT affect rate base?**

12 **A:** ADIT liabilities such as accelerated depreciation are considered a cost-free source of
13 financing for ratemaking purposes. Ratepayers should not be required to provide for a
14 return on plant in service that has been funded by the government in the form of reduced
15 (albeit temporarily) taxes. As a result, ADIT liabilities are reflected as a rate base offset
16 (reduction in rate base). Conversely, ADIT assets such as the timing difference related to
17 SO₂ allowance proceeds and net operating losses increase rate base. KCP&L has paid
18 taxes to the government in advance of the time when such taxes are included in cost of
19 service and collected from ratepayers. To the extent taxes are paid, KCP&L must borrow
20 money and/or use shareholder funds. The increase to rate base for deferred income tax
21 assets allows shareholders to earn a return on shareholder-provided funds until recovered
22 from ratepayers through ratemaking.

1 **Q: What time period was used for ADIT in this case?**

2 A: ADIT is based in general on December 31, 2015 general ledger balances, with the plant-
3 related ADIT balances adjusted for projected plant activity through December 31, 2016.

4 **Q: Does the projected ADIT in this case include the impact of the extension of bonus
5 depreciation by Congress?**

6 A: Yes. The impact of the extension of bonus depreciation has been included in the
7 computation of ADIT in this case.

8 **CASH WORKING CAPITAL**

9 **Q: Please discuss Cash Working Capital (“CWC”).**

10 A: CWC is included in rate base as summarized on Schedule RAK-5.

11 **Q: Why is it necessary to calculate an amount of CWC?**

12 A: CWC is the amount of cash required by a utility to pay the day-to-day expenses incurred
13 to provide utility service to its customers. A lead/lag study is generally used to analyze
14 the cash inflows from payments received by the company and the cash outflows for
15 disbursements paid by the company. When the utility receives payment from its retail
16 customers for utility service less quickly than it makes the disbursements for utility
17 expenses, then the company has a positive CWC requirement. Conversely, when the
18 utility receives payment from its retail customers for utility service more quickly than it
19 makes the disbursements for utility expenses it has a negative CWC requirement.

20 **Q: How did you determine the amount of CWC?**

21 A: We applied lead/lag factors used consistently in the Company’s previous rate cases to the
22 appropriate cost of service amounts. The application of the individual lead/lag factors to
23 applicable amounts is shown on Schedule RAK-5.

1 **Q: Were any of the factors updated from those used in the 2014 Case?**

2 A: We updated the retail revenue lag factor and the associated blended total revenue lag
3 factor.

4 **Q: Please explain why these factors were updated.**

5 A: We revised the retail revenue lag factor primarily to reflect the proper collection lag. The
6 retail revenue factor used by the Company in this case was 25.684 days, made up of three
7 components: service period lag, billing lag and collection lag. The service period lag
8 remained the same as last case at 15.21 days. The billing lag was retained in this case at
9 2.00 days. However, we reflected a change in the collection lag from 7.980 days in the
10 2014 Case to 8.475 days. This resulted in a total retail revenue lag of 25.684 days.

11 **Q: Why was it necessary to update the collection lag?**

12 A: The collection lag is a weighted value that reflects two components: 1) a zero-day lag
13 for the percentage of receivables sold under KCP&L's Accounts Receivable facility (the
14 facility is discussed later in this testimony (adjustment CS-78)); and 2) an average
15 number of days outstanding for the percentage that is not sold. The percentage of
16 receivables sold was revised from 65.19% in the 2014 Case to 62.79% in the current rate
17 case. The average number of days that bills are outstanding was recalculated for the
18 period January 1, 2015 to December 31, 2015, resulting in a revision from 22.921 days
19 in the 2014 Case to 22.776 days in the current rate case.

20 **Q: What is the blended total revenue lag?**

21 A: Consistent with the 2014 Case, KCP&L calculated a blended revenue factor for retail
22 revenues and for other revenues, which includes bulk power sales and miscellaneous

1 revenues. The blended revenue factor in this case increased to 26.71 days from the
2 26.68 days used in the 2014 Case.

3 **Q: Why was it necessary to update the associated blended total revenue lag?**

4 A: If the retail lag factor is updated it impacts the blended revenue lag factor. Additionally,
5 the weighting of the components of revenues must be adjusted.

6 **Q: Did KCP&L make any other changes to the CWC lead/lag factors determined in the
7 2014 Case?**

8 A: Yes, the Company updated the revenue lag days for City Franchise Taxes, Ad Valorem
9 and Sales/Use Taxes from 11.47 days in the 2014 Case to 11.50 days in the current
10 case. This change resulted from the update of the blended revenue factor to 26.71 days
11 compared to the 26.68 days from the 2014 Case. The expense leads remained unchanged
12 from the 2014 Case.

13 **Q: Are you aware of any changes in KCP&L's processes which would cause any of the
14 other lead/lag factors to require modification from those used in the 2014 Case?**

15 A: No, none that I am aware of.

16 **Q: How were the resulting lead/lag factors used?**

17 A: Lags for both blended revenues and payments were posted to Schedule RAK-5. On this
18 schedule, the net blended revenue/payment lag for each payment group was calculated
19 and the result was divided by 365 days to arrive at a net lead/lag factor. These factors
20 were subsequently applied to the applicable Missouri jurisdictional cost of service
21 amounts on Schedule RAK-5. The total resulting CWC amount was then carried forward
22 to Schedule RAK-2 (rate base schedule).

1 **R-1 GROSS RECEIPT TAXES**

2 **Q: Please explain adjustment R-1.**

3 A: This adjustment removes gross receipts taxes from both retail revenue, including forfeited
4 discounts, and general taxes, consistent with the adjustment made by both KCP&L and
5 the MPSC Staff in prior rate cases. This adjustment is made so that
6 annualized/normalized retail revenue reflects base or “bare” revenue only, consistent with
7 the tariffs.

8 **R-21 FORFEITED DISCOUNTS**

9 **Q: Please explain adjustment R-21.**

10 A: In R-21a, we normalized forfeited discounts by computing a Missouri-specific forfeited
11 discount factor based on test period forfeited discounts and revenue and applying it to
12 Missouri jurisdictional weather-normalized revenue. In R-21b, we applied the forfeited
13 discount factor to the requested revenue adjustment in this rate case to obtain the
14 annualized level forfeited discounts that are applicable to the revenues established in this
15 rate case proceeding.

16 **R-75/CS-75 ALLCONNECT**

17 **Q: Please explain adjustment R-75.**

18 A: The Report and Order from File Number EC-2015-0309 involved KCP&L’s Direct
19 Transfer Services Agreement with Allconnect, Inc. involving the offering of assistance
20 with the establishment of household services such as communication bundles, video,
21 internet, home phone, and home security through a variety of service providers. KCP&L
22 has historically accounted for this contractual relationship by recording revenues and
23 expenses associated with the activity as non-regulated and thus not including it in the

1 utilities cost of service when setting rates. In the EC-2015-0309 Report and Order the
2 Commission ordered that the revenue and expenses associated with the Allconnect
3 relationship should be treated as regulated revenue. During the test year, all revenues and
4 expenses were recorded below-the-line in nonregulated accounts. As such, adjustment R-
5 75 includes an annual level of revenue for the KCP&L-MO jurisdiction for 2015 and
6 adjustment CS-75 includes the associated expenses for the KCP&L-MO jurisdiction for
7 2015 associated with the Allconnect activity. By making both R-75 and CS-75
8 adjustments, the cost of service in this rate case filing is consistent with the Commission
9 Order in File Number EC-2015-0309.

10 **R-78 EXCESS MARGIN REGULATORY LIABILITY**

11 **Q: Please explain the excess margin regulatory liability.**

12 A: In previous rate cases, KCP&L began returning to ratepayers off-system sales margins
13 realized in excess of certain percentage levels over a 10 year period. The excess margin
14 liability was recorded on the financial books as a credit to a regulatory liability (FERC
15 account 254) and a debit to retail revenue (FERC account 449) in the period incurred.
16 Interest accrues on this liability. The liability is amortized beginning with the effective
17 date of the tariffs in which the revenue reduction is included. When the liability is
18 amortized the liability account is reduced and retail revenue is increased.

19 **Q: What regulatory liabilities exist for purposes of this rate case?**

20 A: Excess margins were realized in 2007 (\$1,082,974) and 2008 (\$2,947,332), as
21 documented in the Non-Unanimous Stipulation and Agreement in Case No. ER-2009-
22 0089. It stated that the amortization of these regulatory liabilities, plus accrued interest,
23 was to begin September 1, 2009, based on a ten-year amortization period. In the 2010

1 Case excess margins of \$3,684,939 for the period September 2009 through August 2010
2 were ordered to be returned to ratepayers over ten years beginning with the effective date
3 of new rates in that case, May 4, 2011.

4 **Q: Please explain adjustment R-78.**

5 A: Adjustment R-78 annualizes the amortization of these regulatory liabilities, including
6 new accrued interest through December 31, 2016.

7 **R-80 TRANSMISSION REVENUE – ROE**

8 **Q: Please explain adjustment R-80.**

9 A: This adjustment provides for the Company's retail customers to bear responsibility for
10 the return on transmission rate base at the MPSC-authorized level. Essentially, the
11 adjustment reduces the amount of transmission revenue that is credited against the gross
12 transmission revenue requirement so that the adjusted revenue credit is consistent with
13 the Company's MPSC-authorized ROE rather than the ROE allowed by the Federal
14 Energy Regulatory Commission ("FERC").

15 **Q: Please describe the calculation of this adjustment.**

16 A: The Company has a transmission formula rate ("Formula Rate") on file with the FERC
17 that is updated each year to determine the revenue requirement and rate level for
18 transmission service provided through the Southwest Power Pool, Inc. ("SPP") Open
19 Access Transmission Tariff ("OATT"). The ROE allowed by the FERC in the Formula
20 Rate is 11.1 percent. However, the ROE requested by the Company in this case is 9.90
21 percent. The first step in calculating the adjustment is to determine the difference
22 between the annual revenue requirement in the Formula Rate when the ROE is set at 11.1
23 percent and the annual revenue requirement when the ROE is set at 9.90 percent. This

1 difference is divided by the annual revenue requirement at 11.1 percent to derive an
2 adjustment percentage. This adjustment should be adjusted for the final ROE determined
3 by the Commission in this case.

4 **Q: Please continue with the further steps required.**

5 A: The next step is to determine the amount of transmission revenue received by KCP&L
6 that is derived through application of the Formula Rate in charging wholesale customers
7 for transmission service. The preponderance of this revenue is collected as a result of
8 service provided under the SPP OATT. A further calculation is made to exclude the
9 portion of the revenue attributable to service that KCP&L paid for as a transmission
10 customer. Because those service charges are included in the retail cost-of-service not
11 only as revenue credits but also as expenses under Account 565, those amounts are
12 removed from the revenue adjustment so that the costs borne by retail customers reflect
13 the overall ROE level of 9.90 percent. The remaining revenue, after the above-described
14 adjustments, essentially represents the portion based on the Formula Rate that is derived
15 from sources other than KCP&L. This revenue is then multiplied by the ROE adjustment
16 percentage described above to arrive at the final adjustment amount. This adjustment
17 applies to transmission revenues related to both the Company's Base Plan projects, which
18 were built under the direction of SPP, and to the Company's legacy zonal projects, which
19 were built under the Company's own initiative. The result is a reduction in the revenue
20 credits for KCP&L.

1 **Q: Please explain why adjustment R-80 is necessary.**

2 A: Absent this adjustment, the effective ROE included in retail rates for transmission assets
3 would be less than that authorized by the MPSC. This effect is exacerbated as the spread
4 widens between the FERC-authorized ROE of 11.1% and the MPSC-authorized ROE.

5 **R-82 TRANSMISSION REVENUE – ANNUALIZED**

6 **Q: Please explain adjustment R-82.**

7 A: The Company annualized transmission revenue recorded in FERC accounts 456009 and
8 456100 based on an average of 2017-2018 forecasted levels. By using this projected
9 level, KCP&L is better able to match the actual transmission revenues levels with the rate
10 period in which they are offsetting rates for customers. This forecasted approach is
11 consistent with the companies request regarding transmission expense which is included
12 in adjustment CS-45.

13 **Q: What is the annualized amount of adjustment R-82 Transmission Revenue -**
14 **Annualized that the Company has included in its revenue requirement calculation**
15 **in this case?**

16 A: KCP&L included an annualized amount of \$13,088,852 (total company) in adjustment R-
17 82.

18 **CS-11 OUT-OF-PERIOD ITEMS/MISCELLANEOUS ADJUSTMENTS**

19 **Q: Please explain adjustment CS-11.**

20 A: We adjusted certain expense transactions recorded during the test year from the cost of
21 service filing in this rate case. The following is a listing of the various components:

22 Remove charges from test year- The Company has identified certain costs recorded
23 during the test year for which it is not seeking recovery in this rate proceeding or which

1 were adjustments to transactions recorded prior to the test period, netting to
2 approximately \$4.53 million (a KCP&L total company amount). These costs for
3 which the Company is not seeking recovery primarily include director and officer long-
4 term incentive compensation, non-recoverable dues, and adjustments made associated
5 with the final Order from the prior rate case.

6 Miscellaneous coding corrections- The Company has identified various transactions
7 where coding corrections were made after the end of the test year. The original
8 transactions have been added to the test year costs netting to approximately \$351,000 (a
9 KCP&L total company amount).

10 CS-18 KANSAS CITY, MISSOURI EARNINGS TAX

11 **Q: Please explain adjustment CS-18.**

12 A: This adjustment is necessary to reflect the estimated Kansas City, Missouri earnings tax
13 expense for KCP&L's operations for 12 months that ended December 31, 2016. Due to
14 the extension of bonus depreciation through tax year 2019, the Company does not expect
15 to pay any Kansas City, Missouri earnings tax in 2016, therefore we have removed all
16 earnings tax activity from cost of service.

17 CS-4/CS-20 BAD DEBTS

18 **Q: Please explain adjustment CS-4.**

19 A: This adjustment is necessary to reflect the test year provision for bad debt expense
20 recorded on the books of Kansas City Power & Light Receivables Company ("KCRec").

21 **Q: Please explain adjustment CS-20.**

22 A: In adjustment CS-20a we adjusted bad debt expense applicable to the weather-normalized
23 revenues calculated in adjustment R-20 by applying a Missouri-specific net bad debt

1 write-off factor to Missouri weather-normalized revenue. In CS-20b, we established bad
2 debt expense for the requested revenue adjustment in this rate case, again using the bad
3 debt write-off factor.

4 **Q: How was the bad debt write-off factor determined?**

5 A: We examined net bad debt write-offs on a Missouri-specific basis as compared to the
6 applicable revenues that resulted in the bad debts.

7 **Q: Over what period was this experience analyzed?**

8 A: Net bad debt write-offs were for the test year, January 2015 through December 2015,
9 while the related retail revenue was for the 12-month period July 2014 through June
10 2015.

11 **Q: Why were different periods used for the calculation?**

12 A: There is a significant time lag between the date that revenue is recorded and the date that
13 any resulting bad debt write-off is recorded due to time spent on various collection
14 efforts. While the time expended can vary depending on circumstances, we assumed a
15 six-month lag, representing the standard time span between when a customer is first
16 billed and the time when an account is disconnected and the receivable subsequently
17 written off.

18 **Q: The term "net" write-offs is used. What does it mean?**

19 A: This term refers to accounts written off less recoveries received on accounts previously
20 written off.

1 CS-35 WOLF CREEK MID-CYCLE OUTAGE

2 **Q: Please explain adjustment CS-35.**

3 A: In the 2014 case, KCP&L's test year included a planned mid-cycle outage at Wolf Creek.
4 An adjustment was included in the rate case which included a 5-year amortization of the
5 mid-cycle outage costs. Effective October 1, 2015, KCP&L began amortizing the mid-
6 cycle outage costs over 5-years. Adjustment CS-35 includes an annualized level of the 5-
7 year amortization of the mid-cycle outage costs in this rate case proceeding since the test
8 year in this case did not reflect an annual amount of amortization.

9 CS-36 WOLF CREEK REFUELING OUTAGE

10 **Q: Please explain adjustment CS-36.**

11 A: This adjustment consists of two components. The first component addresses the Wolf
12 Creek refueling outage annualization. The Wolf Creek nuclear generating station
13 refueling cycle is normally about 18 months. The Company defers the O&M outage
14 costs and amortizes the costs over the 18 months leading up to the next refueling. This
15 adjustment annualizes the Wolf Creek refueling expense.

16 **Q: Why is a refueling annualization adjustment necessary in this case?**

17 A: The test period amortization includes the end of the amortization period for refueling
18 outage number 19, and also the beginning of the amortization period for refueling 20.
19 Annualized expense that is included in this case should reflect the level of amortization
20 expense associated with the most recently completed refueling outage. As such, costs
21 associated with refueling outage number 20 were used to determine the monthly
22 amortization expense. This annualization adjustment results in a full year's amortization
23 expense for refueling number 20.

1 **Q: Please discuss the second component of adjustment CS-36.**

2 A: In the 2012 Case, the Company established a regulatory asset as proposed by Staff
3 similar to Case No. ER-2009-0089 for recovery of certain non-routine refueling costs
4 associated with refueling outage number 18 over a five-year period beginning February
5 2013. The test year reflects in this case a full year of amortization associated with this
6 deferral.

7 **CS-37 WOLF CREEK DECOMMISSIONING**

8 **Q: Please explain adjustment CS-37.**

9 A: This adjustment annualizes the expense associated with decommissioning the Wolf Creek
10 nuclear generating station.

11 **Q: What is the annualized nuclear decommissioning expense the Company seeks in this
12 case?**

13 A: The Company seeks an annualized amount of \$1,281,264 (Missouri jurisdictional). Since
14 the test year cost of service reflects this amortization, net operating income is properly
15 stated and requires no adjustment.

16 **Q: Is the requested annualized amount the same as that requested in the 2014 Rate
17 Case?**

18 A: Yes.

19 **Q: Why is the amount the same?**

20 A: The annual expense/accrual level is based on a cost study conducted every three years.
21 The most recent study, conducted by TLG Services, Inc., was filed with the Commission
22 on August 29, 2014 in Case No. EO-2015-0056 along with an analysis prepared by
23 KCP&L of funding levels necessary to defray the decommissioning cost estimated in the

1 study. In that application, KCP&L requested that the Commission approve the
2 continuation of the annual accrual at the current level.

3 **CS-39 IT SOFTWARE MAINTENANCE**

4 **Q: Please explain adjustment CS-39.**

5 A: Adjustment CS-39 was made to include an annualized level of contracted software
6 maintenance costs in this rate case. The annualized level of these costs has been
7 historically increasing and is projected to continue to increase during 2016. KCP&L
8 included an annualized December 2016 budgeted amount to reflect an annual level of
9 expense. The types of maintenance contracts that were annualized as of December 31,
10 2016 include: Microsoft premier support and software licenses, Oracle systems and
11 service contracts, PowerPlan system, and various hardware and software maintenance
12 contract.

13 **CS-40/CS-41 TRANSMISSION AND DISTRIBUTION MAINTENANCE**

14 **Q: Please explain adjustments CS-40 and CS-41.**

15 A: These adjustments are for the purpose of including an appropriate level of transmission
16 and distribution maintenance expense in this case. Since the maintenance levels have
17 been increasing and is projected to continue to increase through the true-up period in this
18 case, KCP&L adjusted the test year expenses to equal 2016 budgeted amounts.

19 **CS-42 GENERATION MAINTENANCE**

20 **Q: Please explain adjustment CS-42.**

21 A: This adjustment is for the purpose of including an appropriate level of generation
22 maintenance expense in this case. Since the maintenance level has been increasing and is

1 projected to continue to increase, KCP&L adjusted the test year expenses to equal 2016
2 budgeted amounts.

3 **Q: Were there any other adjustments made to the test year amounts?**

4 A: Yes, adjustments were made to test year generation maintenance expenses related to the
5 Iatan 2 and Common Tracker which is described in more detail below in my testimony
6 regarding adjustment CS-48. This Tracker was established in the 2010 Case in order to
7 defer and amortize Iatan 2 and Common operations and maintenance expenses. Thus,
8 there are amounts recorded in the test year generation maintenance accounts related to
9 this Tracker which must be removed from the test year for purposes of adjustment CS-42.
10 There have been five complete vintages of this Tracker all being amortized during the test
11 year. An adjustment was made to remove the test year amortization expense for Vintages
12 1 through 5 since these costs are considered in adjustment CS-48. By completing these
13 adjustments, the test year is reduced to reflect actual generation maintenance expense
14 recorded.

15 **CS-44 ECONOMIC RELIEF PILOT PROGRAM**

16 **Q: Please explain adjustment CS-44.**

17 A: KCP&L originally established the ERPP, per the Non-Unanimous S&A in Case No. ER-
18 2009-0089, which provided up to a \$50 bill credit for a total of 1,000 participants. One
19 half of the program is funded by shareholders and the other half is collected from
20 ratepayers. As part of the Final Report and Order in the 2014 Case the Company was
21 authorized to expand the ERPP program by doubling the funding, increasing the number
22 of participants, and increasing the available bill credit (\$65). The eligibility requirements
23 were also changed from 185 percent to 200 percent of the Federal Poverty Level. This

1 adjustment reflects the same level of funding in the 2014 Case to be included in cost of
2 service in this rate case proceeding.

3 **CS-45 TRANSMISSION OF ELECTRICITY BY OTHERS**

4 **Q: Please explain adjustment CS-45.**

5 A: The Company annualized transmission expense including base plan funding costs
6 recorded in FERC account 565 – Transmission of Electricity by Others based on an
7 average of 2017-2018 projected costs. This was due to the expected continual increase in
8 transmission expenses that KCP&L is incurring year-over-year. By using this projected
9 level, KCP&L is better able to match the actual transmission expense cost levels with the
10 rate period in which the expenses are being recovered from customers.

11 **Q: Are transmission costs increasing?**

12 A: Yes, primarily related to the costs allocated to KCP&L under the SPP OATT for SPP
13 Base Plan Upgrades and other regionally allocated transmission project costs that have
14 continued to increase year over year as discussed in more detail in the Direct Testimony
15 of Company witnesses Tim M. Rush and John R. Carlson.

16 **Q: What is the annualized amount of adjustment CS-45 Transmission of Electricity By
17 Others that the Company has included in its cost of service in this case?**

18 A: KCP&L included an annualized amount of \$69,209,242 (total company) in adjustment
19 CS-45.

20 **CS-48 IATAN 2 AND IATAN COMMON TRACKER**

21 **Q: Please explain adjustment CS-48.**

22 A: In the 2014 cases, annual amortization amounts were established for vintages 1 – 5. For
23 vintages 2 – 5, amortizations began in October 2015 which was the first full month when

1 rates became effective in the 2014 case. Adjustment 48 establishes a full year of
2 amortization expense for vintages 2 – 5. In addition, vintage 1 amortization will end
3 January 2016; therefore, the per book amortization expense recorded during the test year
4 has been removed for this vintage.

5 CS-50 PAYROLL

6 **Q: Please explain adjustment CS-50.**

7 A: KCP&L annualized payroll expense based on the employee headcount as of December
8 31, 2015 adjusted for labor impacts of the KCP&L Missouri jurisdiction's energy
9 efficiency rider implementation, multiplied by salary and wage rates expected to be in
10 effect as of December 31, 2016.

11 **Q: How were salary and wage rates determined?**

12 A: Wage rates for bargaining (union) employees were based on contractual agreements.
13 Salary rates for non-bargaining employees were based on annual salary adjustments
14 expected to be in effect as of December 31, 2016.

15 **Q: Were amounts over and above base pay, such as overtime, premium pay, etc.
16 included in the payroll annualization?**

17 A: Yes, overtime was annualized at an amount equal to the average of the amounts incurred
18 for the 12 month periods ending December 2013, December 2014 and December 2015,
19 adjusted for labor escalations. In addition, overtime amounts were adjusted to exclude
20 impacts of the Wolf Creek Mid-Cycle outage in which test year amounts were removed
21 in adjustment CS-35. Amounts were included for other categories at test year levels.

1 **Q: Does annualized payroll include payroll KCP&L billed to GMO and other**
2 **affiliates?**

3 A: The annualization process includes all payroll, since all employees are KCP&L
4 employees. However, annualized payroll included in this rate proceeding was reduced by
5 the amount that would be billed out to these affiliated companies.

6 **Q: Was payroll expense associated with the Company's interest in the Wolf Creek**
7 **generating station annualized in a similar manner?**

8 A: Yes, it was.

9 **Q: Does the payroll annualization adjustment take into consideration payroll billed to**
10 **joint venture partners and payroll charged to capital?**

11 A: Yes, the payroll annualization adjustment takes these factors into consideration.

12 **Q: How was the payroll capitalization factor determined?**

13 A: The Company used a three-year average payroll capitalization factor, as being
14 representative of payroll capitalization going forward. The periods included in the three-
15 year average capitalization factor included the 12 months ending December 2013,
16 December 2014 and December 2015.

17 **CS-51 INCENTIVE COMPENSATION**

18 **Q: Please explain adjustment CS-51.**

19 A: KCP&L annualized incentive compensation based on target payout percentages for each
20 employee calculated on their December 2015 base salary amount. Adjustments were
21 made to the annual amount to remove all incentive compensation that was associated
22 with metrics tied to earnings per share.

1 **Q: Does this adjustment take into consideration incentive compensation billed to joint**
2 **venture partners, billed to affiliated companies, and charged to capital?**

3 A: Yes, based on data from the payroll adjustment discussed earlier in this testimony
4 (adjustment CS-50).

5 **CS-52 401(k)**

6 **Q: Please explain adjustment CS-52.**

7 A: KCP&L adjusted 401(k) expense to an annualized level by applying the average
8 matching percentage which is based on five separate pay periods during the test year
9 (1/31/2015, 3/31/2015, 6/30/2015, 9/30/2015, and 12/31/2015) to the O&M adjustment
10 for annualized payroll (adjustment CS-50), excluding bargaining unit overtime, and
11 including eligible incentive compensation (adjustment CS-51).

12 **Q: Please explain the change to the 401(k) plan that occurred beginning January 1,**
13 **2014.**

14 A: Beginning January 1, 2014, all new hire non-union employees are no longer eligible to be
15 a part of the company sponsored pension plan. Instead, new hire retirement benefits will
16 be provided exclusively through the 401(k) savings plan. A non-elective contribution
17 will be made to the new hires 401(k) account in the calendar quarter following the end of
18 each plan year. The non-elective contribution totals 4% of actual base pay. Adjustment
19 CS-52 includes an additional adjustment reflecting the annualized amount that will be
20 contributed for new hires since January 1, 2014 to 401(k) accounts prior to December 31,
21 2016.

1 **Q: Does this adjustment take into consideration 401(k) expense billed to joint venture**
2 **partners, billed to affiliated companies, and charged to capital?**

3 A: Yes, based on data from the payroll adjustment discussed earlier in this testimony
4 (adjustment CS-50).

5 **CS-53 PAYROLL TAXES**

6 **Q: Please explain adjustment CS-53.**

7 A: The Company annualized FICA, Medicare, and FUTA payroll tax expense by applying
8 the average test year FICA/Medicare/FUTA percent (FICA expense/payroll expense) to
9 the O&M portions of the annualized payroll adjustment (adjustment CS-50) and incentive
10 compensation adjustment (adjustment CS-51).

11 **Q: Does this adjustment take into consideration payroll tax expense billed to joint**
12 **venture partners, billed to affiliated companies, and charged to capital?**

13 A: Yes, based on data from the payroll adjustment discussed earlier in this testimony
14 (adjustment CS-50).

15 **CS-60 OTHER BENEFITS**

16 **Q: Please explain adjustment CS-60.**

17 A: KCP&L annualized other benefit costs based on the projected costs included in the 2016
18 Budget. This adjustment will be trued up to actual in the true-up phase of this rate case.

19 **Q: What types of benefits are included in this category?**

20 A: The most significant benefit is medical expense. In addition, dental, various insurance
21 and other miscellaneous benefits are included with the other benefits adjustment.

1 **Q: Does this adjustment take into consideration benefits expense billed to joint venture**
2 **partners, billed to affiliated companies, and charged to capital?**

3 A: Yes, based on data from the payroll adjustment discussed earlier in this testimony
4 (adjustment CS-50).

5 **Q: Was other benefit expense associated with the Company's interest in the Wolf Creek**
6 **generating station annualized in a similar manner?**

7 A: Yes, it was.

8 **CS-62 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

9 **Q: Please explain adjustment CS-62.**

10 A: This adjustment normalizes SERP expense by using an average of the monthly annuity
11 and lump sum SERP payouts for the five year period from 2011 through 2015.

12 **Q: Why does this expense have to be normalized?**

13 A: Under the GPE SERP plan, SERP costs are funded when the benefit is paid. Given that
14 most plan participants elect a lump-sum payment method rather than an annuity, annual
15 funding requirements can vary significantly between years. By using an average of total
16 funding over a typical single life annuity period of 14.3 years for lump-sum payments,
17 the adjustment reflects actual cash payments spread over time. Monthly annuity
18 payments were normalized using a five-year average.

19 **Q: By basing the normalization on actual payouts rather than FAS 87 accrued expense,**
20 **is there a duplication of costs between adjustment CS-65, discussed earlier in this**
21 **testimony, and adjustment CS-62?**

22 A: No, the SERP component is not included in adjustment CS-65 in either the test year book
23 amount or the projected amount.

1 **Q: Was the SERP cost associated with the Company's interest in the Wolf Creek**
2 **generating station normalized in a similar manner?**

3 A: Yes, it was.

4 **CS-70 INSURANCE**

5 **Q: Please explain adjustment CS-70.**

6 A: We annualized insurance costs based on premiums projected to be in effect on December
7 31, 2016. These premiums include the following types of coverage: property, directors
8 and officers, workers' compensation, bonds, fiduciary liability, excess liability, crime,
9 cyber liability and auto liability.

10 **Q: Does this adjustment take into consideration insurance billed to joint venture**
11 **partners and affiliated companies?**

12 A: Yes, it does.

13 **CS-71 INJURIES AND DAMAGES**

14 **Q: Please explain adjustment CS-71.**

15 A: We normalized Injuries and Damages ("I&D") costs based on average payout history
16 during the 12 month periods ending December 2013, December 2014, December 2015 as
17 reflected by amounts relieved from FERC account 228.2. This account captures all
18 accrued claims for general liability, worker's compensation, property damage, and auto
19 liability costs. The expenses are included in FERC account 925 as the costs are accrued.
20 The liability reserve is relieved when claims are paid under these four categories.

1 **Q: Does account 925 also include costs charged directly to that account?**

2 A: Yes, for smaller dollar claims that are recorded directly to expense, the Company
3 normalized these expenses over the 12 month periods ending December 2013, December
4 2014 and December 2015.

5 **Q: Why was a multi-year average chosen?**

6 A: I&D claims and settlements of these claims can vary significantly from year-to-year. A
7 period of three years was used to establish an appropriate on-going level of this expense
8 by leveling out fluctuations in the payouts from the reserve account that can exist from
9 one year to the next depending on claims activity and settlements.

10 **CS-10/CS-76 CUSTOMER DEPOSIT INTEREST**

11 **Q: Please explain adjustment CS-10.**

12 A: This adjustment is necessary to include test year customer deposit interest from Missouri
13 customers in cost of service.

14 **Q: Please explain adjustment CS-76.**

15 A: We annualized customer deposit interest in accordance with the Company's tariff, which
16 states that the interest rate established for each year for Missouri customer deposits will
17 be based on the December 1 prime rate published in the *Wall Street Journal*, plus 100
18 basis points. The rate used in this adjustment for Missouri deposits is the prime rate of
19 3.25% at December 1, 2015 plus 100 basis points to equal 4.25%.

20 **Q: What customer deposit balance was this interest rate applied to?**

21 A: The interest rate was applied to the Missouri customer deposit balance determined in
22 adjustment RB-70, discussed earlier in this testimony.

1 CS-77 CREDIT CARD PROGRAM

2 **Q: Please explain adjustment CS-77.**

3 A: KCP&L annualized credit card program expenses based on actual participation levels and
4 costs at April 30, 2016.

5 **Q: What is the status of KCP&L's credit card payment program?**

6 A: KCP&L began offering credit card payment options to its residential customers in 2007,
7 initially with submission and processing through its interactive voice response system.
8 Also, a one-time payment option was added later that year through KCP&L's website. In
9 February, 2008, the Company offered a recurring credit card payment option with
10 enrollment through its website. Since that time participation levels have been steadily
11 increasing, with credit/debit card payments representing 18.7% of all payments in
12 KCP&L's territory through April 2016.

13 CS-9/CS-78 ACCOUNTS RECEIVABLE SALES FEES

14 **Q: Please explain adjustments CS-9 and CS-78.**

15 A: Bank fees are first included in cost of service through adjustment CS-9, wherein fees
16 incurred during the test year by KCP&L are reflected. The Company then annualized
17 these fees by projecting annual fees based on December 2015 actuals, determined by
18 (a) calculating monthly interest, based upon the actual rate in effect at December 31,
19 2015, applicable to the monthly advance amount of \$110 million established in the
20 accounts receivable sales agreement renegotiated in September 2015; (b) calculating the
21 monthly Program Fee based on this monthly advance amount and a Program Fee Rate of
22 60.0 bps (the applicable level for the accounts receivable securitization in the
23 renegotiated agreement in effect at December 31, 2015); and (c) calculating the monthly

1 Commitment Fee based upon a fee rate of 22.5 bps (again, the applicable level in the
2 renegotiated agreement in effect at December 31, 2015). The sum of (a), (b), and (c)
3 represents the total projected bank fees for a 30-day period. This amount was annualized
4 and compared to test year amounts ending December 2015.

5 CS-80 RATE CASE COSTS

6 **Q: Please explain adjustment CS-80.**

7 A: We annualized rate case costs by including projected costs for the current rate proceeding
8 normalized over three years which will be trued-up as part of the true-up process in this
9 rate case. Annualized rate case costs were then compared to rate case expense
10 amortizations included in the test year to properly reflect rate case expense in cost of
11 service in this rate case.

12 **Q: How was rate case cost related to the current Missouri rate proceeding estimated?**

13 A: KCP&L estimated costs based on the consultants and attorneys it anticipates will be used
14 in this case and based on the scope of work anticipated.

15 **Q: In making this estimate did KCP&L anticipate a full rate case, including hearings,
16 briefs, etc., as opposed to a settled case?**

17 A: Yes, a full rate case was assumed.

18 CS-85 REGULATORY ASSESSMENTS

19 **Q: Please explain adjustment CS-85.**

20 A: The Company annualized Missouri regulatory assessments based on quarterly
21 assessments in effect at December 2015. KCP&L annualized FERC Schedule 12 fees
22 based on an average of the budgeted fees for 2017 and 2018.

1 **Q: What is the amount of the Schedule 12 fees that the Company has included in its**
2 **cost of service in this case?**

3 A: KCP&L included \$1,118,460 (total company). This amount is one of the transmission
4 cost components included in the FAC mechanism that is being requested by the Company
5 and discussed in the testimony of Company witness Tim Rush.

6 **CS-86 SCHEDULE 1-A FEES**

7 **Q: Please explain adjustment CS-86.**

8 A: KCP&L annualized SPP Schedule 1-A fees based on the average rates projected to be in
9 effect in 2017 and 2018. KCP&L is using projected SPP Schedule 1-A fees to be
10 consistent with its requested treatment of transmission expenses in this case.

11 **Q: What is the amount of the Schedule 1-A fees that the Company has included in its**
12 **cost of service in this case?**

13 A: KCP&L included \$12,621,525 (total company). This amount is one of the transmission
14 cost components included in the FAC mechanism that is being requested by the Company
15 and discussed in the testimony of Company witness Tim M. Rush.

16 **CS-88 CIPS/CYBER SECURITY O&M**

17 **Q: Please explain adjustment CS-88.**

18 A: Adjustment CS-88 is an adjustment that includes capturing increased costs associated
19 with the Company's investment and ongoing maintenance and support and systems and
20 infrastructure for cyber and physical security needs related to the North American
21 Electric Reliability Corporation Critical Infrastructure Protection Standards. These
22 standards are discussed more fully in the Direct Testimony of Company witness Joshua
23 F. Phelps-Roper. The adjustment projects annualized costs based on an average of

1 budgeted O&M expenses for 2017-2018. Please see the Direct Testimony of Company
2 witness Tim M. Rush for explanation of the use of projected annualized costs.

3 **Q: What is the amount of the CIPS/Cyber Security fees that the Company has included**
4 **in its cost of service in this case?**

5 A: KCP&L included \$5,661,684 (total company) in adjustment CS-88 as an annualized level
6 of CIPS/Cyber Security O&M.

7 **CS-89 METER REPLACEMENT CONTRACT RATE**

8 **Q: Please explain adjustment CS-89.**

9 A: Beginning in 2014, the Company began installing AMI technology that would replace all
10 of the Company's Automated Meter Reading meters. Adjustment CS-89 computes the
11 incremental increase in the meter reading contract that will be associated with the newly
12 installed AMI meters. The new AMI meters are a new technology that will bring
13 increased functionality such as providing load profile data for each meter and provide
14 increased functionality around power outages and restoration events. This adjustment
15 annualizes the composite meter reading cost per meter which is \$0.61 cents per meter.
16 The annualized amount is based off of the March 2016 meters read.

17 **CS-91 DSM ADVERTISING COSTS**

18 **Q: Please explain this adjustment.**

19 A: Pursuant to Case No. ER-2009-0089 and the 2010 Case KCP&L was authorized to
20 capitalize and amortize deferred Missouri jurisdictional demand-side management
21 advertising costs of \$279,521 and \$230,341 over ten years; respectively. No additional
22 adjustment is necessary as the test year is reflective of the appropriate on-going level of
23 expense.

1 CS-98 MEEIA

2 **Q: Please explain adjustment CS-98**

3 A: This adjustment removes all test year non-labor MEEIA expense recorded during the test
4 year from its cost of service. In Case No. EO-2015-0240, KCP&L's MEEIA Cycle 2
5 filing, the company was granted a Demand Side Investment Mechanism rider. As such,
6 the test year non-labor MEEIA expenses have been removed from the test year in this
7 rate case filing. In addition, Income Eligible Weatherization program (formally Low
8 Income Weatherization program) was included in the test year non-labor MEEIA
9 expense. Currently, the Company is not expensing funds we collected in the liability
10 account, which was approved with annual amount of \$573,888 pursuant to Case No. ER-
11 2012-0174. KCP&L does not plan to recover Income Eligible Weatherization expense
12 until the liability account gets to a reasonable level. We are proposing to use funds set
13 aside in the account for the present time and set the annualized level to zero.

14 CS-99 FLOOD REIMBURSEMENT

15 **Q: Please explain adjustment CS-99.**

16 A: Adjustment CS-99 provides for the return of insurance proceeds to customers associated
17 with the 2011 flooding event that impacted the Iatan 2 generation station. The insurance
18 proceeds received were for insurable expenses over deductible amounts associated with
19 the preservation of property and recovery of damaged items. The total amount of
20 KCP&L insurance proceeds of \$1,650,911 were included in the 2014 Case and are
21 amortized and returned to customers over a 3 year period which began in October of
22 2015. This adjustment includes a full year of amortization in this rate case proceeding.

1 CS-107 TRANSOURCE ACCOUNT REVIEW

2 **Q: Please explain why KCP&L is making this adjustment.**

3 A: KCP&L is making this adjustment to comply with conditions of the MPSC Report and
4 Order in File No. EA-2013-0098. The Commission Order stated in Appendix 4: Consent
5 Order, pages 29 and 30:

6 The Signatories agree that non-Project goods and services (defined as
7 goods and services that are not directly related to the Projects) were to be
8 provided and are to be provided at the higher of fair market value or fully
9 distributed costs by KCP&L to Transource Missouri, Transource Missouri,
10 and GPE prior to the novation or transfer of the cost of the projects.
11 KCP&L and GMO will, by June 1, 2013, ensure that charges to
12 Transource Missouri, Transource Missouri, and GPE regarding the
13 development and formation of Transource Missouri and Transource
14 Missouri reflect the higher of fair market value or fully distributed cost.
15 The Signatories agree that KCP&L and GMO can use a 20% markup to
16 their fully distributed cost methodology for such goods and services in lieu
17 of using the fair market value. If the Signatories cannot agree regarding
18 the reasonableness of these charges, this matter will be taken to the
19 Commission for resolution. In support of the resolution of the treatment
20 for non-Project goods and services provided prior to the novation or
21 transfer of the Cost of the Projects, KCP&L and GMO will contribute a
22 total of \$50,000 to the State School Fund or a mutually agreeable
23 organization. This contribution will not be recovered from KCP&L and
24 GMO customers. The Signatories agree that all outstanding issues related
25 to the provision of non-Project goods and services to Transource Missouri,
26 Transource, Transource Missouri, and GPE prior to the novation or
27 transfer of the cost of the projects are resolved, except as provided in this
28 paragraph.

29 **Q: Please explain adjustment CS-107.**

30 A: In the 2014 Case, KCP&L established a regulatory liability in the amount of \$136,880
31 Missouri jurisdictional to be amortized over three years. The amortization became
32 effective October 1, 2015. Thus, an increase in the annual amortization amount to reflect
33 a full year was included in this adjustment.

1 CS-108 TRANSOURCE CWIP/FERC INCENTIVES

2 **Q: Please explain why KCP&L is making this adjustment.**

3 A: KCP&L is making this adjustment to comply with conditions of the MPSC Report and
4 Order in Case No. EA-2013-0098. The Commission Order stated in Appendix 4:
5 Consent Order, pages 27 and 28:

6 With respect to transmission facilities located in KCP&L certificated
7 territory that are constructed by Transource Missouri that are part of the
8 Iatan-Nashua and Sibley-Nebraska City Projects, KCP&L agrees that for
9 ratemaking purposes in Missouri the costs allocated to KCP&L by SPP
10 will be adjusted by an amount equal to the difference between: (a) the SPP
11 load ratio share of the annual revenue requirement for such facilities that
12 would have resulted if KCP&L's authorized ROE and capital structure had
13 been applied and there had been no Construction Work in Progress
14 ("CWIP") (if applicable) or other FERC Transmission Rate Incentives,
15 including but not limited to Abandoned Plant Recovery, recovery on a
16 current basis instead of capitalizing pre-commercial operations expenses
17 and accelerated depreciation, applied to such facilities; and (b) the SPP
18 load ratio share of the annual FERC-authorized revenue requirement for
19 such facilities. KCP&L will make this adjustment in all rate cases so long
20 as these transmission facilities are in service.

21 **Q: Please explain adjustment CS-108.**

22 A: Adjustment CS-108 reflects a change to Account 565 -Transmission of Electricity by
23 Others that represents the difference between KCP&L's SPP load ratio share allocation of
24 Transource Missouri's annual transmission revenue requirement ("ATRR") for the Iatan-
25 Nashua and Sibley-Nebraska City Projects and KCP&L's SPP load ratio share allocation
26 of the ATRR for the Nashua and Sibley-Nebraska City Projects if it had been calculated
27 utilizing KCP&L's MPSC-authorized ROE and capital structure and did not include the
28 FERC-authorized rate treatments and incentives listed above.

1 CS-109 LEASES

2 **Q: Please explain adjustment CS-109.**

3 **A:** In the 2010 Case, KCP&L agreed to establish a regulatory liability for lease costs that
4 would not be incurred during an “abatement period” recognized in the lease and which
5 ended June 2010. These costs were to be returned to ratepayers over a five-year period
6 beginning with the effective date of new rates in that case. The five year amortization
7 ends in April 2016 and the regulatory liability amortization has been removed from this
8 rate case. In addition, in the 2014 Case, KCP&L agreed to prospective tracking of
9 regulatory assets and liabilities. As such, a regulatory asset will be established from May
10 1, 2016 and accumulate until rates become effective for this rate case proceeding. This
11 regulatory asset has been proposed to be amortized over 3 years in CS-109.

12 CS-110 2011 FLOOD AAO AMORTIZATION

13 **Q: Please explain adjustment CS-110.**

14 **A:** On December 19, 2011, KCP&L filed a request for an Accounting Authority Order in
15 Case No. EU-2012-0130 to defer non-fuel O&M costs, incremental fuel and purchased
16 power costs and lost opportunity for off system sales margin incurred by the Company as
17 a result of the 2011 Missouri River flooding. The Company as part of the Second Non-
18 Unanimous Stipulation and Agreement as to Certain Issues, agreed to only deferring the
19 incremental non-fuel O&M costs of \$1,412,290 incurred as a result of the 2011 flood.
20 These costs are being amortized over 5 years which began in February 2013. The test
21 year in this rate case is reflective of an annual amount of amortization related to deferred
22 expenses and thus no adjustment was necessary.

1 CS-114 LA CYGNE REGULATORY ASSET – INVENTORY

2 **Q: Please explain adjustment CS-114.**

3 A: As a result of the La Cygne environment equipment upgrades placed in service during
4 2015, there were spare parts associated with equipment being abandoned in place or
5 removed from service that cannot be utilized associated with the pre-existing La Cygne
6 generating station components. Items not used prior to the units returning to service will
7 be considered obsolete by the station since the parts cannot serve as spares for new
8 equipment or systems being installed. In the 2014 Case, KCP&L established a regulatory
9 asset in the amount of \$475,574 to be amortized over five years. The amortization
10 became effective October 1, 2015. Thus, an annual amortization amount was reflected in
11 this adjustment.

12 CS-115 LEGAL FEE REIMBURSEMENT

13 **Q: Please explain adjustment CS-115.**

14 A: Adjustment CS-115 removes test year amortizations of a regulatory liability that was
15 removed from the 2014 Case. The regulatory liability involved certain legal fees
16 involving a personal injury claim. Per the Partial Non-Unanimous S&A As To Certain
17 Issues in the 2014 Case, KCP&L agreed to remove the annual amortization of the legal
18 claim from base rates. Therefore, KCP&L has appropriately removed the test year
19 amortization expense in Adjustment CS-115.

20 CS-116 RENEWABLE ENERGY STANDARDS COSTS

21 **Q: Please explain adjustments CS-116.**

22 A: As part of the Second Non-Unanimous Stipulation and Agreement As To Certain Issues
23 in Case No. ER-2012-0174, the Company was granted recovery of all Renewable Energy

1 Standards (“RES”) costs through the true-up date in that case which was August 2012.
2 These costs were tracked as RES vintage 1 costs and were being amortized over a three-
3 year period. Pursuant to the 2014 Case, RES costs for vintage 2 recorded from August
4 2012 to May 2015 were authorized to be amortized over five years. In addition, all RES
5 costs recorded after May of 2015 would be allowed to be deferred. The Company has
6 recorded these costs as vintage 3. Vintage 1 amortization ended January 2016. Per the
7 Partial Non-Unanimous S&A As To Certain Issues in the 2014 Case, KCPL applied
8 prospective tracking and continued to amortize vintage 1 amount to Vintage 2 as this
9 amount continues to be collected through base rates. Adjustment CS-116 is the proposed
10 annual amortization of RES costs for both vintage 2 and vintage 3 costs. Vintage 1 test
11 year expense is removed from the cost of service in this rate case proceeding.

12 **Q: How was the amortization amount for vintage 3 determined?**

13 A: The Company limited the total amount of annual amortization of RES costs to 1% of
14 retail revenues from KCP&L’s previous rate case. Since vintage 1 ended amortization in
15 January 2016, its annual amount is excluded from the calculation of annualization limit.
16 After computing 1% of retail revenues, vintage 2 costs were subtracted from the total 1%
17 of the retail revenue amount granted. The resulting amount was divided by the total
18 projected RES deferred costs as of December 31, 2016 and resulted in an amortization
19 life of vintage 3 of 3.24 years.

20 **Q: Does the deferred cost balance include carrying costs?**

21 A: Yes, consistent with the Company’s Second Non-Unanimous Stipulation and Agreement
22 As To Certain Issues in Case No. ER-2012-0174, carrying costs based on a short term
23 debt rate will be applied to the unamortized deferred balance.

1 CS-117 COMMON USE BILLINGS – COMMON PLANT ADDS

2 **Q: What are common use billings?**

3 A: Common use billings represent the monthly billings of common use plant maintained by
4 KCP&L. Assets belonging to KCP&L may be used by another entity. This property,
5 referred to as common use plant, is primarily service facilities, telecommunications
6 equipment, network systems and software. In order to ensure that KCP&L's regulated
7 entity does not subsidize other GPE companies or jurisdictions, KCP&L charges for the
8 use of their respective common use assets. Monthly billings are based on the
9 depreciation and/or amortization expense of the underlying asset and a rate of return is
10 applied to the net plant basis. The total cost of all common use plant is then accumulated.

11 **Q: Why was an adjustment needed from amounts included in the test year?**

12 A: Included in plant adjustment RB-20 are plant additions that are expected to be placed into
13 service prior to the true-up date in this rate case proceeding. These include capital
14 additions associated with network systems and software that will become a part of the
15 Common Use Billing Process. Since these common use plant additions are expected to
16 occur after the test year, the portion of the common use assets that are billable to other
17 GPE entities and jurisdictions needs to be removed from the cost of service in this rate
18 case proceeding.

19 **Q: Please explain adjustment CS-117.**

20 A: Adjustment CS-117 computes the annual amortization expense and expected return on
21 the new common use plant additions that will be included in rate base in this rate case
22 proceeding. The annual amortization expense for the common use software additions is
23 based on the five or ten year life of the common use software costs. The return

1 component is based on the expected rate of return that will be used in this rate case
2 proceeding. These annual amounts are accumulated and multiplied by one minus the
3 KCP&L jurisdictional share of these assets which is based on the General Allocator. The
4 resulting amount is then removed from the cost of service in this case through adjustment
5 CS-117.

6 CS-120 DEPRECIATION

7 **Q: Please explain adjustment CS-120.**

8 A: We calculated annualized depreciation expense by applying jurisdictional depreciation
9 rates to adjusted Plant in Service balances. The jurisdictional rates used in the
10 annualization were those included in the depreciation study sponsored and described by
11 Company witness John J. Spanos in his direct testimony. Only depreciation rates for the
12 Electric Generating Plant accounts were updated. In addition, a proposed rate is being
13 requested for a new plant sub-account for Electric Vehicle Charging Stations. The
14 depreciation rates for all other plant accounts are those authorized in the 2014 Case.

15 **Q: What specific action does the Company request in regard to depreciation expense?**

16 A: The Company requests that the Commission authorize the use of depreciation rates
17 proposed by Company witness John Spanos as described above which are used to
18 compute total depreciation expense in this rate case proceeding.

19 CS-121 AMORTIZATION

20 **Q: Please explain adjustment CS-121.**

21 A: We annualized amortization expense applicable to certain plant including computer
22 software, land rights, leasehold improvements and plant accounts that utilize general
23 plant amortization, by multiplying December 2015 amortization expense on a total

1 company Missouri basis by twelve. To the intangible plant amounts, was added an
2 annualized amortization expense amount on projected plant net additions for the period
3 January 2016 through December 2016.

4 **Q: What amortization periods were used to amortize intangible assets?**

5 A: Computer software, the most significant intangible asset, is amortized over either a five
6 or ten year amortization period, depending on the nature of the asset, consistent with the
7 Company's past practice. Cost of land rights is amortized using rates that vary by
8 function, consistent with the Company's past practice. Amortization of individual
9 Leasehold Improvements is based on the length of the lease. Accumulated amortization
10 is maintained by each individual intangible asset, other than land rights which is
11 maintained in total by account, and amortization stops when the net book value reaches
12 zero.

13 **CS-125 INCOME TAX**

14 **Q: Please explain adjustment CS-125.**

15 A: We adjusted test period income tax expense based on various adjustments to test year
16 taxable income. The adjusted income tax calculation is shown on Schedule RAK-8. The
17 income tax adjustment includes current income taxes, deferred income taxes, and the
18 amortization of investment tax credits ("ITC") and certain other amortizations.

19 **Q: Please explain the current income tax component in cost of service as calculated in**
20 **Schedule RAK-8.**

21 A: Jurisdictional operations and maintenance deductions and other adjustments are applied
22 against jurisdictional revenues to derive net jurisdictional taxable income, which is then
23 used to compute the jurisdictional current income tax expense component (current

1 provision) for cost of service. For book purposes, these adjustments are the result of
2 book versus tax differences and their implementation under normalization or flow
3 through tax methods. Each adjustment is either added to or subtracted from net income
4 to derive net taxable income for ratemaking. For Schedule RAK-8, however, a simplified
5 methodology is used that eliminates the need to specifically identify all book and tax
6 differences. Most significantly, all basis differences between the book basis and tax basis
7 of assets are ignored in the current tax provision. Accelerated tax depreciation is used in
8 the currently payable calculation based on the tax basis of projected Plant in Service as
9 identified in adjustment RB-20. The difference between the accelerated depreciation
10 deduction for tax depreciation on tax basis assets and the depreciation deduction
11 calculated on a straight-line basis generates offsetting deferred income tax. The resulting
12 income tax expense, considering both the current and deferred income tax components,
13 reflects a level of total income taxes as if the depreciation deduction to arrive at taxable
14 income was based solely on depreciation of projected tax basis assets calculated on a
15 straight-line basis. This modified approach normalizes depreciation relating to the
16 method differences (*e.g.*, accelerated versus straight-line) and life differences. The
17 Company and the MPSC Staff used this modified approach in the 2014 Case.

18 **Q: Please describe the adjustments to derive net taxable income for ratemaking.**

19 **A:** The following are the primary adjustments to derive net taxable income for ratemaking
20 purposes:

- 21 • Book depreciation and amortization expense (adjustments CS-120 through CS- 121),
22 have been excluded from the deductions listed on Schedule RAK-8. As previously

1 discussed, accelerated tax depreciation on both projected depreciable plant and
2 projected amortizable plant is subtracted to derive taxable income.

- 3 • The deduction for nuclear fuel amortization is treated consistently with the treatment
4 of depreciation and amortization on Plant in Service.
- 5 • A portion of Meals and Entertainment expense is added back in deriving net taxable
6 income, since a portion of certain meals and entertainment expenses is not tax
7 deductible. This adjustment increases taxable income and ultimately increases the
8 current income tax provision. The amount by which taxable income was increased is
9 equal to the amount for the 2014 federal income tax return.
- 10 • Interest expense is subtracted to derive net taxable income. It is calculated by
11 multiplying the adjusted jurisdictional rate base by the weighted average cost of debt
12 as recommended in this proceeding. This is referred to as “interest synchronization”
13 because this calculation ensures that the interest expense deducted for deriving
14 current taxable income equals the interest expense provided for in rates.
- 15 • The Manufacturer’s Deduction amount is deducted from net income in deriving
16 taxable income. This special deduction is allowable under Internal Revenue Code
17 (“IRC”), Section 199. The deduction is based upon taxable income derived from the
18 production of electricity. For 2016, the deduction is 9% of electricity production
19 taxable income. The deduction has not been adjusted to conform to Missouri
20 jurisdictional taxable income. This deduction is not an expense for book purposes;
21 therefore, no deferred income taxes are created. The amount of the projected
22 deduction on Schedule RAK-8 is based upon amount deducted under IRC Section
23 199 for the 2014 federal income tax return. Bonus depreciation reduced the

1 electricity production taxable income for 2014 to \$0. In addition, due to the
2 extension of bonus depreciation to 2019, the Company estimates that it will have no
3 electricity production taxable income or a Sec 199 deduction for 2016.

4 **Q: Once the deductions and adjustments have been applied to net income to derive**
5 **taxable income for ratemaking, what further deductions from taxable income are**
6 **applied before calculating the two components of current income tax expense:**
7 **federal current income tax expense and Missouri state current income tax expense?**

8 A: Before calculating federal income taxes, Missouri state income taxes are deducted.
9 Before calculating Missouri state income taxes, one-half of federal income taxes are
10 deducted.

11 **Q: How are the current income tax components calculated?**

12 A: The current provision calculation utilizes a 35% federal tax rate, and a 6.25% Missouri
13 state tax rate, each of which is applied independently to the appropriate level of taxable
14 income as discussed above. The federal and state income tax rates are used to compute
15 the composite tax rate of 38.39% which is used to calculate deferred income taxes,
16 discussed below. The composite tax rate reflects the federal benefit relating to deductible
17 Missouri state income tax and the Missouri benefit of deducting 50% of federal income
18 taxes when computing the current Missouri tax provision.

19 **Q: Is the current federal tax expense, determined by multiplying current taxable**
20 **income by the federal income tax rate, further reduced by tax credits?**

21 A: Yes, the wind production tax credit, the R&D tax credit, the federal excise tax credit and
22 the alternative fuel vehicle refueling property tax credit reduce the current federal income
23 tax due.

1 **Q: Please explain the wind production tax credit on Schedule RAK-8.**

2 A: IRC Section 45 allows for a federal tax credit based on the amount of electricity produced
3 by a qualifying wind generating facility. The credit is allowed for ten years after the
4 facility is placed in service. The adjustment shown on this schedule as a direct reduction
5 of the federal currently payable income tax expense reflects the estimated production tax
6 credits for KCP&L's wind generation facilities for the twelve months that ended
7 December 31, 2016. This adjustment uses the presently allowable \$23 per megawatt
8 hour of generation multiplied by the annualized amount of estimated megawatt hours of
9 wind generation to determine the amount of credit.

10 **Q: Please explain the R&D tax credit on Schedule RAK-8.**

11 A: IRC Section 41 allows for a federal tax credit based on the amount of qualified research
12 expenses incurred. The adjustment shown on this schedule as a direct reduction of the
13 federal currently payable income tax expense reflects the estimated R&D tax credit for
14 KCP&L's operations for twelve months that ended December 31, 2016.

15 **Q: Please explain the federal excise tax credit on Schedule RAK-8.**

16 A: IRC Section 212 allows for a federal tax credit for excise taxes paid on fuel used for off-
17 highway business use by a taxpayer in a trade or business or in an income-producing
18 activity. The adjustment shown on this schedule as a direct reduction of the federal
19 currently payable income tax expense reflects the federal excise tax credit reported on
20 KCP&L's 2014 federal tax return.

1 **Q: Please explain the alternative fuel vehicle refueling property tax credit on Schedule**
2 **RAK-8.**

3 A: IRC Section 30C allows for a federal tax credit for 30% of qualified alternative fuel
4 vehicle refueling property expense incurred. The adjustment shown on this schedule as
5 a direct reduction of the federal currently payable income tax expense reflects the
6 estimated alternative fuel vehicle refueling property tax credit for KCP&L's operations
7 for twelve months that ended December 31, 2016.

8 **Q: Please explain the deferred income tax component of cost of service as calculated in**
9 **Schedule RAK-8.**

10 A: The deferred income tax component of cost of service is primarily the result of applying
11 the composite income tax rate (38.39%) to the difference between projected accelerated
12 tax depreciation used to compute current income tax, as discussed earlier in this
13 testimony, and projected book depreciation.

14 The other main deferred tax item is the average rate assumption method of
15 deferred tax amortization, AFUDC Equity reversal, and other miscellaneous flow-
16 through items.

17 This average rate assumption method adjustment represents the amortization of
18 excess deferred income taxes over the remaining book lives. It reduces the income tax
19 component of cost of service. During the 1980s, the federal tax rate was higher than
20 today's 35% rate. Since deferred taxes were provided at the rate in effect when the
21 originating timing differences were generated, the deferred income taxes were provided
22 at a rate higher than the tax rate that is expected to be in existence when the timing
23 differences reverse and the taxes are due to the government. This difference in rates is

1 being amortized into cost of service over the remaining book lives of the assets that
2 generated the timing differences. The AFUDC Equity reversal adjustment represents the
3 reversal of the book amortization of AFUDC Equity placed in service in prior years not
4 allowed for tax purposes. The other miscellaneous flow-through items represent the
5 reversal of book amortization of other small items placed in service and flowed-through
6 to ratepayers in prior years.

7 **Q: Please explain the ITC amortization component in cost of service as calculated in**
8 **Schedule RAK-8.**

9 A: ITC amortization reduces the income tax component of cost of service. ITC is amortized
10 ratably over the remaining book lives of the underlying assets.

11 **Q: Are there any other income tax amortizations that affect jurisdictional income tax**
12 **cost of service?**

13 A: Yes, there is one additional amortization, relating to pre-1981 cost of removal which was
14 addressed in the Stipulation and Agreement As to Certain Issues in the Case No. ER-
15 2007-0291, approved by the Commission on December 6, 2007 ("2007 S&A").

16 **Q: Please discuss the cost of removal amortization.**

17 A: In accordance with the 2007 S&A, the Company adopted normalization accounting for
18 the tax timing difference associated with the pre-1981 vintage cost of removal and began
19 amortization of the cumulative income tax impact for the excess of KCP&L's actual cost
20 of removal over the accrued cost included in book depreciation in prior years, over a 20
21 year period beginning January 1, 2008 (\$7,088,760, Missouri jurisdictional). As a result,
22 the Company's annual deferred income tax expense increased by \$354,438 and this
23 amortization is included as an increase in income tax expense on Schedule RAK-8.

1

CS-126 PROPERTY TAX

2 **Q: Please explain adjustment CS-126.**

3 A: The Company annualized the real estate and personal property tax expense and
4 payments-in-lieu-of-taxes ("PILOT") using an average of budgeted future property tax
5 expense for 2017 and 2018. Only property tax expense amounts included in operations
6 and maintenance expense ("Property Tax O&M") are included in this computation. See
7 Schedule RAK-9 for more details.

8 **Q: Why should budgeted future Property Tax O&M expense be used to compute the**
9 **property tax adjustment in this case?**

10 A: KCP&L's Property Tax O&M expense has continued to increase dramatically over the
11 last five years; in 2011 KCP&L's Property Tax O&M expense was \$72.2 million and in
12 2015 KCP&L's Property Tax O&M expense was \$90.7 million. In each of the prior
13 years the Company's Property Tax O&M expense has increased by several million
14 dollars over the prior year amount. See Schedule RAK-9 which includes a summary of
15 the past 5 years of KCP&L historical and 3 years of estimated future total property taxes
16 paid and Property Tax O&M expense. Based on the dramatic increases in Property Tax
17 O&M expense in each of the last five years and the expected increases in earnings for
18 KCP&L, we expect Property Tax O&M expense to continue to increase in the next few
19 years. In fact, we expect Property Tax O&M expense to increase to ****[REDACTED]**** million
20 in 2018. Therefore, it is appropriate to use the average of 2017 and 2018 budgeted
21 Property Tax O&M expense, or ****[REDACTED]**** million in setting rates in this case.

HIGHLY CONFIDENTIAL

1 **Q: Do the various components of the real estate and personal property tax adjustment**
2 **discussed above take into effect tax amounts allocated to vehicles and charged to**
3 **accounts other than property tax expense and amounts allocated to non-utility**
4 **plant?**

5 A: Yes, these components have been excluded from the Property Tax O&M expense
6 components of the calculation and the adjusted Property Tax O&M amounts on Schedule
7 RAK-9.

8 **Q: Please explain the PILOT adjustment.**

9 A: The Company has placed in-service two wind generating facilities located in Ford
10 County, Kansas. The first facility was placed in-service in 2006 and the second facility
11 was placed in-service during 2010. Pursuant to K.S.A. 79-201 *Eleventh*, such property is
12 exempt from real and personal property taxes.

13 **Q: Does Kansas law provide for a PILOT on property that is exempt from property**
14 **taxes?**

15 A: Yes. Pursuant to K.S.A. 12-147, taxing subdivisions of the state of Kansas are authorized
16 and empowered to enter into contracts for a PILOT with the owners of property that are
17 exempt from ad valorem taxes.

18 **Q: Please explain the PILOT agreements relating to the wind generating facility**
19 **located in Ford County, Kansas.**

20 A: Separate agreements exist with Ford County and USD #381 that provide for 30 annual
21 payments for both facilities. The first wind farm that was in-serviced in 2006 had the
22 first PILOT payment due in 2007 and the payments escalating between 2.5% and 3% per
23 year. The second wind farm that was in serviced in 2010 had the first PILOT payment

1 due in 2011 and these payments also escalate between 2.5% and 3% per year. These
2 payments were necessary to secure agreements with landowners and community leaders
3 to site the wind facility.

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

5 **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) Case No. ER-2016-0285
A General Rate Increase for Electric Service)

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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

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

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of Seventy (70) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

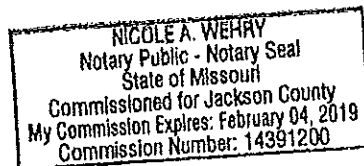
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ronald A. Klote
Ronald A. Klote

Subscribed and sworn before me this 1st day of July, 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2019



**Kansas City Power & Light Company
2016 RATE CASE - Direct
Missouri Jurisdiction
TY 12/31/15; Update TBD; K&M 12/31/16**

Revenue Requirement

Line No.	Description <u>A</u>	7.702% Return <u>B</u>
1	Net Orig Cost of Rate Base (Sch 2)	\$ 2,576,273,286
2	Rate of Return	<u>7.7015%</u>
3	Net Operating Income Requirement	\$ 198,411,687
4	Net Income Available (Sch 9)	<u>142,915,379</u>
5	Additional NOIBT Needed	55,496,308
6	Additional Current Tax Required	34,580,305
7	Gross Revenue Requirement	<u><u>\$ 90,076,613</u></u>

**Kansas City Power & Light Company
2016 RATE CASE - Direct
Missouri Jurisdiction
TY 12/31/15; Update TBD; K&M 12/31/16**

Rate Base

Line No.	Description A	Amount B	Witness C	Adj No. D
1	Total Plant :			
2	Total Plant in Service - Schedule 3	5,274,249,638	Klote	RB-20
3	Subtract from Total Plant:			
4	Depreciation Reserve - Schedule 6	2,072,173,694	Klote	RB-30
5	Net (Plant in Service)	<u>3,202,075,945</u>		
6	Add to Net Plant:			
7	Cash Working Capital - Schedule 8	(62,071,389)	Klote	Model
8	Materials and Supplies - Schedule 12	59,031,048	Klote	RB-72
9	Prepayments - Schedule 12	7,124,681	Klote	RB-50
10	Fuel Inventory - Oil - Schedule 12	5,268,197	Blunk	RB-74
11	Fuel Inventory - Coal - Schedule 12	30,128,160	Blunk	RB-74
12	Fuel Inventory - Additives - Schedule 12	529,368	Blunk	RB-74
13	Fuel Inventory - Nuclear - Schedule 12	30,394,950	Klote	RB-75
14	Regulatory Asset - EE/DR Deferral-MO	34,030,965	Klote	RB-100
15	Regulatory Asset - Iatan 1 and Com-MO	10,490,962	Klote	RB-25
16	Regulatory Asset - Iatan 2	25,646,700	Klote	RB-26
17	Regulatory Asset - Pensions	7,221,727	Klote	RB-65
18	Regulatory Asset - Prepaid Pension Exp	0	Klote	RB-65
19	Regulatory Asset (Liab) - OPEBs Tracker	(2,627,171)	Klote	RB-61
20	Subtract from Net Plant:			
21	Cust Advances for Construction-MO	1,667,781	Klote	RB-71
22	Customer Deposits-MO	4,020,118	Klote	RB-70
23	Deferred Income Taxes - Schedule 13	729,963,824	Klote	RB-125
24	Def Gain on SO2 Emissions Allowances-MO	35,319,134	Klote	RB-55
25	Def Gain (Loss) Emissions Allow-Allocated	0	Klote	RB-55
26	Total Rate Base	<u><u>2,576,273,286</u></u>		

Kansas City Power & Light Company
2016 RATE CASE - Direct
Missouri Jurisdiction
TY 12/31/15; Update TBD; K&M 12/31/16

Income Statement

Line No.	Description	Total Company	Adjustment	Adjusted Total Company	Adjusted Jurisdictional
	A	B	C	D	F
1	Operating Revenue	1,713,813,201	261,942,045	1,975,755,246	1,088,088,907
2	Operating & Maintenance Expenses:				
3	Production	591,548,134	292,330,213	883,878,347	489,105,218
4	Transmission	82,561,690	8,751,132	91,312,822	50,867,744
5	Distribution	53,422,498	(926,121)	52,496,377	28,878,142
6	Customer Accounting	20,273,742	9,530,547	29,804,289	17,406,283
7	Customer Services	32,897,880	(10,796,247)	22,101,633	20,456,237
8	Sales	470,247	2,811	473,058	248,478
9	A & G Expenses	160,805,407	(9,560,116)	151,245,290	81,361,778
10	Total O & M Expenses	941,979,598	289,332,218	1,231,311,816	688,323,880
11	Depreciation Expense	214,206,624	29,239,019	243,445,643	127,861,126
12	Amortization Expense	22,446,386	9,931,715	32,378,101	20,874,322
13	Taxes other than Income Tax	163,528,030	(41,099,419)	122,428,611	65,449,969
14	Net Operating Income before Tax	371,652,563	(25,461,489)	346,191,075	185,579,610
15	Income Taxes Current	(17,380,041)	71,832,166	54,452,125	29,136,031
16	Income Taxes Deferred	99,346,571	(75,792,931)	23,553,640	14,102,611
17	Investment Tax Credit	(941,951)	(131,364)	(1,073,315)	(574,410)
18	Total Taxes	81,024,579	(4,092,129)	76,932,450	42,664,232
19	Total Net Operating Income	290,627,984	(21,369,360)	269,258,624	142,915,379

Kansas City Power & Light Company
2016 RATE CASE - Direct
Missouri Jurisdiction
TY 12/31/15; Update TBD; K&M 12/31/16

Summary of Adjustments

Line No.	Adj No.	Description	Witness	Increase (Decrease)			
				D	E	F	G
				Adjust to 12-31-16 - Anticipated True Up Date			
1		JURISDICTIONAL COST OF SERVICE		Total Adjustments	Allocated Adjs	100% MO Adjs	100% KS & Whsl Adjs (2)
				Incr (Decr)	Incr (Decr)	Incr (Decr)	Incr (Decr)
2		OPERATING REVENUE					
3		Retail Sales - Schedule 9, line					
4	R-1	Remove Gross Receipts Tax revenue (MO only)	Klote	(62,145,119)		(62,145,119)	
5	R-11	Adjust test year revenue	Klote	0			
6	R-20	Normalize MO retail revenues (MO only)	Bass / Miller / Rush	32,773,355		32,773,355	
7	R-21a	Adjust MO forfeited disc for R-20a LPC (MO only)	Klote	125,925		125,925	
8	R-21b	Adjust MO forfeited disc for R-20b LPC - ASK (MO only)	Klote	209,731		209,731	
9	R-35	Normalize Bulk Power Sales	Crawford	290,744,349	290,744,349		
10	R-75	Allconnect	Klote	268,691	268,691		
11	R-78	Amortize bulk power margins in excess of 25th percentile (MO only)	Klote	9,735		9,735	
12	R-80	Transmission Revenues - ROE	Klote	(919,960)	(919,960)		
13	R-82	Transmission Revenues - Annualized	Klote	875,338	875,338		
14		Operating Revenue - Schedule 9, line		261,942,045	290,968,418	(29,026,373)	0
15							
16		OPERATING EXPENSES - Schedule 9					
17	CS-4	Reflect KCREC test year bad debt expense in KCP&L's COS	Klote	7,246,480		5,298,857	1,947,623
18	CS-9	Reflect KCREC test year bank commitment fees in KCP&L's COS	Klote	1,011,437	1,011,437		
19	CS-10	Reflect test year interest on customer deposits in COS	Klote	158,840		156,818	2,022
20	CS-11	Reverse prior period and non-recurring test year amounts.	Klote	(4,183,028)	(2,646,559)	(1,536,469)	
21	CS-18	KCMO Earnings Tax (see Line 81)	Klote				
22	CS-20a	Normalize bad debt expense related to test year revenue	Klote	(160,854)		(160,854)	
23	CS-20b	Normalize bad debt expense related to jurisdictional "Ask"	Klote	537,237		537,237	
24	CS-22	Amortize deferred gain on sale of SO2 emissions allowances	Klote	(4,081)	0	(4,081)	

Kansas City Power & Light Company
2016 RATE CASE - Direct
Missouri Jurisdiction
TY 12/31/15; Update TBD; K&M 12/31/16

Summary of Adjustments

Line No.	Adj No.	Description	Witness	Increase (Decrease)			
				D	E	F	G
				Adjust to 12-31-16 - Anticipated True Up Date			
1	JURISDICTIONAL COST OF SERVICE			Total Adjustments	Allocated Adjs	100% MO Adjs	100% KS & Whsl Adjs (2)
				Incr (Decr)	Incr (Decr)	Incr (Decr)	Incr (Decr)
25	CS-24	Normalize fuel and purchase power energy (on system)	Crawford	281,486,175	279,766,195	1,719,980	
26	CS-25	Normalize purchased power capacity costs	Crawford	(2,965,200)	(2,965,200)		
27	CS-35	Defer & Amortize Wolf Creek Mid-Cycle Outage (See Line 82)	Klote				
28	CS-36	Annualize Wolf Creek refueling outage amortization	Klote	3,212,076	3,212,076	0	
29	CS-37	Adjust Nuclear decommissioning expense	Klote	0			
30	CS-39	IT Software Maintenance	Klote	981,418	981,418		
31	CS-40	Normalize Transmission maintenance expense	Klote	705,695	705,695		
32	CS-41	Normalize Distribution maintenance expense	Klote	(1,210,589)	(1,210,589)		
33	CS-42	Normalize Generation maintenance expense	Klote	2,682,697	2,682,697		
34	CS-44	Adjust cost of Economic Relief Pilot Program (ERPP) (MO only)	Klote	260,878		260,878	
35	CS-45	Normalize transmission of electricity by others	Carlson / Klote / Rush	10,826,296	10,826,296		
36	CS-48	Annualize non-labor O&M expenses for latan 2	Klote	664,797	0	664,797	
37	CS-50	Annualize salary and wage expense for changes in staffing levels and base pay rates	Klote	4,755,351	4,740,501	7,120	7,730
38	CS-51	Normalize incentive compensation costs- Value Link	Klote	685,793	685,793		
39	CS-52	Normalize 401k costs	Klote	318,320	318,320		
40	CS-53	Payroll Taxes (see Line 83)	Klote				
41	CS-60	Annualize other benefit costs	Klote	149,391	149,391		
42	CS-61	Annualize OPEB expense	Klote	(3,767,133)	(3,767,133)		
43	CS-62	Normalize SERP expense	Klote	(518,367)	(518,367)		
44	CS-65	Annualize FAS 87 and FAS 88 pension expense	Klote	821,253	821,253		
45	CS-70	Annualize Insurance Premiums	Klote	(335,733)	(335,733)		
46	CS-71	Normalize injuries and damages expense	Klote	(1,914,167)	(1,914,167)		
47	CS-75	Allconnect	Klote	84,442	84,442		
48	CS-76	Annualize interest on customer deposits	Klote	14,037		14,037	
49	CS-77	Annualize Customer Accounts expense for credit card payment costs	Klote	136,816	136,816		

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Summary of Adjustments

Line No.	Adj No.	Description	Witness	Increase (Decrease)			
				D	E	F	G
				Adjust to 12-31-16 - Anticipated True Up Date			
1		JURISDICTIONAL COST OF SERVICE		Total Adjustments	Allocated Adjs	100% MO Adjs	100% KS & Whsl Adjs (2)
				Incr (Decr)	Incr (Decr)	Incr (Decr)	Incr (Decr)
50	CS-78	Annualize KCREC bank fees related to sale of receivables	Klote	103,511	103,511		
51	CS-80	Amortize MO, KS and FERC rate case expenses	Klote	125,492		125,492	
52	CS-85	Annualize regulatory assessments	Carlson / Klote / Rush	189,801	26,137	163,664	
53	CS-86	SPP Schedule 1 Admin Fee's	Carlson / Klote / Rush	(1,219,249)	(1,219,249)		
54	CS-88	CIPS/Cyber Security O&M	Klote / Roper / Rush	487,427	487,427		
55	CS-89	Meter Replacement O&M	Klote	349,947	349,947		
56	CS-91	Amortize advertising MO regulatory asset	Klote	0			
57	CS-98	MEEIA	Klote / Rush	(19,887,621)		(19,887,621)	
58	CS-99	Flood Reimbursement Amortization	Klote	(135,630)		(135,630)	
59	CS-100	Amortize EE/DR regulatory assets	Klote	3,020,990		3,020,990	
60	CS-107	Transource Account Review Amortization	Klote	(34,220)		(34,220)	
61	CS-108	Transource CWIP/FERC Incentives	Klote	(1,634,328)	(1,634,328)		
62	CS-109	Adjust Lease Expense - Corporate Headquarters	Klote	433,124		433,124	
63	CS-114	Amortize LaCygne Obsolete Inventory	Klote	71,336		71,336	
64	CS-115	Amortize Legal Fee Reimbursement	Klote	362,978		362,978	
65	CS-116	Adjust Costs of Renewable Energy Standards	Klote / Rush	5,785,274		5,785,274	
66	CS-117	Common-use Billings	Klote	(2,896,409)	(2,896,409)		
67	CS-120	Annualize depr exp based on jurisdictional depr rates applied to jurisdictional plant-in-service at indicated period - unit trains & transportation equipment	Klote	246,944	246,944		
68				287,049,644	288,228,562	(3,136,293)	1,957,375
69		Depreciation Expense - Schedule 9, line					
70	CS-120	Annualize depreciation expense based on jurisdictional depreciation rates applied to jurisdictional plant-in-service at indicated period	Klote / Spanos	31,151,945	31,151,945		
71				31,151,945	31,151,945	0	0

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Summary of Adjustments

Line No.	Adj No.	Description	Witness	Increase (Decrease)			
				D	E	F	G
				Adjust to 12-31-16 - Anticipated True Up Date			
1		JURISDICTIONAL COST OF SERVICE		Total Adjustments	Allocated Adjs	100% MO Adjs	100% KS & Whsl Adjs (2)
				Incr (Decr)	Incr (Decr)	Incr (Decr)	Incr (Decr)
72		Amortization Expense - Schedule 9, line					
73	CS-110	Amortize 2011 Flood	Klote	0			
74	CS-111	Amortize latan 1/Common Regulatory Asset	Klote	0			
75	CS-112	Amortize latan 2 Regulatory Asset	Klote	0			
76	CS-121	Annualize plant amortization expense based on jurisdictional amortization rates applied to unamortized jurisdictional plant-in-Service at indicated period	Klote	9,931,715	9,931,715		
77				<u>9,931,715</u>	<u>9,931,715</u>	<u>0</u>	<u>0</u>
78		Taxes Other than Income - Schedule, line					
79	R-1	Remove Gross Receipts Tax expense (MO only)	Klote	(61,157,241)		(61,157,241)	
80	CS-18	Reverse test year Kansas City, Missouri Earnings Tax (MO only)	Klote	455,185		455,185	
81	CS-35	Defer & Amortize Wolf Creek Mid-Cycle Outage	Klote	369,648		369,648	
82	CS-53	Annualize Payroll tax expense	Klote	1,562,547	1,562,547		
83	CS-126	Adjust property tax expense	Klote / Rush	18,040,090	18,040,090		
84				<u>(40,729,771)</u>	<u>19,602,637</u>	<u>(60,332,408)</u>	<u>0</u>
85		Income Tax Expense- Schedule 9, line					
86	CS-125	Reflect adjustments to Schedule 9, Allocation of Current and Deferred Income Taxes	Klote	(4,092,129)	(4,446,567)	354,438	
87				<u>(4,092,129)</u>	<u>(4,446,567)</u>	<u>354,438</u>	<u>0</u>
88							
89		Total Electric Oper. Expenses - Schedule 9, line		<u>283,311,405</u>	<u>344,468,293</u>	<u>(63,114,263)</u>	<u>1,957,375</u>
90							
91		Net Electric Operating Income - Schedule , line		<u>(21,369,360)</u>	<u>(53,499,875)</u>	<u>34,087,890</u>	<u>(1,957,375)</u>
				0			

(1) All amounts are total company; if an adjustment is applicable to only KS or MO, it is so indicated

(2) These adjustments affect Kansas or Wholesale jurisdictions and are not discussed in testimony supporting the Missouri rate case.

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Cash Working Capital

Line No.	Account Description	Jurisdictional		Net		CWC Req	
		Test Year Expenses	Revenue Lag	Expense Lead	(Lead)/Lag (C) - (D)		Factor (Col E/366)
	A	B	C	D	E	F	G
1	Operations & Maintenance Expense						
2	Gross Payroll excl Wolf Creek Prod & Accrued Vac	62,004,824	26.71	13.85	12.86	0.0351	2,178,639
3	Accrued Vacation	6,534,860	26.71	344.83	-318.12	-0.8692	(5,679,972)
4	Wolf Creek Operations & Fuel, incl Payroll	65,672,784	26.71	25.85	0.86	0.0023	154,313
5	Purchased Coal & Freight	126,172,760	26.71	20.88	5.83	0.0159	2,009,801
6	Purchased Gas	2,422,876	26.71	28.62	-1.91	-0.0052	(12,644)
7	Purchased Oil, excl Wolf Creek	2,713,344	26.71	8.50	18.21	0.0498	135,000
8	Purchased Power	222,730,875	26.71	30.72	-4.01	-0.0110	(2,440,303)
9	Injuries & Damages	4,179,137	26.71	149.56	-122.85	-0.3357	(1,402,751)
10	Pension Expense	24,838,593	26.71	51.74	-25.03	-0.0684	(1,698,661)
11	OPEBs	729,368	26.71	178.44	-151.73	-0.4146	(302,369)
12	Cash Vouchers	170,324,459	26.71	30.00	-3.29	-0.0090	(1,531,059)
13	Total Operation & Maintenance Expense	<u>688,323,880</u>					<u>(8,590,005)</u>
14	Taxes other than Income Taxes						
15	FICA Taxes - Employer's	7,148,738	26.71	13.77	12.94	0.0354	252,745
16	Unemployment Taxes - Federal & State	82,197	26.71	71.00	-44.29	-0.1210	(9,947)
17	City Franchise Taxes - 6% GRT - MO	37,706,313	11.5	72.28	-60.78	-0.1661	(6,261,721)
18	City Franchise Taxes - 4% GRT - MO	14,671,263	11.5	39.34	-27.84	-0.0761	(1,115,978)
19	City Franchise Taxes - Other MO Cities	8,769,824	11.5	60.94	-49.44	-0.1351	(1,184,645)
20	Ad Valorem / Property Taxes	58,165,486	11.5	208.84	-197.34	-0.5392	(31,361,686)
21	Sales & Use Taxes - MO	22,817,458	11.5	22.00	-10.5	-0.0287	(654,599)
22	Total Taxes other than Income Taxes	<u>149,361,278</u>					<u>(40,335,830)</u>
23	Current Income Taxes-Federal	24,686,994	26.71	45.63	-18.92	-0.0517	(1,276,169)
24	Current Income Taxes-State	4,449,037	26.71	45.63	-18.92	-0.0517	(229,988)
25	Total Income Taxes	<u>29,136,031</u>					<u>(1,506,158)</u>
26	Interest Expense	<u>71,190,160</u>	26.71	86.55	-59.84	-0.1635	<u>(11,639,397)</u>
27	Total Cash Working Capital Requirement	<u>938,011,349</u>					<u>(62,071,389)</u>

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Allocation Factors

Line No.	Jurisdiction Factors	Missouri	KS & Wholesale	Total
	A	B	C	D
1	Jurisdiction Factors			
2	Missouri Jurisdictional	100.0000%	0.0000%	100.0000%
3	Kansas Jurisdictional	0.0000%	100.0000%	100.0000%
4	Non Jurisdictional/Wholesale	0.0000%	100.0000%	100.0000%
5	D1 - Demand (Capacity) Factor	52.3942%	47.6058%	100.0000%
6	E1 - Energy Factor with Losses (E1)	56.1261%	43.8739%	100.0000%
7	C1 - Customer - Elec (Retail only) (C1)	52.5259%	47.4741%	100.0000%
8	Blended Factors (See Calculation Below)			
9	Sal & Wg - Salaries & Wages w/o A&G	53.1559%	46.8441%	100.0000%
10	PTD - Prod/Trsm/Dist Plant (excl Gen)	53.5174%	46.4826%	100.0000%
11	Dist Plt - Weighted Situs Basis	55.4895%	44.5105%	100.0000%
12	Situs Basis Plant used for Dist Depr Reserve			
13	360 - Dist Land	50.2113%	49.7887%	100.0000%
14	360 - Dist Land Rights	58.3324%	41.6676%	100.0000%
15	361 - Dist Structures & Improvements	56.4512%	43.5488%	100.0000%
16	362 - Distr Station Equipment	61.0734%	38.9266%	100.0000%
17	362 - Distr Station Equip-Communication	54.9206%	45.0794%	100.0000%
18	363 - Distr Energy Storage Equipment	100.0000%	0.0000%	100.0000%
19	364 - Dist Poles, Towers & Fixtures	55.6439%	44.3561%	100.0000%
20	365 - Dist Overhead Conductor	56.2871%	43.7129%	100.0000%
21	366 - Dist Underground Circuits	58.5149%	41.4851%	100.0000%
22	367 - Dist Underground Conduct & Devices	52.4328%	47.5672%	100.0000%
23	368 - Dist Line Transformers	57.3830%	42.6170%	100.0000%
24	369 - Dist Services	51.1429%	48.8571%	100.0000%
25	370 - Dist Meters	53.8186%	46.1814%	100.0000%
26	370 - Dist AMI Meters	52.9363%	47.0637%	100.0000%
27	371 - Dist Customer Premise Installations	59.6266%	40.3734%	100.0000%
28	373 - Dist Street Lights & Traffic Signals	35.5953%	64.4047%	100.0000%

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Description of Allocators

NET ELECTRIC OPERATING INCOME

Revenues

Retail revenues are the revenues received from retail customers in Missouri and Kansas. Retail revenues are not allocated; rather, they are recorded by jurisdiction.

Miscellaneous revenues include forfeited discounts, miscellaneous services, rent from electric property, transmission service for others, and other electric revenues. These miscellaneous revenues are subdivided and, where possible, assigned directly to the jurisdiction where they are recorded. The miscellaneous revenues that are not directly assignable to a jurisdiction are grouped by functional categories and allocated on a basis consistent with that functional category.

Non-firm off-system sales and firm bulk sales revenue are allocated based on the Energy allocator.

Sales for resale revenue is revenue from the full-requirements firm wholesale customers under FERC jurisdiction. This revenue is assigned totally to the FERC jurisdiction.

Fuel & Purchased Power Cost

Fuel cost is primarily allocated based on the Energy allocator. The exception is that the amortization of SO₂ Allowances are assigned directly to the applicable jurisdiction

The purchased power demand (capacity) component is allocated based on the Demand allocator, while the energy component is allocated based on the Energy allocator.

Non-Fuel Operations and Maintenance (“O&M”) Costs

Production O&M cost is allocated consistent with the allocation of production plant.

Transmission O&M costs associated with company owned transmission plant is allocated consistent with the allocation of transmission plant. Transmission Operation Load expense, Transmission of electricity by others and costs associated with participation in SPP are allocated based upon the Energy allocator.

Distribution O&M cost is allocated consistent with the allocation of distribution plant.

Customer accounts expense is primarily allocated using the Customer allocator. The exception is that the uncollectible accounts expense is assigned directly to the applicable jurisdiction.

Customer services and information expense is primarily allocated using the Customer allocator. The exception is that the amortizations of Energy Efficiency/Demand Response, and Renewable Energy Standards costs are assigned directly to the applicable jurisdiction.

Sales expense is primarily allocated using the Customer allocator.

A&G expense is allocated using a number of methods depending on the cause of the cost. Salaries, employee benefits, and injuries and damages expenses are allocated based on the allocated sum of the labor portion of the production, transmission, distribution, customer accounts, customer services and information, and sales expenses described previously. Regulatory expenses are assigned directly to the applicable jurisdiction, with the exception of the FERC regulatory expense, which is allocated based on the Energy allocator. Amortization of other jurisdictional costs deferred as a result of prior regulatory orders are assigned directly to the applicable jurisdiction. Property insurance and General plant maintenance is allocated based on the composite allocation of production, transmission and distribution plant. Fleet expense is allocated based on the allocation of distribution plant. General advertising expense is allocated using the Customer allocator. The remaining A&G expenses are allocated using the Energy allocator.

Depreciation and Amortization Expenses

Depreciation expense is allocated based on the allocation of the plant with which they are associated. Amortization expense is allocated based on the composite allocation of production, transmission and distribution plant, with the exception of Amortizations as a result of a prior regulatory order, which are assigned directly to the applicable jurisdiction.

Interest on Customer Deposits

Interest on customer deposits is assigned directly to the applicable jurisdiction.

Taxes

Property tax is allocated based on the composite allocation of production, transmission and distribution plant. Payroll tax is allocated based on the allocated sum of the labor portion of the production, transmission, distribution, customer accounts, customer services and information, and sales expenses. Gross receipts tax is assigned directly to the Missouri jurisdiction and then eliminated through an adjustment (adjustment R-1). Other miscellaneous taxes are allocated based on the composite allocation of production, transmission and distribution plant.

Currently payable income tax is not allocated. Instead, currently payable income tax is calculated in the Revenue Requirement Model using the statutory tax rates for the

appropriate jurisdiction and applying those rates to jurisdictional taxable income calculated in the Revenue Requirement Model. Deferred tax expense related to depreciation is calculated using the statutory federal and state tax rates for the appropriate jurisdiction and applying a composite tax rate to the jurisdictional difference between tax return depreciation and straight-line depreciation reflected in the Revenue Requirement Model. Other deferred income tax expenses are allocated based on the composite allocation of production, transmission and distribution plant, with the exception of Amortizations as the result of prior regulatory orders are assigned directly to the applicable jurisdiction. Kansas City, Missouri Earnings Tax applies only to the Missouri jurisdiction and is therefore only calculated for the Missouri jurisdiction.

RATE BASE

Plant-in-Service and Reserve for Depreciation and Amortization

The Demand allocator is used to allocate production plant. The exception is for plant items that have been afforded different jurisdictional accounting treatment through past commission orders. Examples include the Missouri gross-up accounting treatment of allowance for funds used during construction (“Missouri Gross AFDC”) and the Iatan 1 and Iatan 2 plant disallowances. These items are assigned directly to the applicable jurisdiction.

Transmission plant cost is allocated based primarily using the Demand allocator. Missouri Gross AFDC amounts in the transmission plant amounts are allocated directly to Missouri.

Distribution plant cost is assigned based on physical location.

General plant cost is allocated based on the composite allocation of production, transmission, and distribution plant. Missouri Gross AFDC amounts in the general plant amounts are allocated directly to Missouri.

Intangible plant consists primarily of capitalized software, which is allocated based on the allocation factor considered most appropriate for the function of the software. For example, the customer information system is allocated based on the Customer allocation factor, whereas transmission-related software is allocated consistent with the allocation of Transmission plant.

The reserves for accumulated depreciation and amortization are allocated based on the allocation of the plant with which they are associated. The exception is for reserve items that have been afforded different jurisdictional accounting treatment through past commission orders. For example, Additional Credit Ratio Amortizations were assigned to specific reserve plant accounts in each jurisdiction differently and therefore are assigned directly to the applicable jurisdiction.

Working Capital

Cash working capital ("CWC") is not allocated. Instead, the CWC amounts are calculated in the Revenue Requirement Model by taking the net CWC factors and applying these factors to allocated jurisdictional amounts in the Revenue Requirement Model. Fuel inventory is allocated using the Energy allocator. Materials and supplies ("M&S") and prepayments are grouped by function and allocated based on allocations appropriate for the function of the M&S and prepayments.

Regulatory assets and Regulatory Liabilities

Regulatory assets and regulatory liabilities are primarily assigned directly to the applicable jurisdiction. There are two exceptions (1) Pension and OPEB, which are allocated based on the allocated sum of the labor portion of the production, transmission, distribution, customer accounts, customer services and information, and sales expenses and (2) SO₂ Emission Allowances for EPA auction proceeds, which are allocated based on the Energy allocator.

Accumulated Reserve for Deferred Taxes

The reserve is primarily allocated based on the allocation of plant with which it is associated. However, deferred tax reserve amounts that are associated with regulatory assets and liabilities are assigned directly to the applicable jurisdiction.

Customer Advances for Construction and the Customer Deposits

The customer advances for construction and the customer deposits are assigned directly to the applicable jurisdiction.

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Income Tax - Schedule 11

Line No.	Line Description	Total Company Balance *	Juris Factor #	Juris Allocator *	Tax Rate	(Jurisdictional) Adjusted with 7.702% Return
	A				B	C
1	Net Income Before Taxes (Sch 9)	346,191,075				185,579,610
2	Add to Net Income Before Taxes:					
3	Depreciation Exp	243,445,643				127,861,126
4	Plant Amortization Exp	36,900,561				19,748,221
5	Amortization of Unrecovered Reserve on General Pit-KS	1,661,925	100% KS	0.0000%		0
6	Book Nuclear Fuel Amortization	27,940,130				15,681,705
7	Transp & Unit Train Depr-Clearing	2,599,562				1,384,758 (a)
8	50% Meals & Entertainment	699,150	Sat&Wg	53.1559%		371,639
9	Total	313,246,972				165,047,449
10	Subtract from Net Income Before Taxes:					
11	Interest Expense	139,572,242				71,190,160
12	IRS Tax Return Depreciation	306,064,147	PTD	53.5174%		163,797,574
13	IRS Tax Return Plant Amortization	22,061,591	PTD	53.5174%		11,806,790
14	IRS Tax Return Nuclear Amortization	33,960,324	E1	56.1261%		19,060,605
15	Employee 401k ESOP Deduction	2,340,000	Sal&Wg	53.1559%		1,243,848
16	IRC Section 199 Domestic Production Activities	0	D1	52.3942%		0
17	Total	503,998,304				267,098,977
18	Net Taxable Income	155,439,743				83,528,083
19	Provision for Federal Income Tax:					
20	Net Taxable Income	155,439,743				83,528,083
21	Deduct State Income Tax @ 100.0%	8,271,850			6.25%	4,449,037
22	Deduct City Income Tax	0				0
23	Federal Taxable Income	147,167,893				79,079,046
24	Federal Tax Before Tax Credits	51,508,762			35.00%	27,677,666
25	Less Tax Credits:					
26	Wind Tax Credit	(3,730,876)	E1	56.1261%		(2,093,995)
27	Research and Development Tax Credit	(637,033)	E1	56.1261%		(357,542)
28	Alternate Refueling Property Tax Credit (Charging Stations)	(885,798)	E1	56.1261%		(497,164)
29	Fuels Tax Credit	(74,780)	E1	56.1261%		(41,971)
30	Total Federal Tax	46,180,275				24,686,994
31	Provision for State Income Tax:					
32	Net Taxable Income	155,439,743				83,528,083
33	Deduct Federal Income Tax @ 50.0%	23,090,138			17.50%	12,343,497
34	Deduct City Income Tax	0				0
35	State Jurisdictional Taxable Income	132,349,605				71,184,586
36	Total State Tax	8,271,850			6.25%	4,449,037
37	Provision for City Income Tax:					
38	Net Taxable Income	155,439,743				83,528,083
39	Total City Tax	0			0.00%	0
40	Effective Tax rate before Tax Cr and Earnings Tax	38.39%				38.39%
41	Summary of Provision for Current Income Tax:					
42	Federal Income Tax	46,180,275				24,686,994
43	State Income Tax	8,271,850				4,449,037
44	City Income Tax	0				0
45	Total Provision for Current Income Tax	54,452,125				29,136,031
46	Deferred Income Taxes:					
47	Deferred Income Taxes - Excess IRS Tax over Book D&A	23,699,455	See Computation Below			14,015,895
48	Amortization of Deferred ITC	(1,073,315)	PTD	53.5174%		(574,410)
49	Amort of Excess Deferred Income Taxes (ARAM)	(500,253)	PTD	53.5174%		(267,722)
50	Amortization of Cost of Removal-ER-2007-0291	354,438	100% MO	100.0000%		354,438
51	Total Deferred Income Tax Expense	22,480,325				13,528,201

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Income Tax - Schedule 11

Line No.	Line Description	Total Company Balance *	Juris Factor #	Juris Allocator *	Tax Rate	(Jurisdictional) Adjusted with 7.702% Return
52	Total Income Tax	<u>76,932,450</u>				<u>42,664,232</u>
53	(a) Percent of vehicle depr clearing to O&M				<u>38.2323%</u>	
54	Effective Tax Rate excluding City Earnings Taxes - MO juris	38.3900%				38.3900%

Interest Expense Proof:

		Total Rate Base (Sch. 2)	2,576,273,286
		X Wtd Cost of Debt	2.763%
		Interest Exp	71,190,160
		Less: Interest Expense from Line 7	71,190,160
* As Needed		Difference	<u>0</u>

Computation of Line 43 Above:

Deferred Income Taxes - Excess IRS Tax over Book D&A:						
55	IRS Tax Return Depreciation	306,064,147				163,797,574
56	Less: Book Depreciation	<u>245,107,568</u>				<u>127,861,126</u>
57	Excess IRS Tax Depr over Book Depreciation	60,956,579				35,936,448
58	IRS Tax Return Plant Amortization	22,061,591				11,806,790
59	Less: Book Amortization	<u>36,900,561</u>	PTD	53.5174%		<u>19,748,221</u>
60	Excess IRS Tax Amort over Book Amortization	(14,838,970)				(7,941,431)
61	IRS Tax Return Nuclear Amortization	33,960,324				19,060,605
62	Less: Book Nuclear Amortization	<u>27,940,130</u>	E1	56.1261%		<u>15,681,705</u>
63	Excess IRS Tax Nuclear Amort over Book Nuclear Amort	6,020,194				3,378,900
64	Total Timing Differences	52,137,803				31,373,917
65	AFUDC Equity	8,729,868	PTD	53.5174%		4,671,998
66	MO ITC Coal Basis Adjustment	427,672	PTD	53.5174%		228,879
67	MO Miscellaneous Flow Through	<u>438,065</u>	PTD	53.5174%		<u>234,441</u>
68	Total Timing Differences after Flow Through	61,733,408				36,509,235
69	Effective Tax rate	<u>38.39%</u>				<u>38.39%</u>
70	Deferred Income Taxes - Excess IRS Tax over Tax SL	<u>23,699,455</u>				<u>14,015,895</u>

SCHEDULE RAK-9

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