

Exhibit No.:  
Issues: Transmission Expense  
Transmission Revenue  
Transmission Congestion Rights  
Witness: Karen Lyons  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: True-Up Direct Testimony  
Case No.: ER-2016-0285  
Date Testimony Prepared: March 1, 2017

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**KAREN LYONS**

**P**

Staff Exhibit No. 217 MP  
Date 3-16-17 Reporter XF  
File No. ER-2016-0285

**KANSAS CITY POWER AND LIGHT COMPANY**

**CASE NO. ER-2016-0285**

*Jefferson City, Missouri  
March, 2017*

**\*\* Denotes Highly Confidential Information \*\***

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1 TRUE-UP DIRECT TESTIMONY

2 OF

3 KAREN LYONS

4 KANSAS CITY POWER & LIGHT COMPANY

5 CASE NO. ER-2016-0285  
6

7 Q. Please state your name and business address.

8 A. Karen Lyons, Fletcher Daniels State Office Building, 615 East 13<sup>th</sup> Street,  
9 Kansas City, Missouri 64106.

10 Q. By whom are you employed and in what capacity?

11 A. I am a Utility Regulatory Auditor with the Staff of Missouri Public Service  
12 Commission ("Commission" or "PSC").

13 Q. Are you the same Karen Lyons who contributed to Staff's Cost of Service  
14 Report filed in the Kansas City Power & Light Company ("KCPL" or "Company") rate case  
15 designated as Case No. ER-2016-0285 on November 30, 2016?

16 A. Yes. I also filed rebuttal and surrebuttal testimony in these proceedings.

17 Q. What is the purpose of your true-up direct testimony in this proceeding?

18 A. The purpose of this testimony is to address Staff's treatment of transmission  
19 expense, transmission revenue and the costs for transmission congestions rights ("TCRs") that  
20 are included in Staff's True-Up Accounting Schedules.

21 TRANSMISSION EXPENSE AND REVENUE

22 Q. How did Staff true-up transmission expense and transmission revenue  
23 for KCPL?

True-up Direct Testimony of  
Karen Lyons

1           A.     There are several changes that occurred with the level of transmission expense  
2 and transmission revenue incurred by KCPL during the true-up period, the 12 months ending  
3 December 31, 2016. The changes included a FERC settlement (“reduced settlement”)  
4 reducing the amount of transmission expense and transmission revenue that KCPL will incur  
5 as a result of Independence Power & Light’s (“IPL”) placement into the KCPL pricing zone.  
6 Also, beginning in October 2016, KCPL incurred charges and credits resulting from the  
7 implementation of Attachment Z2 (“Z2”) of the Southwest Power Pool (“SPP”) Open Access  
8 Transmission Tariff (“OATT”). Specific details regarding the background of the IPL  
9 settlement and Z2 charges and credits are addressed in rebuttal testimony by KCPL witnesses  
10 Don A. Frerking and John R. Carlson.<sup>1</sup>

11           To calculate an annualized level of transmission expense, Staff first had to remove IPL  
12 costs that were incurred at a higher level than the reduced settlement during the 12 month  
13 period ending December 31, 2016, and remove Z2 charges and credits, ongoing and historical,  
14 that were incurred by KCPL in October 2016-December 2016. This provided a base level  
15 of transmission expense to which an annualized level of IPL costs based on the  
16 reduced settlement and an annualized level of ongoing Z2 charges and credits were then  
17 added. Staff’s annualized level of transmission expense on a total company basis<sup>2</sup> is

18     \*\*                   \*\*

19           Consistent with how Staff treated transmission expense, Staff calculated a base level  
20 of transmission revenue by first removing IPL transmission revenue incurred at the higher  
21 level during the 12 months ending December 31, 2016 and removing Z2 charges and credits,

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<sup>1</sup> Frerking Rebuttal, pages 28-30, Carlson Rebuttal, pages 1-6.

<sup>2</sup> The Missouri jurisdictional amount is stated toward the conclusion of this true-up direct testimony on this issue.

True-up Direct Testimony of  
Karen Lyons

1 ongoing and historical, incurred for the period of October 2016-December 2016. In addition,  
2 Staff removed a one-time settlement related to MISO compensating SPP for transmission  
3 revenues. This issue is discussed in greater detail below. An annualized level of IPL  
4 transmission revenue at the reduced settlement amount and an annualized level of Z2 charges  
5 and credits were added to the base level. Staff's annualized level of transmission revenue on  
6 a total company basis<sup>3</sup> is \*\* \_\_\_\_\_ \*\*.

7 Q. What is KCPL proposing in its true-up adjustments for transmission expense  
8 and transmission revenue?

9 A. Based on KCPL's initial true-up workpapers, KCPL annualized transmission  
10 expense using an average of 2017-2018 transmission expense and transmission revenue  
11 forecasts. However, on February 10, 2017, the parties to this case entered into a  
12 *Non-Unanimous Partial Stipulation and Agreement*. As part of the agreement, KCPL agreed  
13 to withdraw its request for tracking or use of forecasted costs for transmission expense  
14 and transmission revenue. Consequently, Staff received a revised KCPL true-up workpaper  
15 that included an annualized level of transmission expense on a total company basis of  
16 \*\* \_\_\_\_\_ \*\*. KCPL's annualized level of transmission expense was derived by  
17 removing the IPL costs that were incurred at a higher level during the 12 month period ending  
18 December 31, 2016 and the historical Z2 charges and credits. Once these costs were  
19 removed, KCPL annualized transmission expense using the 3 month period of October 2016-  
20 December 2016 and added an annualized level of IPL costs based on the reduced settlement  
21 and an annualized level of ongoing Z2 charges and credits.

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<sup>3</sup> The Missouri jurisdictional amount is stated toward the conclusion of this true-up direct testimony on this issue.

True-up Direct Testimony of  
Karen Lyons

1 Staff understands that KCPL's annualized true-up transmission revenues is consistent  
2 with Staff's position described above. The following table compares KCPL's and Staff's  
3 annualized level of transmission expense on a total company and Missouri jurisdictional  
4 basis:

5 \*\*


6 \*\*

7 Q. How did Staff treat the historical Z2 charges and credits?

8 A. As previously discussed, the historical and ongoing Z2 charges and credits  
9 incurred by KCPL from October 2016-December 2016 were removed from the actual  
10 transmission expense and transmission revenue for the 12 month period ending December 31,  
11 2016 and replaced with an annualized level of the ongoing charges and credits. The historical  
12 Z2 charges and credits represent charges and credits for the period of March 2008-August  
13 2016, approximately nine years. Staff included an annual amortization of \$81,086 for the  
14 historical Z2 charges and credits. The following table reflects the historical Z2 credits and  
15 charges and Staff's recommended amortization:

16  
17  
18  
19  
20 *continued on next page*

1

<b>Historical Z2 Charges and Credits</b>	
Transmission Customer Payables	\$7,624,003
Transmission Customer Receivables	\$8,988,758
<b>Net Transmission Customer</b>	<b>(\$1,364,755)</b>
Transmission Owner Payables	\$2,185,821
Transmission Owner Receivables	\$91,294
<b>Net Transmission Owner</b>	<b>\$2,094,527</b>
<b>Total Historical Z2 Payment</b>	<b>\$729,772</b>
Amortization period (years)	9
<b>Annual Amortization</b>	<b>\$81,086</b>

2

3 Q. Does KCPL agree with Staff's treatment of the historical Z2 charges  
4 and credits?

5 A. Staff understands that KCPL agrees with the annual amortization of the  
6 Z2 charges and credits.

7 Q. Did Staff recommend any other amortizations related to transmission expense  
8 or transmission revenue?

9 A. Yes. As discussed in my rebuttal testimony,<sup>4</sup> KCPL received a one-time  
10 settlement payment from SPP for historical transmission revenue in May 2016, which  
11 represented transmission revenues for the period of January 2014-January 2016. The payment

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<sup>4</sup> Lyons Surrebuttal page 17-18.

1 totaled \*\* \_\_\_\_\_ \*\* on a total company basis and \*\* \_\_\_\_\_ \*\* on a Missouri  
2 Jurisdictional basis. Staff recommends a two year amortization for the one-time settlement of  
3 transmission revenue. An annual amortization amount of \*\* \_\_\_\_\_ \*\* (Missouri  
4 Jurisdictional) is reflected in Staff's True-Up Accounting Schedules.

5 Q. Does KCPL agree with Staff's treatment of the one-time payment of historical  
6 transmission revenues?

7 A. Staff understands that KCPL agrees with the annual amortization  
8 recommended by Staff.

9 Q. Please summarize Staff's position regarding KCPL's transmission expense and  
10 revenues.

11 A. On a Missouri jurisdictional basis Staff recommends an annualized level of  
12 transmission expense of \*\* \_\_\_\_\_  
13 \_\_\_\_\_ \*\* and transmission revenue of \*\* \_\_\_\_\_  
14 \_\_\_\_\_ \*\* based on the period of January 2016 through December 2016.  
15 Staff's annualized level includes an annualized level of the reduced settlement for IPL and an  
16 annualized level of Z2 charges and credits.

17 **TRANSMISSION CONGESTION RIGHTS ("TCR")**

18 Q. What are TCRs?

19 A. As an asset owner in the Integrated Marketplace, KCPL is allocated Auction  
20 Revenue Rights ("ARRs") that are converted to TCRs. TCRs are financial instruments used  
21 by KCPL to minimize their exposure to transmission congestion in the SPP day-ahead market.

22 Q. Is the TCR net margin for KCPL a revenue or an expense?

True-up Direct Testimony of  
Karen Lyons

1           A.     Since the Integrated Marketplace started in March 2014, the net margin for  
2 TCRs has resulted in a net revenue for KCPL and is booked to FERC Account 447-Wholesale  
3 Revenue.

4           Q.     Did the net margin change during the true-up phase of this case?

5           A.     Yes. Beginning in September 2016, KCPL experienced losses from its TCR  
6 portfolio. Staff met with KCPL to determine why the net margin for TCRs did not result in  
7 revenue as it has historically. Staff was informed that the following three factors contributed  
8 to the TCR losses:

9                   1.    The most significant contributor to the TCR losses was an  
10                   extended outage at the Hawthorn 5 generating station along with  
11                   warm weather experienced during this extended outage. When  
12                   Hawthorn 5 is offline and KCPL's load increases as a result of  
13                   warm weather, the locational marginal prices ("LMPs") will  
14                   increase which results in higher congestion charges.

15                   2.    The allocation of the ARRs was reduced in the fall and  
16                   winter seasons of 2016, which led to fewer TCRs that are used to  
17                   offset the higher congestion charges that resulted from the  
18                   increased load.

19                   3.    There were transmission outages that occurred in the Wichita,  
20                   Kansas area that increased the congestion from KCPL's wind  
21                   farms in western Kansas.

True-up Direct Testimony of  
Karen Lyons

1 Q. How did Staff true-up TCRs for KCPL?

2 A. With the exception of the lower allocation of ARR, Staff considers the events  
3 that took place in the fall and winter of 2016 to be non-recurring events. Consequently,  
4 annualizing the TCR losses that occurred during this time would not be representative of what  
5 KCPL would expect to incur in the future. The losses that occurred during the fall and winter  
6 2016 will be recovered by KCPL through its Fuel Adjustment Clause ("FAC"). Staff  
7 determined that an annualization using historical TCR data is difficult, since the allocation of  
8 ARR was lowered (less TCRs to offset congestion) in the fall and winter 2016 and unplanned  
9 outages were occurring at the same time. Since changes in the TCR margins are included in  
10 KCPL's FAC, Staff made an adjustment to set the base level of TCRs at zero in its True-Up  
11 Accounting Schedules. This will allow KCPL to recover future gains and losses.

12 Q. Does KCPL agree with Staff's treatment of TCRs?

13 A. Staff understands that KCPL agrees with Staff's recommendation.

14 Q. Does this conclude your true-up direct testimony?

15 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 ) Case No. ER-2016-0285  
Implement A General Rate Increase for )  
Electric Service )

**AFFIDAVIT OF KAREN LYONS**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

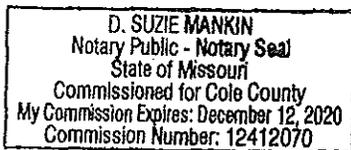
COMES NOW KAREN LYONS, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing True-Up Direct Testimony; and that the same is true and correct according to her best knowledge and belief.

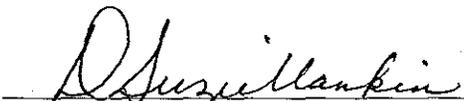
Further the Affiant sayeth not.

  
\_\_\_\_\_  
KAREN LYONS

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 1<sup>st</sup> day of March, 2017.



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