

Exhibit No.:
Issue: True-up Revenue Requirement
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-up Direct Testimony
Case No.: ER-2014-0370
Date Testimony Prepared: July 7, 2015

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

TRUE-UP DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
July 7, 2015

Staff Exhibit No. 250
Date 7/20/15 Reporter Jenni
File No. ER-2014-0370

1
2
3
4
5
6
7
8
9

**TABLE OF CONTENTS OF
TRUE-UP DIRECT TESTIMONY OF
CARY G. FEATHERSTONE
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2014-0370**

EXECUTIVE SUMMARY 2
TRUE-UP 4
NON-UNANIMOUS STIPULATION AND AGREEMENTS 8

1 Q. What is the purpose of your True-up direct testimony?

2 A. The purpose of this testimony is to provide the results of Staff's true-up audits
3 of KCPL pursuant to the Commission's December 12, 2014, Order setting the procedural
4 schedule in this case. The true-up period is through May 31, 2015.

5 I am sponsoring the True-up Direct Accounting Schedules that are being filed
6 concurrently with this testimony which contain the revenue requirement results of the true-up
7 audit conducted by Staff.

8 **EXECUTIVE SUMMARY**

9 Q. Would you please summarize your true-up direct testimony?

10 A. In its December 12, 2014, *Order Setting Procedural Schedule and Establishing*
11 *Test Year and Other Procedural Requirements*, the Commission ordered the true-up period
12 for this rate case to be through May 31, 2015. The Commission ordered the use of the twelve
13 months ended March 31, 2014, as the test year, updated for known and measurable changes
14 through December 31, 2014.

15 The Staff's true-up run supports its recommendations to the Commission for
16 the amount of the rate revenue increases the Commission should order for KCPL. Staff's
17 recommendations are based on its revenue requirement results for KCPL based on actual
18 historical information through the period ending May 31, 2015. This recommendation is in
19 Staff's separately filed True-up Direct Accounting Schedules for KCPL.

20 This true-up direct testimony presents an overview of Staff's true-up audit
21 and revenue requirement for KCPL. The same Staff members who prepared the rate
22 revenue recommendations presented in Staff's direct testimony in this case performed Staff's
23 true-up revenue requirement calculations. In making its true-up revenue requirement

True-Up Direct Testimony of
Cary G. Featherstone

1 recommendations Staff considered all the relevant and material components of the revenue
2 requirement calculation. Broadly, these components are: (1) capital structure and return on
3 investment, (2) rate base investment and (3) income statement results, including revenues and
4 depreciation expense, including income taxes. I provide in this testimony an overview of
5 Staff's true-up work on each of these broad components.

6 Q. What revenue requirement increase is Staff recommending for KCPL?

7 A. Staff is recommending a revenue requirement increase for KCPL in a range of
8 \$72.546 million to \$83.073 million, based on the low, mid and high end of Staff's
9 recommended rate of return—9.0%, 9.25% and 9.50%.

10 Q. Would you explain the broad components Staff relied on for each of these
11 revenue requirement increase recommendations?

12 A. Yes. For its true-up case, Staff used its low, mid and high-end overall rate of
13 return of 7.276%, 7.401% and 7.527% for KCPL. These overall rates of return are based on a
14 return on equity of 9.00 to 9.50% for KCPL (Staff witness Zephania Marevangepo's
15 recommendations). During the true-up period after the December 31, 2014, update period,
16 KCPL had plant additions and transmission, payroll and fuel cost increases along with other
17 cost increases that caused increases in the revenue requirement.

18 Based on the Commission's December 12, 2014, Order in this case establishing the
19 procedural schedule, Staff used May 31, 2015, as the cutoff date for the true-up audit.

20 As of the May 31, 2015, true-up cutoff date, KCPL had added to its electric generating
21 system the environmental equipment additions to La Cygne Units 1 and 2 and upgrades to
22 Wolf Creek. Staff declared the environmental equipment upgrades at the La Cygne station
23 in-service as of March 24, 2015, for Unit 2 and April 30, 2015, for Unit 1.

True-Up Direct Testimony of
Cary G. Featherstone

1 Plant additions and retirements through the end of the true-up period, May 31, 2015, in
2 this case are reflected in the true-up revenue requirements for KCPL. The true-up includes
3 actual payroll and payroll-related benefits through May 31, 2015. It includes medical costs.
4 It includes fuel costs, including fuel commodity price changes and freight price changes.
5 It includes increased fuel costs due to actual price increases and decreases for the commodity
6 and delivery costs. Staff's true-up also includes reasonable and prudent cost increases and
7 decreases through the end of the true-up period of May 31, 2015, that are not specifically
8 included in Staff's direct filing.

9 Q. What are the results of Staff's true-up audits?

10 A. Staff's updated revenue requirement for the May 31, 2015, true-up is:

11

Company	True-up as of May 31, 2015		
	Low	Mid	High
Kansas City Power & Light Company	\$72.546 million	\$77.789 million	\$83.073 million

12

13 The above revenue requirements include the impacts of the non-unanimous, but
14 unopposed, stipulations and agreements reached between KCPL and various parties
15 including Staff.

16 **TRUE-UP**

17 Q. What rate of returns did Staff use for its true-up recommendations?

18 A. Staff's range for rate of return on equity remains at the 9.00% to 9.50%, with a
19 mid-point of 9.25% it proposed in direct testimony. However, Staff updated the capital
20 structure through the May 31, 2015, true-up. The overall rates of return along with the
21 updated capital structure Staff used for KCPL are:

1

Types of Capital Investment	Percentage of Total Capital Structure	Weighted Cost of Capital-Low	Weighted Cost of Capital-Mid	Weighted Cost of Capital-High
		9.00%	9.25%	9.50%
Common Equity Stock	50.09%	4.508%	4.633%	4.759%
Preferred Stock	0.55%	0.024%	0.024%	0.024%
Long-Term Debt	49.36%	2.744%	2.744%	2.744%
Total	100%	7.276%	7.401%	7.527%

2

[Source: Zephania Marevangepo's recommendation updating capital structure]

3

4

Q. What are the specific areas of Staff's recommended increase in KCPL's revenue requirement in this true-up case?

5

6

A. The following represent a non-exhaustive list of areas that make up Staff's true-up filing to reflect actual known changes through May 31, 2015, for KCPL:

7

8

9

10

11

12

13

14

15

16

17

18

19

20

- Updated Rate of Return to reflect changes in the capital structure;
- Actual plant in Service investments, accumulated depreciation reserve and related depreciation expense as of May 31, 2015, which include investments in the environmental project at La Cygne station and the upgrades to the essential water system at Wolf Creek;
- Accumulated deferred income taxes as of May 31, 2015;
- Fuel inventories as of May 31, 2015;
- Included changes for revenues to reflect customer levels through May 31, 2015;
- Fuel costs, including freight rate increase and purchased power costs based on actual prices through May 31, 2015;
- Updated KCPL's firm bulk power through May 31, 2015;
- Payroll and payroll related benefit costs reflecting actual employee levels and salary amounts through May 31, 2015;

True-Up Direct Testimony of
Cary G. Featherstone

- 1 • The true-up reflects the *Partial Non-Unanimous Stipulation and*
2 *Agreement as to True Up, Depreciation and Other Miscellaneous Issues*
3 filed with the Commission on July 1, 2015, by KCPL and Staff;
- 4 • The true-up reflects the *Partial Non-Unanimous Stipulation and*
5 *Agreement as to True Up, Depreciation and Other Miscellaneous Issues*
6 filed with the Commission on July 1, 2015, by Kansas City Power &
7 Light Company-Investor (Electric), Midwest Energy Consumers Group-
8 and the Missouri PSC Staff;
- 9 • The true-up reflects the *NonUnanimous Stipulation and Agreement*
10 *Regarding Pensions and Other Post-Employment Benefits* filed June 26,
11 2015, by KCPL and Staff;
- 12 • The true-up reflects the *Non-Unanimous Stipulation and Agreement on*
13 *certain issues* filed with the Commission June 16, 2015, by Office of the
14 Public Counsel, Missouri Industrial Energy Consumers, Missouri
15 Division of Energy, Consumers Council of Missouri, United States
16 Department of Energy, Midwest Energy Consumers Group and the
17 Missouri PSC Staff;
- 18 • Income tax expense and related income tax costs consistent with the
19 true-up.

20 Q. Did KCPL and Staff agree to areas to be trued-up?

21 A. Yes. In the July 1, 2015, *Partial Non-Unanimous Stipulation and Agreement*
22 *as to True Up, Depreciation and Other Miscellaneous Issues*, a list of items to true-up was
23 identified as follows¹:

- 24 a. Capital Structure
- 25 b. Cost of Debt
- 26 c. Plant in Service
- 27 d. Depreciation Reserve
- 28 e. Cash Working Capital
- 29 f. Bad Debt Expense
- 30 g. Fuel Inventory (Coal, Oil, Lime/Limestone/Ammonia, Powder Activated
31 Carbon, Nuclear)
- 32 h. Wolf Creek refueling (No. 20)
- 33 i. Regulatory Asset-Demand Side Management

¹ *Partial Non-Unanimous Stipulation and Agreement as to True Up, Depreciation and Other Miscellaneous Issues*- pages 2 and 3.

True-Up Direct Testimony of
Cary G. Featherstone

- 1 j. Regulatory Asset - La Cygne Environmental project construction accounting
- 2 (This item will not be trued up if the Partial Non-Unanimous Stipulation
- 3 and Agreement as to Certain Issues is approved)
- 4 k. Regulatory Asset - La Cygne Inventory
- 5 l. Regulatory Liability -- SO₂ Proceeds
- 6 m. Accumulated Deferred Income Taxes
- 7 n. Revenues (including LGS/LP rate switchers)
- 8 o. Off-System Sales
- 9 p. Transmission Revenues
- 10 q. Transmission Revenues ROE (This item will not be trued up if the Partial
- 11 Non-Unanimous Stipulation and Agreement as to Certain Issues is
- 12 approved)
- 13 r. CCN Revenues
- 14 s. Fuel & Purchased Power Expense
- 15 t. Transmission Expense
- 16 u. SPP Schedule 1 Administrative Fees
- 17 v. Iatan 2 O&M Tracker
- 18 w. Payroll (using Staff's capitalization rate)
- 19 x. Payroll Taxes
- 20 y. Other Benefits (Co. Adj. CS-60)
- 21 z. 401k Expenses
- 22 aa. Pension Expense (True-up numbers contained in Non-Unanimous
- 23 Stipulation and Agreement Regarding Pensions and Other Post
- 24 Employment Benefits)
- 25 bb. OPEBs (True-up numbers contained in Non-Unanimous Stipulation and
- 26 Agreement Regarding Pensions and Other Post Employment Benefits)
- 27 cc. Injuries and damages insurance
- 28 dd. Property insurance
- 29 ee. Amortization of Demand Side Management Deferral
- 30 ff. Amortization of Iatan 2 and Common Regulatory Asset
- 31 gg. IT Roadmap/CIP and cyber security expense
- 32 hh. Transource CWIP/FERC Incentives
- 33 ii. Rate Case Expense (Company to update information by August 12, 2015)
- 34 jj. Commission Assessment
- 35 kk. Amortization of Rate Case Expense (this is for the amortization from two
- 36 cases ago)
- 37 ll. Amortization of SO₂ Proceeds
- 38 mm. Amortization of La Cygne Regulatory Asset -- Construction Accounting
- 39 (This item will not be trued up if Partial Non-Unanimous Stipulation and
- 40 Agreement as to Certain Issues is approved)
- 41 nn. Amortization of La Cygne Regulatory Asset -- Inventory
- 42 oo. Amortization of Renewable Energy Standards Costs
- 43 pp. Depreciation & Amortization Expense

- 1 qq. Amortization – Limited Term Plant
- 2 rr. Income Taxes
- 3 ss. Allocations – Jurisdictional Allocators for meter accounts 370.00 and
- 4 370.02

5 All the items above listed for true-up were included in the revenue requirement
6 calculation through the May 31, 2015, period and are set out in the Accounting Schedules
7 filed separately with this testimony.

8 **NON-UNANIMOUS STIPULATION AND AGREEMENTS**

9 Q. Have there been any Stipulations and Agreements in these cases that would
10 impact the revenue requirements of KCPL?

11 A. Yes. On July 1, 2015, the *Partial Non-Unanimous Stipulation and Agreement*
12 *as to True Up, Depreciation and Other Miscellaneous Issues* was filed with the Commission
13 to resolve various issues. The following issues from the List of Issues were resolved by this
14 non-unanimous stipulation:

- 15 1. Transition Cost Amortization (Issue XV);
- 16 2. Missouri Corporate Franchise Tax (Issue XX);
- 17 3. Wolf Creek OPEBs (Issue X);
- 18 4. Swissvale/Stillwell and West Gardner (Issue XXIII);
- 19 5. Transmission Revenue –ROE (Issue XXII);
- 20 6. La Cygne environmental project construction accounting deferrals
- 21 (Issue VIII);
- 22 7. Bad Debt Gross-Up (Issue XIII);
- 23 8. Wolf Creek Overtime (Issue IX);
- 24 9. Vegetation Management (Issue VI) with no tracker;
- 25 10. Jurisdictional Cost Allocations (Issue XXI);
- 26 11. Affiliate Transactions and Corporate Cost Allocations (Issue XVI);
- 27 12. Amortization periods ending before the end of the true-up period
- 28 (Issue XI);
- 29 13. DOE spent nuclear fuel fees (Issue XII).

1 In addition to the resolution of the specific issues identified above, an agreement was reached
2 in the July 1, 2015, *Partial Non-Unanimous Stipulation and Agreement as to True Up,*
3 *Depreciation and Other Miscellaneous Issues* respecting the following items:

4 **B. TRANSITION COST AMORTIZATION FROM CASE NO.**
5 **ER-2010-0355**

6 KCP&L agrees not to seek recovery of the transition cost amortization
7 authorized in Case No. ER-2010-0355 in any future cases.

8 **C. LA CYGNE ENVIRONMENTAL PROJECT CONSTRUCTION**
9 **ACCOUNTING DEFERRALS**

10 The Signatories agree that all issues relating to the La Cygne Environmental
11 project construction accounting deferrals have been resolved and KCP&L
12 agrees not to seek recovery of La Cygne Environmental project construction
13 accounting deferrals authorized in Case No. EU-2014-0255 in any future cases.

14 **D. JURISDICTIONAL COST ALLOCATIONS**

15 The Signatories agree for settlement purposes that Staff's position regarding
16 the jurisdictional demand allocator will be used for calculating KCP&L's
17 revenue requirement in this case and that the jurisdictional allocators for meter
18 accounts 370.00 and 370.02 will be trued up.

19 **E. GREAT PLAINS POWER ("GPP")**

20 The GPP portion of Iatan plant balances will not be included in any future
21 KCP&L Missouri rate case.

22 **F. WOLF CREEK OPEBS**

23 The Signatories agree that the Wolf Creek OPEBs cost will be based on the
24 "pay as you go" amount as specified in paragraph 10.d.i. of the NonUnanimous
25 Stipulation and Agreement Regarding Pension and Other Post Employment
26 Benefits filed on June 26, 2015.

27 **G. EXPENSE ACCOUNT IMPLEMENTATION PLAN**

28 KCP&L will submit to Staff and interested parties to this case an
29 implementation plan 180 days after the date rates are effective in this case
30 regarding the actions, if any, it will implement to address expense account
31 issues, such as proper account charging, reporting and other issues noted by the
32 Staff in this case.

33 **H. SURVEILLANCE REPORTS**

34 KCP&L agrees to continue to provide the Annual Surveillance Report
35 consistent with past practice prior to 2015 in which it has been providing the
36 annual surveillance reporting previously agreed to by KCP&L, other parties
37 including Staff in the November 23, 1987, Order Approving Joint
38 Recommendation in Case Nos. EO-85-185 and EO-85-224 and modified in the

1 November 6, 1992, Order in Case No. EO-93-143 Order Modifying Joint
2 Recommendation in Case No. EO-93-143, and to provide them to counsel for
3 the MECG, Missouri Industrial Energy Consumers and the Office of the Public
4 Counsel.

5 **I. PROSPECTIVE TRACKING OF REGULATORY ASSET AND**
6 **LIABILITY RECOVERY**

7 In each future KCP&L general rate case, the Signatories agree that the balance
8 of each amortization relating to regulatory assets or liabilities that remains,
9 after full recovery by KCP&L (regulatory asset) or full credit to KCP&L
10 customers (regulatory liability), shall be applied as offsets to other
11 amortizations which do not expire before KCP&L's new rates from that rate
12 case take effect. In the event no other amortization expires before KCP&L's
13 new rates from that rate case take effect, then the remaining unamortized
14 balance shall be a new regulatory liability or asset that is amortized over an
15 appropriate period of time. For example, the Demand Side Management
16 amortizations, once fully recovered, will be used to offset (reduce) other
17 vintages of DSM amortizations, each reducing other vintages as those become
18 fully recovered and, in the event no other vintages remain to be amortized, the
19 Demand Side Management amortizations will be applied to other amortizations
20 that do not end before new rates take effect.

21 **J. AVERAGE PAYMENT PLAN**

22 The Signatories agree that when the status of a named account holder changes
23 (for example, the account holder dies), a member of the household during the
24 time when the account was in the name of the person whose status has changed
25 and who continues to reside at that premise should neither be denied
26 participation in the level payment plan nor charged a deposit simply because
27 the original named account holder's status has changed such that the original
28 named account holder is no longer responsible for payment. This has been and
29 continues to be KCP&L's policy and KCP&L will ensure that its practices,
30 procedures and call center representative training are aligned so that customers
31 are advised appropriately. Exemplar tariff sheets are appended hereto as
32 Attachment 1 which will be included in the compliance tariff filing in this case.

33 Q. Were there other agreements reached that Staff has included in this
34 true-up case?

35 A. Yes. On July 1, 2015, a *Partial Non-Unanimous Stipulation and Agreement as*
36 *to True Up, Depreciation and Other Miscellaneous Issues* was filed with the Commission.
37 Attached to this non-unanimous stipulation is Schedule A that lists the agreed upon
38 depreciation rates by FERC Uniform System of Account for KCPL's plant accounts.

True-Up Direct Testimony of
Cary G. Featherstone

1 And on June 26, 2015, the *Non-Unanimous Stipulation and Agreement Regarding*
2 *Pensions and Other Post Employment Benefits* was filed, by KCPL and Staff which is an
3 agreement regarding pensions and other post-employment benefits that has been typically
4 been agreed to by the Company and Staff.

5 Q. Have all the agreements reached by KCPL and various parties been included in
6 the true-up revenue requirement?

7 A. Yes. Staff has incorporated the impacts on the revenue requirement
8 calculations for KCPL of these agreements. These agreements are those listed in the
9 non-exclusive list of true-up items I described earlier.

10 Q. Are there any true up items that Staff is still examining for the true-up?

11 A. Yes. Staff is currently analyzing true-up information relating to KCPL's
12 Information Technology Roadmap ("IT Roadmap") Operation & Maintenance (O&M)
13 expense and Critical Infrastructure Protection (CIP) program. Staff witness Karen Lyons will
14 address IT Roadmap O&M and the CIP program in True-Up Rebuttal Testimony.

15 Q. Does this conclude your True-up direct Testimony?

16 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

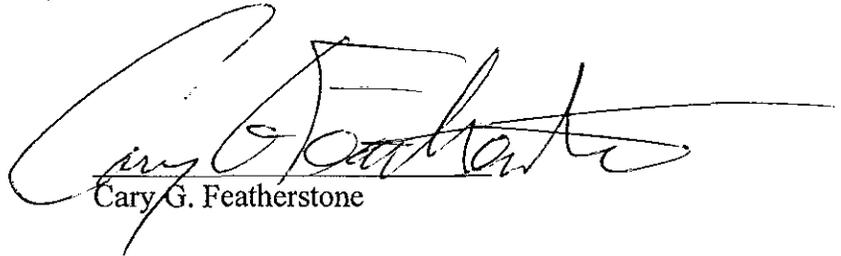
In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement a General Rate Increase for Electric)
Service)

Case No. ER-2014-0370

AFFIDAVIT

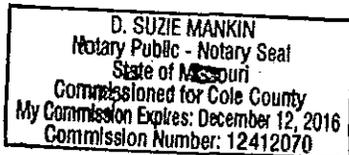
COMES NOW Cary G. Featherstone and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached True-Up Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

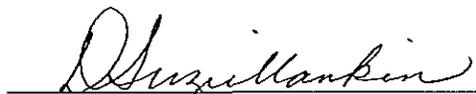
Further the Affiant sayeth not.


Cary G. Featherstone

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 7th day of July, 2015.




Notary Public