Exhibit No.:	
Issues:	*Cyber-Security Forecast/Tracker*
	Transmission Forecast/Tracker
	Transmission Revenue Forecast/Tracker
	Transmission Wholesale Revenue
	Greenwood Solar Project
	Amortizations
Witness:	*Karen Lyons*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KAREN LYONS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
September 2016

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

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SURREBUTTAL TESTIMONY

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KAREN LYONS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Q. Please state your name, employment position and business address.

A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission"), Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Karen Lyons who contributed to Staff's Revenue Requirement Cost of Service Report and provided rebuttal testimony as part of this rate proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to statements and positions taken by the following KCP&L Greater Missouri Operations Company ("GMO") witnesses that address the issues of use of forecasts and trackers for isolated expense and revenue, Crossroads transmission expense, Transource Missouri ("Transource") adjustments, the wholesale revenue credit, the allocation of the Greenwood Solar project, and amortizations:

- Darrin R. Ives – Forecasts and Trackers
- Tim M. Rush – Forecast and trackers, Crossroads transmission expense, and the Greenwood Solar Project.

- Don A. Frerking – Transmission revenue forecasts, wholesale revenue credit, and Transource adjustments
- Ronald A. Klote –Amortizations

TRANSMISSION EXPENSE AND REVENUE/FORECAST/TRACKER

Q. Please summarize the rebuttal testimony of GMO witness Ives and Frerking regarding the proposed tracking forecasted level of transmission expense and revenue.

A. Mr. Ives states in his Rebuttal Testimony that inclusion of transmission expense in the FAC, or use of trackers based on a forecast level of transmission expense and revenue and CIP and Cyber-Security expense in setting rates may delay GMO from filing a general rate case sooner and may lead to smaller rate increase requests in the future. Mr. Frerking addresses transmission revenue and GMO's continued request to track forecasted levels of transmission revenue because the forecasted level will allegedly be closer to the level that GMO anticipates it will receive once rates are set.

Q. Please explain how Staff treated GMO's transmission expense in its direct filing.

A. Staff analyzed GMO's transmission expense for the period of 2009-2015. Based on a discernable upward trend, Staff included an annualized level of transmission expense based on the 12-month period ending December 31, 2015 in its Accounting Schedules supporting it Cost of Service report filed on July 15, 2016. In addition, Staff made an adjustment to eliminate all Crossroads transmission expense for the same period, 12 months ending December 31, 2015.

Q. Does Staff intend to true-up transmission expense based on data through July 31, 2016?

A. Yes. Staff has annualized GMO's transmission expense through July 31, 2016. Staff recognizes that GMO's transmission expense has a discernable upward trend; therefore, Staff has now annualized GMO's transmission expense, excluding Crossroads transmission expense, based on a five-month average of its transmission expense for the period of March 2016 through July 2016. Because it is now using the most recent five months of data, excluding Crossroads transmission, to annualize transmission expense, Staff also revised its separate adjustment that eliminates GMO's Crossroads transmission expense. In its direct case, Staff eliminated all of GMO's Crossroads transmission expense recorded in FERC Account 565 for the 12-month period ending December 31, 2015. Staff revised its adjustment to eliminate Crossroads transmission expense recorded in FERC Account 565 based on the test year period ending June 30, 2015. Staff will review all other Crossroads transmission expense—FERC Accounts, 561, 575, and 928—in the true-up phase of this rate case.

Q. What is GMO's position for transmission expense?

A. As discussed in my rebuttal testimony, GMO is proposing three options for transmission expense recovery:

1. All transmission revenue and transmission expense incurred through the Southwest Power Pool ("SPP") and the Midcontinent Independent System Operator, Inc. ("MISO") be flowed through the Fuel Adjustment Clause ("FAC") with the exception of Crossroads transmission expense of approximately $4.9 million that was disallowed by the Commission in Case No. ER-2012-0175.

2. If transmission expense is not included in the FAC, GMO proposes a one-way tracker using a forecasted average of 2017-2018 values to develop an ongoing level of transmission expense and revenue to include in GMO's cost of service

and proposes to track the forecasted levels of transmission expense and revenues.

3. To the extent the first two options are denied by the Commission, Staff understands that GMO proposes a two-way tracker for which any over-recovery or under-recovery of transmission expense and revenue included in rates compared to the actual expenditures incurred by GMO will be deferred for rate recovery in future rate case filing (i.e., tracked).[1]

Q. Is Staff recommending the inclusion of all transmission expense in the FAC in this case?

A. No. Staff recommended the exclusion of certain transmission expenses including all of Crossroads related transmission expense in the FAC. Staff witness Matthew J. Barnes provides Staff's recommendation of the items properly includable in GMO's FAC in Staff's Cost of Service Report filed on July 15, 2016 and Staff's Rate Design Report filed on July 29, 2016.

Q. Does Staff agree with GMO's proposal to track 2017-2018 forecasted level of transmission expense and revenue?

A. No. Staff disagrees with GMO's proposal to utilize forecasted levels and a tracker for transmission expenses and revenues for the following reasons that are described in greater detail in my rebuttal testimony:

- GMO's proposal to isolate certain expenses and revenues by using forecasted levels and a tracker is "single issue" ratemaking.

- Forecasted costs and revenues are not known and measurable and are developed by making assumptions that may or may not occur.

[1] Rush Direct page 5.

- The use of forecasted costs, revenues and trackers disrupts the matching relationship among investment, revenue and expense. GMO's proposal for use of forecasted levels only applies to increasing cost items: it does not account for costs that may decrease and offset the cost increases in part or in whole.

- Trackers should only be used for costs that are volatile, difficult to predict at an appropriate level, and for which there is no historical data on which to base such a prediction.

Q. Mr. Ives suggests that GMO may be able to delay its next rate case filing if GMO is permitted to continue to use an FAC and if trackers on forecasted levels of expense are approved for transmission and, absent the alternative regulatory mechanisms, GMO will likely need to file a rate case earlier or file a larger request to protect its rights to earn a fair and reasonable return.[2] Do you agree with Mr. Ives?

A. No. First, with respect to Mr. Ives's statement that absent the FAC and trackers on forecasted levels GMO will likely file a rate case earlier and file a larger request, Mr. Ives does not know what changes will actually occur to its cost of service in the future. Although GMO has an FAC, it did not have trackers for transmission expense, as proposed in this case, for the period immediately following the effective date of rates in its last rate case in 2012. During that period GMO experienced costs increases ** ________________________ ________________________________. ** Second, if GMO believed it was experiencing insufficient revenues to recover its cost of service, it has a responsibility to its shareholders to file a general rate case regardless if GMO has approved trackers. Third, the Commission has approved several trackers for Ameren Missouri and the Empire District Electric Company ("Empire") and both utilities are allowed to recover fuel costs through an FAC. Beginning with Case No. ER-2007-0002, Ameren Missouri files, on average, a general rate case every

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[2] Ives Rebuttal page 12.

11 months following the effective date of rates from the previous rate case. Beginning with Case No. ER-2008-0093, Empire files, on average, a general rate case every 12 months following the effective date of rates from the previous rate case. The short time frame between Ameren Missouri and Empire's rates suggest that alternative regulatory treatment such as the FAC and trackers did not delay rate cases for these utilities.

Q. How does the timing of GMO and KCPL's rate cases compare to Ameren Missouri's and Empire's?

A. Beginning with Case No. ER-2007-0004, GMO has filed, on average, a general rate case every 17 months following the effective date of rates from the previous rate case. Beginning with Case No. ER-2006-0314, KCPL has filed, on average, a general rate case every 10 months following the effective date of rates from the previous rate case. The timing of KCPL's rate cases are directly related to the Regulatory Plan approved in Case No. EO-2005-0329. During the period beginning with the effective date of the Commission's Order approving the Stipulation and Agreement, KCPL could file four rate cases of which two were required.[3] Also, during this time frame, KCPL made extensive investment in the construction of Iatan 2 and environmental upgrades to its coal-fired power plants that were significant drivers of these rate cases. On the other hand, GMO was able to extend its rate cases to an average 17 months without the use of trackers.

Q. You stated in your rebuttal testimony that the Commission denied GMO's request for a transmission tracker in Case No. ER-2012-0175. What would be the impact on GMO's return on equity if the Commission approved a transmission tracker in Case No.

[3] Case No EO-2005-0329, page 29.

ER-2012-0175 and experienced a decline in costs in other areas of GMO’s cost of service as described above?

A. Since GMO’s rates were last set in Case No. ER-2012-0175, ** ________ ____ . ** In fact, the return reported in MPS and L&P FAC surveillance reports would be much higher if Crossroads transmission expense was eliminated and the Crossroads rate base value was reflected at the reduced value as ordered by the Commission in previous rate cases. Schedule KL-s1 identifies the actual MPS and L&P earned ROE and the ROE if Crossroads transmission expense was eliminated and the Crossroads rate base value was reflected at the reduced value. Staff witness Keith Majors addresses MPS and L&P earned ROE reported in it’s from FAC surveillance reports in his rebuttal and surrebuttal testimony.

If the Commission had granted a transmission tracker in the 2012 rate case, GMO’s ROE would be even higher due to the deferral of any increases experienced in transmission expense. If the tracker was approved in the 2012 rate case, GMO’s cost of service in this case, would include an annualized level of transmission expense in addition to an annual amortization of deferred transmission expense that occurred after rates were set in Case No. ER-2012-0175. As discussed in my rebuttal testimony, GMO experienced cost increases that included transmission expense since rates were last set but was able to absorb the cost increases because other areas of its cost of service declined. In this hypothetical scenario, GMO’s customers would pay for the difference of transmission expense included in base rates in Case No. ER-2012-0175 and the actual incurred transmission expense even though GMO experienced declines in other areas of its cost of service during the same period of time when the transmission expense was actually incurred and that allowed GMO to earn a reasonable

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return on equity. This hypothetical supports why it is imperative to not isolate certain expenses simply because they are increasing and instead analyze all of a utility's investment, revenue and expense at a point in time to ensure that the relationship between a utility's investment, revenue and expense remains intact.

Q. How does GMO's proposal for a one-way tracker change the hypothetical scenario described above?

A. GMO proposes to include a forecasted level of costs in base rates, in conjunction with a one-way tracker mechanism. Under its proposal, if actual costs are lower than what is included in base rates, GMO would return the excess to its customers in a future rate proceeding. If the actual costs are higher, then GMO will absorb the excess costs.

If the actual costs incurred were lower than the base rates set in Case No. ER-2012-0175 then an annual amortization would be set in a subsequent rate case to return the excess to GMO's customers. Since GMO was collecting revenues based on the higher level of costs, GMO would have experienced a higher level of earnings and higher rate of return. If the actual costs were higher than base rates and GMO had to absorb the increase then earnings could be impacted if the cost is isolated from other costs. However, this simply is not the reality. GMO experiences changes to its cost of service, both up and down. Since rates were last set in the 2012 rate case, as discussed in my rebuttal testimony, GMO had declines in other areas of its cost of service that allowed it to absorb cost increases that occurred during the same time period. The level of costs that GMO would absorb in this scenario would more than likely not have a negative impact on earnings for the same reason. It is important to note that in both hypothetical scenarios, a tracker isolates one expense without consideration of other areas of GMO's cost of service that may offset, in part or in whole, the isolated expense. Although GMO experienced cost increases since the 2012 rate case, other decreases in costs offset the increases and allowed GMO to earn a reasonable return.

Q. Do you agree with Mr. Ives suggestion that, if certain costs in base rates fall short of the actual expense, it may be necessary to file a rate case especially when GMO is experiencing minimal revenue growth and substantial capital expenditures[4]?

A. No. Mr. Ives fails to mention other areas of its cost of service may decline and offset cost increases. This is the first rate case GMO has filed since its 2012 rate case. The fact that GMO experienced increasing costs since 2012 but was apparently able to earn a reasonable return on equity suggests that declines in other areas of its cost of service contributed in part to its ability to earn a reasonable return on equity. As discussed in my rebuttal testimony, GMO's reduction in its cost of debt since its last rate case is one example.[5]

Q. Please summarize Staff's position on GMO's proposal to track a forecasted level of transmission expense.

A. GMO's proposal to track a forecasted level of transmission simply because it is expected to increase in the future is not valid. GMO was able to earn reasonable returns during much of the time since the 2012 rate case even considering the increasing transmission and cyber security costs (and the disallowed Crossroads costs).

GMO's proposal to track forecasted levels of transmission expense and revenue should be denied and instead the Commission should approve an annualized level of transmission expense and revenue in GMO's cost of service based on Staff's methodology.

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[4] Ives Rebuttal page 11.
[5] Lyons Rebuttal page 14.

CROSSROADS TRANSMISSION EXPENSE

Q. What is Staff's response to GMO witness Rush's rebuttal testimony that GMO's increased Crossroads transmission expense from Entergy becoming a member of MISO should be included in GMO's cost of service?

A. The Commission has twice ruled that GMO customers not pay the transmission expense GMO incurs because of where Crossroads is sited. The fact that Crossroads transmission expense has increased since those Commission decisions in Case No. ER-2010-0355 and Case No. ER-2012-0175 further supports them. When Staff asked GMO if it would incur any transmission-related cost from Entergy or MISO that it would ***not*** have incurred if Crossroads was located in GMO's service territory and within the Southwest Power Pool ("SPP") GMO responded as follows:[6]

> Yes. GMO incurred point to point charges with Entergy for a firm transmission path until Entergy joined the MISO system in December 2013. After Entergy joined MISO, GMO incurred charges from MISO for Schedule 7 (point to point service), Schedule 1 (scheduling, system control and dispatch service), Schedule 2 (reactive supply and voltage control), Schedule 26 (network upgrade from transmission expansion plan), Schedule 33 (blackstart service) and Schedule 45 (cost recovery of NERC recommendation or essential action). All charges were received due to maintaining the firm transmission path. Any MISO charges related to purchased power would not have been incurred due to Crossroads.

Staff's recommendation to eliminate Crossroads transmission expense in GMO's cost of service in this case and previous cases is directly related to the location of the facility and not related to the FERC-approved tariffs as Mr. Rush alludes. Staff witness Cary G. Featherstone addresses this issue in greater detail in his Direct, Rebuttal and Surrebuttal Testimony.

[6] Schedule KL-s2 Case No ER-2016-0156 -- Staff Data Request No. 0167.4.

Q. Does Mr. Rush address any other issues related to Crossroads transmission expense?

A. Yes. Beginning on page 29 of his Rebuttal Testimony he states,

> GMO is assessed a regulatory fee from FERC based on the usage of transmission of electric energy. When Entergy joined MISO, transmission services provided to GMO that were once administered by Entergy were transferred and are now being provided by MISO. As a result, the allocation of FERC fees from MISO is now being charged to GMO for the transmission services. The Company should be allowed recovery of these FERC fees.

Q. Does Staff agree?

A. No. The FERC Assessment GMO incurs from MISO is not any different than any other Crossroads-related transmission expense GMO incurs. The Commission disallowed all Crossroads transmission expense because of the location of the facility with respect to GMO's load center and the amount of transmission expense GMO incurs as a result. GMO would not incur a FERC assessment for Crossroads if Crossroads was located in GMO's service territory and within the SPP.[7]

<u>WHOLESALE TRANSMISSION REVENUE</u>

Q. Does Staff agree with GMO witness Mr. Frerking's argument, beginning on page 6, line 3, of his rebuttal testimony that since GMO's owned transmission assets are included in its rate base and GMO's related transmission expenses are included in its cost of service, transmission revenues received through SPP for use of those same transmission assets by other SPP members should be credited against GMO's revenue requirement. The transmission revenues GMO receives from the SPP are based on a FERC return on equity ("ROE") that is higher than the Commission authorized ROE; and therefore, GMO's

[7] Schedule KL-s3, Case No ER-2016-0156 Staff Data Request No. 0160.1.

transmission revenues are overstated if they are not adjusted downward to account for the difference between the FERC authorized ROE and the Commission authorized ROE. [8]

A. No. GMO calculates an annual transmission revenue requirement ("ATRR") using GMO's transmission formula rate ("TFR").[9] The annual transmission revenue requirement is used by SPP to allocate transmission revenue and expense to all transmission owners and transmission customers of SPP. The annual transmission revenue requirement may include available incentives such as ROE adders and CWIP in rate base. Although GMO can apply for transmission project specific incentives, currently the only incentive that is included in GMO's annual transmission revenue requirement is a 50 basis point adder for being a member of SPP. Most transmission owners participating in RTO's have requested and received approval from FERC for the 50 basis point adder.[10] The aforementioned incentives are included in transmission revenues GMO receives from SPP, and transmission costs billed from SPP and charged to its customers by GMO. Staff's treatment of the transmission revenues in this case is to simply recognize all transmission expenses incurred and revenues received by GMO, including revenues based on a higher FERC ROE. If GMO customers are expected to pay for transmission expense which includes costs based on a higher FERC ROE, then transmission revenues based on a higher FERC ROE should also be included in GMO's cost of service. If, however, the Commission agrees with GMO that its transmission revenues should be reduced for the difference between the FERC authorized ROE and the Commission authorized ROE, then a corresponding adjustment should be made to GMO's transmission expense since it also includes costs based on a higher FERC ROE.

[8] Don A. Frerking, Rebuttal, page 5, lines 12-22.
[9] GMO Response to Staff Data Request No. 0295 in Case No. ER-2014-0370.
[10] GMO Response to Staff Data Request No. 0292.1 in Case No. ER-2014-0370.

Q. How does Staff respond to Mr. Frerking's statement in his rebuttal testimony, on page 6, lines 7-8, that "Essentially Missouri retail customers would be credited back more than they would have been charged?"

A. Mr. Frerking argues that since all of GMO's transmission assets are included in the retail revenue requirement based on a Commission authorized ROE, and transmission revenues received from SPP are based on a higher FERC ROE, an adjustment must be made to reduce revenues; otherwise, according to Mr. Frerking, GMO's Missouri retail customers would be credited back more than they have been charged. However, Staff disagrees. GMO's participation in SPP encompasses both the financial impacts of GMO's ownership of transmission assets and the financial impacts of the use of other SPP members' transmission assets. As a SPP transmission customer, if costs of providing transmission service increase for other members of SPP, GMO's transmission expense will increase. Likewise, as a SPP transmission owner, if GMO's cost to provide transmission service increases, transmission revenues received from SPP will increase. Transmission revenue and expense must be treated consistently to be fair to both GMO and its retail customers.

Q. How did Staff treat GMO's transmission expense in this case?

A. As described earlier in this testimony, Staff included an annualized level of transmission expense based on the 12-month period ending December 31, 2015. With the exception of adjustments made for Transource incentives, Staff did not eliminate any transmission expense that includes costs calculated using a higher FERC ROE. The adjustments to eliminate Transource incentives are consistent with the Commission's Order in Case No. EA-2013-0098 and is discussed by Staff witness Majors in Staff's Cost of Service Report, Rebuttal Testimony and his Surrebuttal Testimony filed in this case.

Q. Mr. Frerking suggests that Staff's rationale to adjust transmission expense for the incentives that are included in the costs that GMO receives from SPP is flawed.[11] Do you agree with this assessment?

A. No, I do not agree that Staff's rationale is flawed. First, Staff's *preferred* treatment of GMO's wholesale transmission revenues is to include both transmission revenues received from and transmission costs paid to SPP, including FERC incentives. Mr. Frerking's suggestion that Staff's rationale is flawed relates to Staff's *alternate* recommendation to reduce transmission expense for the costs that include a higher FERC ROE. Mr. Frerking states the following beginning on page 11, line 6 of his rebuttal:

> There is absolutely no basis for GMO to make such an adjustment to the "Transmission by Others" expenses recorded in FERC Account 565 that are charged to GMO as a transmission customer under the SPP OATT for the allocated use of transmission facilities that are <u>owned by other</u> transmission owners in SPP. These charges are for ATRRs calculated in the other transmission owners' FERC-approved TFRs and charged to transmission customers under the FERC-approved SPP OATT. GMO has no option to pay any other amounts for the allocated use of transmission owned by other transmission owners. . . .

Staff's treatment of transmission revenues and transmission expenses in this case is consistent. Staff prefers to include all transmission revenue in GMO's cost of service that includes the higher FERC ROE and to include all transmission expense incurred from SPP in GMO's cost of service that includes costs based on a higher FERC ROE. GMO prefers to recover all transmission expenses that are based on a higher FERC ROE from its rate payers but eliminate transmission revenues that are based on a higher FERC ROE that would mitigate a portion of the rising transmission expense.

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[11] Ronald A. Frerking, Rebuttal pages 6-7.

Q. Please summarize Staff's position regarding wholesale transmission revenue.

A. GMO is billed transmission expense from SPP as a transmission customer and receives transmission revenues from SPP as a transmission owner, both of which include ROE incentives. Staff recommends that GMO treat transmission expense and revenue consistently by reflecting all of GMO's revenue and expense, including the impact of FERC ROE incentives, in its cost of service.

<u>TRANSOURCE-TRANSFERRED ASSET</u>

Q. What is Staff's response to GMO witness Mr. Frerking's testimony on page 13 of his rebuttal testimony regarding the Transource transferred asset?

A. Mr. Frerking believes GMO and Staff are in agreement with the respective adjustment but questions Staff adjustment E-169.1 that was referenced in Staff's Cost of Service Report and if this adjustment is related to Transource then GMO reserves the right to address this adjustment. Adjustment E-169.1 is not related to Transource. The adjustment number included in Staff's Cost of Service Report addressing Transource was a typographical error. Adjustment E-169.1 is an annualized level of depreciation expense.

<u>CRITICAL INFRASTRUTURE PROTECTION ("CIP") AND CYBER-SECURITY FORECAST AND TRACKER</u>

Q. Does Staff agree with GMO witness Mr. Rush's testimony that Staff has taken a traditional approach to annualize CIP and Cyber-Security costs and is ignoring the fact that these costs are rapidly rising and volatile because of the evolving rules and standards; that CIP and Cyber-Security costs are a major contributor to GMO's inability to earn its authorized rate of return[12]; and, although Mr. Rush indicates GMO's proposal is to include an

[12] Rush Rebuttal pages 27-28.

annualized level of these costs based on a forecast of 2016-2017, subject to refund, Staff understands, based on GMO's direct testimony,[13] that GMO's proposal is to track 2017-2018 forecasted CIP and Cyber Security Costs.

A. No. Mr. Rush's statement that CIP and Cyber-Security costs are rapidly rising is incorrect. GMO's CIP and Cyber Security costs are actually declining, not "rapidly" increasing. The table below indicates that CIP and Cyber-Security costs have increased since rates were last changed in the 2012 GMO rate case; however, beginning in 2015, the costs have started to decline:

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Staff continues to recommend that the Commission deny GMO's proposal to track a forecasted level of CIP and Cyber-Security costs for the same reasons described in my rebuttal testimony and above when discussing GMO's proposal to track a forecasted level of transmission expense and revenue. If the Commission authorizes GMO to use a CIP and Cyber-Security tracker, Staff recommends that all labor costs be excluded from the tracker.

Q. Mr. Rush suggests that CIP and Cyber-Security costs are a major contributor to GMO's inability to earn it authorized rate of return. Do you agree?

A. No. Since 2014 GMO's CIP and Cyber-Security costs increased over its prior historical levels and, if all other areas of GMO's cost of service had remained constant, then

[13] Klote Direct page 48.

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the increase would have an effect on GMO's earnings. However, the reality is that expense, revenue, and investment do not and did not remain constant. An increase in a cost can be offset by decreases in other areas of GMO's cost of service. This is apparent when GMO experienced cost increases in several areas of its cost of service after rates were set in Case No. ER-2012-0175, without corresponding revenue, **____________________________ ________________________ **.

Q. How could GMO mitigate the impact of its CIP and Cyber-Security costs that increased in 2014?

A. When a utility is not earning its authorized ROE, it has the option to file a rate case to capture increased costs in rates. When GMO's costs rise, as CIP and Cyber-Security costs did in 2014, as well as transmission addressed above, it could have filed a rate case sooner than it did. In fact, GMO could have filed a rate case when KCPL filed its last rate case, October 2014. KCPL management made the decision to not file a GMO rate case concurrent with the KCPL rate case, Case No. ER-2014-0370. In GMO's last three previous rate cases filed since being acquired by Great Plains Energy, Inc. in July 2008, it filed at the same time with KCPL.

Q. Are there any corrections to your rebuttal testimony filed on August 15, 2016 on this issue?

A. Yes. On page 21 of my Rebuttal Testimony, I provide a table that is identified as GMO's budgets for the period of 2016 through 2019. I inadvertently provided only the MPS rate district budgets for the period of 2016-2019. The table was intended to include the entirety of GMO, i.e., the MPS and L&P rate districts combined. The following table reflects the combined MPS and L&P rate district budgets for GMO:

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Q. Please summarize Staff's position on GMO's proposal to track forecasted levels of CIP and Cyber-Security costs.

A. That a particular cost is projected to increase is not a justification to track or forecast the expense, such as CIP and Cyber-Security costs. Forecasted costs are not known and measurable since they are developed using assumptions that may or may not materialize. As discussed in my rebuttal testimony, the shortfall in KCPL's actual incurred 2015 expenses compared to its budget is an example of how forecasts may not be accurate. The use of forecasted costs and trackers disrupts the matching relationship among investment, revenue and expense, and does not take into account revenue requirement components that may be decreasing. Therefore, Staff recommends the Commission deny GMO's proposal to track 2017-2018 forecasted CIP and Cyber-Security costs and instead adopt Staff's recommendation to annualize the costs based on the 12 months ending July 31, 2016.

GREENWOOD SOLAR PROJECT

Q. Has the Greenwood Solar facility been placed in service?

A. GMO has indicated the Greenwood Solar facility is commercially operational and Staff witness Claire M. Eubanks, PE will complete its in-service review in the True-up phase of this case.

Q. What is Staff's response to GMO witness Rush's rebuttal with regard to Greenwood Solar Project?

A. Mr. Rush does not support allocation of any costs of the Greenwood Solar facility to KCPL "because not a single electron produced by the Greenwood Solar facility will ever reach the KCP&L system."[14]. He further explains that GMO and KCPL benefit from each other's expertise in generation and distribution projects of which costs are not transferred.

Q. What are the total costs for the Greenwood facility?

A. As of July 31, 2016, the Greenwood Solar facility has a value of $8.4 million recorded in FERC Account 344.04[15].

Q. What is Staff's position on how the cost for the Greenwood facility should be allocated?

A. As discussed in Staff's Cost of Service Report, Staff recommended allocating the costs and any related revenues of Greenwood based on an energy allocator factor. Staff's proposal was based on GMO's response to Data Request No. 0197, Schedule KL-s4. In the response, GMO stated that if the MPS and L&P rate districts were not consolidated in this rate case, then the costs for the Greenwood facility would be allocated to MPS and L&P based on an energy factor using 2015 MWh values. The table below reflects the 2015 MWh values for KCPL and GMO as reported in its Annual Report filed on May 13, 2016:

[14] Rush Rebuttal page 22.
[15] Staff Data Request No. 0197.2 in Case No. ER-2016-0156.

Greenwood Solar Facility Allocations		
Rate Area	2015 Retail Sales (MWh)[1]	Allocation
KCPL	14,698,066	64.84%
GMO	7,970,619	35.16%
Total	22,668,685	100.00%

Q. Why is Staff recommending allocating the Greenwood Solar facility to KCPL?

A. Beginning on page 16 of its Report and Order in Case No. EA-2015-0256, the Commission expressed its concern that GMO ratepayers will pay for the costs of the project that is primarily being built to allow KCPL to gain experience designing, operating, and maintaining a utility scale project. In its Order the Commission expected GMO to propose an allocation methodology that would share the costs between KCPL and GMO. Staff recommended that the costs should be allocated based on energy, since GMO did not recommend an allocation methodology.

Experience gained formed the basis of the application requesting permission to construct and operate Greenwood Solar facility in Case No. EA-2015-0256. The Commission based its decision on authorizing the construction and operation of this solar facility on that stated purpose to gain experience for KCPL employees. All employees who manage and operate GMO are KCPL employees. GMO has no employees. KCPL supplies all operating services to GMO under an agreement between the two entities. Because KCPL has all the employees under its structure, they are who will get the experience to operate and maintain the solar facilities. Therefore, the costs to operate and maintain that generating unit should be shared among GMO and KCPL customers.

Q. Will the customers in the L&P rate district receive any energy from the Greenwood facility?

A. No. It is interesting that Mr. Rush states that the costs should not be allocated to KCPL because KCPL customers will not receive a “single electron” of energy from this facility but recommends allocating costs to L&P even though L&P customers will not receive a “single electron” from this facility. In fact a very small percentage of MPS customers will actually benefit from the energy produced at the Greenwood facility. The Greenwood facility is directly connected to a distribution circuit that will serve approximately 440 MPS customers. Based on Staff’s annualized customers for GMO at direct, Greenwood facility will serve approximately 0.1% of GMO’s customers. The fact that the Greenwood facility will only serve approximately 0.1% of GMO’s customers and Mr. Rush’s confirmation that KCPL’s purpose to build the facility was for KCPL employees to gain experience with a utility scale solar project,[16] the total cost of the project should be allocated to GMO and KCPL.

Q. Does Mr. Rush provide any other reasons why the Greenwood Solar facility should not be allocated to KCPL?

A. Yes. Mr. Rush states the following on page 22 of his Rebuttal Testimony:

> As a corporation with multiple operating utilities, many projects, both generation and distribution, are often done at one utility subsidiary and may result in benefits of an intangible nature to the other. One of the benefits identified during the acquisition of GMO by Great Plains Energy was the expertise that GMO had in maintenance of its natural gas plants. That expertise was shared with KCP&L. Likewise, KCP&L had substantial expertise in maintenance of its coal fleet and that was then shared with GMO, without compensation through allocation of costs. KCP&L was one of the first utilities in the nation to implement an automated meter reading system many years ago. Both KCP&L and GMO are now in the process of deploying next generation automated metering (AMI) and GMO is receiving the benefit of KCP&L’s expertise, without any transfer of costs to GMO for that knowledge.

[16] Rush Rebuttal page 23.

Q. Do Mr. Rush's arguments quoted above have any merit?

A. No. The Greenwood Solar facility is a renewable technology that KCPL constructed so KCPL employees can gain experience operating a utility scale solar facility. The Greenwood project has been categorized as a pilot program because KCPL does not have any experience designing, maintaining and operating a utility scale solar facility. Contrary to Mr. Rush's argument, KCPL has experience maintaining natural gas plants in its own fleet. They include Hawthorn units 6-9, West Gardner Units 1 through 4, and Osawatomie. Likewise GMO has experience maintaining several coal plants in its fleet that include the Sibley Station. While KCPL may have had more experience operating coal units and GMO operating natural gas peaking units, the fact is what Mr. Rush refers to with his examples are nothing more than the benefits of sharing information and experience when two utilities merge, as was the case in July 2008 when Aquila was acquired. The Greenwood Solar facility is not one of these "shared" experiences. Neither GMO nor KCPL has the experience to operate a utility scale solar facility. Thus, the reason for the request to construct such a facility was to get familiar with solar generating technology, as well as obtaining an understanding of how to operate and maintain the solar facility on a large utility scale basis. The sole purpose of constructing the Greenwood Solar facility was to gain experience with a renewable technology that KCPL and GMO do not have. Mr. Rush's comparison of the operating power plants and AMI meters with the Greenwood Solar facility is not valid.

Q. Although GMO's primary position is to allocate no costs for the Greenwood facility to KCPL, does Mr. Rush provide a proposal to allocate the costs in the event the Commission orders this treatment?

A. Yes. Mr. Rush first suggests that a possible allocation could be based on the difference between the capital costs of an alternative renewable energy source such as wind and the solar facility. However, using a plant investment allocation is not practical, according to Mr. Rush. His alternative recommendation is to allocate $100,000 in expense to KCPL.[17]

Q. Does Staff agree with Mr. Rush's recommendation?

A. No. It bears repeating that the Greenwood Solar facility was constructed to allow KCPL employees to gain experience. Both KCPL and GMO will benefit from the experience of designing, constructing, maintaining and operating the solar facility. To suggest that KCPL should be allocated a meager $100,000 of these facility costs is unreasonable.

Q. Does Staff recommend any other alternatives to allocate the Greenwood Solar facility?

A. Yes. Although Staff recommended allocation of the costs based on energy in its direct filing, this was in part based on GMO's indication that it would allocate the costs to MPS and L&P based on energy if the rate districts were not consolidated in this case. Staff did indicate in direct testimony that it would consider other methods with input from other parties. The solar facility was not in service at the time of the direct case. This is technically a true-up item, as the plant and related costs will be included in the July 31, 2016, True-up revenue requirement.

Another option to allocate the costs for the Greenwood Solar facility between KCPL and GMO would be on a per customer basis. It has been established that a very small percentage of customers will actually receive the energy produced from the Greenwood Solar

[17] Rush Rebuttal page 23.

facility. Also, the Commission addressed in its Order in Case No. EA-2015-0256 the intangible benefits that will be gained from the experience of constructing and operating the facility and the results that will lead to increased use of solar power in the future.[18] Since the experience gained will benefit all of KCPL and GMO's customers in the future, allocating the costs using customers is a reasonable approach. The table below reflects the allocation between KCPL and GMO using customers and energy:[19]

Methodology	KCPL	%	GMO	%	Total
Energy (MWh)	14,698,066	64.84%	7,970,619	35.16%	22,668,685
Customers	524,999	62.27%	318,150	37.73%	843,149

As reflected in the table above, KCPL will receive the higher allocation by virtue of its size regardless of the particular allocation methodology used. While KCPL has more customers, those customers will get the most benefit from the solar experience in the future and should be allocated more of the cost.

Lastly, in addition to the options provided above, the Commission could take a conservative approach and allocate the costs between KCPL and GMO on an equal sharing basis of 50%.

Q. Please summarize Staff's position on the allocation of the Greenwood Solar facility.

A. The Greenwood Solar project was constructed to allow KCPL employees to gain experience designing, constructing, maintaining and operating a utility scale solar facility. The percentage of GMO customers that will actually benefit from the energy are

[18] Case No. EA-2015-0256 *Commission Report and Order*, page 16.
[19] Data from KCPL, MPS and L&P Annual Report filed on May 31, 2016.

approximately 0.1%. However, all the rate districts, KCPL-Missouri, KCPL-Kansas, and GMO, will benefit with the acquired knowledge from building and operating a utility scale solar facility. Staff recommends the Commission allocate the costs between KCPL and GMO based on customer levels. If the Commission does not approve consolidating MPS and L&P rates in this case, Staff supports a further allocation between those two entities.

REGULATORY AMORTIZATIONS- REGULATORY ASSETS AND REGULATORY LIABILITIES

Q. Please summarize the rebuttal testimony of GMO witness Klote with regard to regulatory amortizations.

A. GMO's witness Klote identifies at pages 26 through 34 of his rebuttal testimony the Company's opposition to quantifying and capturing the amortizations from previously authorized deferral mechanisms which GMO has fully recovered. Until the effective date of rates is implemented in this pending general rate case, GMO continues to collect from its customers for these fully recovered amortizations. While GMO has already collected the entire amount of the deferrals over the prescribed amortization periods, the Company believes the amounts over-collected for these amortizations in essence belong to GMO. The amortizations for deferred costs are identified as regulatory assets.

GMO takes the position that any amortization completed during the period of current rates should flow to its earnings— that Great Plains Energy, Inc. shareholders should benefit from the excess collections generated from fully collected amortizations.

Q. When the amortizations were established, was the expectation that GMO shareholders would benefit from the amortizations once fully recovered?

A. No. The deferral mechanisms are unique to the regulatory process. Generally, the types of costs causing a deferral for a regulated utility would be required to be charged to income in the period of the event or occurrence. In determining utility rates, the Commission can authorize the deferral of costs for recovery in future periods. The intent of the deferral process is to allow recovery of the actual amount of applicable costs, not more or less than the actual amounts. Indeed, if GMO is allowed to "keep" the over recovered amounts, they will "profit", collecting in excess of the agreed to amortizations. Staff supported deferral recovery of these costs in rates to allow full recovery by GMO but did not intend for GMO to over recover those costs, or in essence, to receive a windfall gain from the amortization process.

Q. Does Staff agree with GMO's proposed treatment of the expired amortizations?

A. No. Staff believes any amounts collected above the total deferrals once the amortizations were completed should be quantified and used as offsets to other unamortized deferrals. The over-collected amounts from customers from these fully recovered amortizations relating to the regulatory assets should be applied to other amortizations that are still being recovered. Customers have paid the agreed upon amounts and should not have to "overpay" for these amortizations. Staff believes the over-collected amortizations that have occurred and, will occur in the future, should be treated independent of GMO's request for the various trackers it is requesting in this case.

Q. What happens to fully recovered amortizations?

A. GMO continues to collect in rates each amortization that ends and will do so until rates are changed at the effective date of rates for this general rate case, expected December 23, 2016. Once approved by the Commission, a deferral is established on GMO's books as a regulatory asset. The deferred costs are charged to GMO's income statement through amortization expense each month during the Commission-authorized amortization period. This reduces the amount of the deferral reflected on GMO's books as regulatory assets as the amortization is recovered during the amortization period. The deferred amounts are fully recovered when the deferred accounts no longer contain a balance. At that time, GMO discontinues expensing the fully recovered amortizations. However, since rates are not automatically changed at the point of full recovery, GMO continues to collect the same amounts from its customers. As such, GMO over-collects in rates for these amortizations. All over-collected amounts are retained by GMO to its benefit unless those amounts are quantified, as Staff has done, and reflected as reductions for other amortizations that are not fully recovered.

Q. Please identify the amortizations that have been fully recovered.

A. The following table identifies the various amortizations for specific areas that GMO deferred through the update period December 31, 2015, true-up period of July 31, 2016 and anticipated effective date of rates in this case:

Regulatory Asset	**End Date of Amortization**	**GMO Annual Amortization**	**Over collection at December 31, 2015**	**Over collection at July 31, 2016**	**Over collection at December 23, 2016**
2010 Rate Case Expense V1 –	June 2014	$950,066	$1,440,934	$1,995,140	$2,370,569
2012 Rate Case Expense V2	January 2016	$86,734	$0	$43,367	$77,641
Total Rate Case Expense		**$1,036,800**	**$1,440,934**	**$2,038,507**	**$2,448,210**
SJLP Transition Costs	February 2016	$495,967	$0	$206,653	$403,228
ERPP Vintage 1	May 2014	$84,145	$127,621	$176,705	$209,956
ERPP Vintage 2	January 2016	$40,059	$0	$20,029	$35,859
RES	January 2016	$2,190,688	$0	$1,095,344	$1.961.019
Iatan 2 O&M	January 2016	$327,599	$0	$163,800	$293,254
Total Excess		**$4,175,258**	**$1,568,555**	**$3,701,038**	**$5,351,526**

Q. Are the values in the table above different from the values included in Staff's Cost of Service Report?

A. Yes. In Staff's Cost of Service Report, Staff calculated an over-collection amount for rate case expense and the SJLP transition costs as of December 31, 2016. Staff revised the calculation of the over-collection through December 23, 2016, which is the anticipated effective date of rates in this matter based on when GMO filed its rate case, February 23, 2016.

Q. Has Staff requested ratemaking treatment for any of the fully recovered amortizations listed above?

A. Yes. Various Staff members addressed the fully recovered amortizations throughout the Cost of Service Report shown below. Staff witness Majors will specifically address the pension tracker in his surrebuttal testimony:

Regulatory Asset	Staff Witness	Cost of Service Report
Overall Amortizations	Karen Lyons	Pages 157-160
2010 and 2012 Rate Case Expense –	Karen Lyons	Pages 157-160
SJLP Transition Costs	Karen Lyons	Pages 157-160
Economic Relief Pilot Program (ERPP) Vintage 1 and 2	Matthew R. Young	Page 146-147
Renewable Energy Costs	Matthew R. Young	Page 202-203
Iatan 2 O&M	Matthew R. Young	Page 123-124
Pensions	Keith Majors	Page 112-114

Q. Why is it appropriate to reflect the fully recovered amortizations in this case?

A. GMO collected from its customers the agreed upon amounts for each of the amortizations identified in the table above and is now collecting an excess amount for those fully recovered amortizations until rates are changed at the effective date of rate for this general rate case. Customers fulfilled their obligation to GMO by paying the entire deferred balance – they should not be over charged by allowing GMO to retain the over collections, in essence to profit, from the fully collected amortization amounts.

Q. Can you provide an example of how GMO would profit from the over collection of amortizations absent Staff's recommendation?

A Yes. In Case No. ER-2012-0175, the Commission's Report and Order approved a *Non-Unanimous Stipulation and Agreement as to Certain Issues* that included a provision for GMO to track the over-recovery of the 2007 Ice Storm amortization and return the over-recovery to its customers in the following rate case.[20] The amortization was initially established to allow GMO to recover the costs it incurred as a result of the 2007 ice storm. The amortization was not intended to allow GMO to "profit" from rate recovery of this item. GMO customers would still be paying for the ice storm amortization that should have ended in January 2013 and absent the 2012 Commission Report and Order approving the *Non-Unanimous Stipulation and Agreement as to Certain Issues*, the over-collected amortization would not be returned to GMO's customers. In other words, GMO customers would have paid approximately $12.4 million for costs that originally totaled approximately $7.9 million.

[20] Staff Cost of Service Report pages 157-158.

Q. Mr. Klote believes the use of the over-collected amortizations in this manner is "retroactive."[21] Do you agree with this assessment?

A. No. Amortizations are special regulatory mechanisms that allow GMO to recover actual costs incurred. GMO is currently collecting revenues from its customers for these amortizations that have ended or will end prior to the True up in this case. If Mr. Klote believes that the end of the amortization period and Staff's rate making treatment of the over-collected costs is retroactive ratemaking, an argument can be made that the entire deferral process should be regarded as retroactive ratemaking. There are several instances in which GMO incurs a cost outside of a rate case and seeks recovery of the cost in a future rate case. For example, the Commission approved an Accounting Authority Order ("AAO") that allowed GMO to defer certain renewable energy costs in Case No. EU-2012-0131. In Case No. ER-2012-0175, an annual amortization was included in GMO's cost of service that represented costs incurred in 2010 and 2011. An AAO allows a utility to recover costs that were incurred outside the scope of a rate case that absent the AAO would otherwise not be recovered. To be clear, Staff is not disputing the AAO regulatory mechanism that allows a utility to defer costs for potential future recovery. However, having gained the benefit of this special accounting mechanism, GMO should not be allowed to over-recover these costs that are specifically earmarked.

Q. Does Staff's proposed treatment of the fully recovered amounts harm GMO?

A. No. GMO fully recovered the agreed to amounts of the deferred costs. Not using the over-collected amounts to offset other amortizations as Staff proposes allows GMO to financially gain from these cost recovery mechanisms— clearly not the intent of the

[21] Klote Rebuttal page 26.

deferral process. Staff supports GMO collecting the proper amount of the amortizations but does not support the Company over-collecting them. Staff's proposed treatment for the fully recovered amortizations ensures GMO collects amounts agreed to and what the Company is entitled to, but not more.

Q. Are there other amortizations currently built into rates that have not been fully recovered?

A. Yes. Staff proposes that the amortizations that continue beyond this rate case be quantified when they become fully recovered, so over-collections are available to offset any existing amortizations in the next rate case. The Commission should require GMO to capture the deferred costs for those amortizations when fully recovered to use as offset to other amortizations. Once those amortizations reach full recovery, GMO should track the over-collections through any cutoff period—an update period, true-up or effective date of rates—to be available to be used in future rate cases and continue to identify the amounts through the date new rates take effect in the next rate case.

Q. Do the expiring amortizations result from both deferred assets and deferred liabilities?

A. No. Currently, GMO does not have any expiring deferred liabilities. However; Staff recommends consistent treatment of expiring amortizations associated with both deferred assets and liabilities.

Q. What are "regulatory assets?"

A. Regulatory assets are deferral accounting treatments of certain types of costs. Regulatory assets are selected costs, typically extraordinary in nature, that are allowed to be deferred and generally recovered over a specific period of time such as five or ten years.

The costs are not charged to income (are not charged to expenses) in the year of incurrence but deferred to a regulatory asset account- FERC Account 182.3 Other Regulatory Assets[22] or Account 186 Miscellaneous Deferred Debits[23].

The deferred costs do not increase GMO's expenses in the year deferred, but are amortized to cover expenses in future periods. The deferred amounts are amortized and the utility typically is allowed to include the amortization as an increased cost of service item—an increase of costs reflected in rates. When the regulatory asset is fully recovered (fully amortized), expenses are reduced.

The utility benefits from regulatory assets as the costs are reflected in its rate structure. An example of a regulatory asset is when a utility defers costs from an ice storm, generally, to restore the distribution and transmission systems back to the pre-storm levels. The deferred costs are recovered in rates over a period of time such as over five or ten years.

Q. What are regulatory liabilities?

A. Certain deferrals have the effect of reducing expenses, referred to as deferred liabilities. The regulatory liability amounts reduce expenses over a period of time, flowing

[22] <u>Account 182.3- Other Regulatory Assets</u>

A. This account shall include the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition No. 30.)

B. The amounts included in this account are to be established by those charges which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, account 407.4, regulatory credits, shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of account 407.4 shall be charged to account 407.3, regulatory debits, concurrent with the recovery in rates.

[23] <u>Account 186 Miscellaneous Deferred Debits</u>

A. For Major utilities, this account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization and items the proper final disposition of which is uncertain.

monies for the deferrals back to customers in the same way the regulatory assets increase costs over the recovery period. Once the regulatory liability amortization is completed and the customers are fully funded (reimbursed), the end of the amortizations increase expenses to GMO, the opposite of when GMO fully recovers the regulatory asset.

Regulatory liabilities are selected reductions to costs that are allowed to be deferred and generally refunded, or flowed back to customers over a specific period of time, such as five or ten years. The cost reductions are not reflected in income (are not credited to revenues or reduction to expenses) in the year of incurrence but deferred to a regulatory liability account- FERC Account 254- Other Regulatory Liabilities.[24] The deferred liabilities reduce expenses in the year deferred, thus a deferral that is amortized as a reduction to expenses in future periods. The deferred amounts are amortized and the utility is required to reduce its cost of service-- a decrease of costs reflected in rates. The utility's customers benefit from regulatory liabilities as the cost reductions are reflected in its rate structure. An example of a regulatory liability is when a utility receives proceeds from an insurance claim that is flowed back to its customers over a period of time such as over five or ten years.

[24] Account 254- Other Regulatory Liabilities

A. This account shall include the amounts of regulatory liabilities, not includible in other accounts, imposed on the utility by the ratemaking actions of regulatory agencies. (See Definition No. 30.)

B. The amounts included in this account are to be established by those credits which would have been included in net income, or accumulated other comprehensive income, determinations in current period under the general requirements of the Uniform System of Accounts but for it being probable that: Such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or refunds to customers, not provided for in other accounts, will be required. When specific identification of the particular source of the regulatory liability cannot be made or when the liability arises from revenues collected pursuant to tariffs on file at a regulatory agency, account 407.3, regulatory debits, shall be debited. The amounts recorded in this account generally are to be credited to the same account that would have been credited if included in income when earned except: All regulatory liabilities established through the use of account 407.3 shall be credited to account 407.4, regulatory credits; and in the case of refunds, a cash account or other appropriate account should be credited when the obligation is satisfied.

Staff's recommendation is to treat fully funded regulatory liabilities consistently with the treatment of fully recovered amortizations relating to regulatory assets. Any reduction in costs to provide customers the benefit of flowing back the dollars for the regulatory liabilities, once fully funded to customers, should be quantified and used to increase unrecovered regulatory asset balances. Both the fully amortized regulatory liabilities and regulatory assets will be addressed in future rate cases.

Q. Is Staff requesting that the Commission require GMO to quantify and capture any amortization reaching full recovery?

A. Yes. In addition to reflecting the over collections for the regulatory assets and over funding to customers for regulatory liabilities that have expired, Staff requests the Commission require GMO in the future to take any amount over the amount needed to fully recover amortizations and treat it as a regulatory liability to be returned to customers in a future rate case. In the case of any current regulatory liabilities GMO is returning to customers through an amortization that is reflected in new rates determined in this case; GMO should be capturing those amounts once they have been fully funded back to customers and treating them as a regulatory asset. The amounts for the regulatory assets and regulatory liabilities should be identified to be reflected as additions or subtractions in an amortization over a five-year period in a future rate case.

Q. Under Staff's proposal of requiring GMO to quantify over recovered amounts of regulatory assets, do those become regulatory liabilities?

A. Yes. Once the amortizations from the regulatory assets are fully collected in rates, any amounts accumulated must be credited to a regulatory liability for future refunding to customers or reductions in other unamortized regulatory assets. The over recovered amortizations can be used to offset any remaining amortizations not yet recovered. Conversely, any payments over the fully refunded amount due to customers should be captured as offsets (reduction) to existing regulatory liabilities. Once the customers receive full benefits from the deferred liabilities (deferred credits), GMO should quantify those amounts as a deferred asset to increase existing amortizations.

Since GMO always has deferrals it is either recovering from its customers or is refunding back to its customers through amortizations, amounts over collected or over refunded can be dealt with in the normal accounting of the amortization process.

Q. Is GMO willing to track regulatory assets and liabilities consistent with the agreed treatment in KCPL's last rate case, Case No. ER-2014-0370?

A. Beginning on page 33, Mr. Klote agrees to the following language that is consistent with Staff's treatment in KCPL's last rate case:

> In each future KCP&L general rate case, the Signatories agree that the balance of each amortization relating to regulatory assets or liabilities that remains, after full recovery by KCP&L (regulatory asset) or full credit to KCP&L customers (regulatory liability), shall be applied as offsets to other amortizations which do not expire before KCP&L's new rates from that rate case take effect. In the event no other amortization expires before KCP&L's new rates from that rate case take effect, then the remaining unamortized balance shall be a new regulatory liability or asset that is amortized over an appropriate period of 1 time. For example, the Demand Side Management amortizations, once fully recovered, will be used to offset (reduce) other vintages of DSM amortizations, each reducing other vintages as those become fully recovered and, in the event no other vintages remain to be amortized, the Demand Side Management amortizations will be applied to other amortizations that do not end before new rates take effect.

However, Mr. Klote also states that "The Commission should only grant this on a prospective based and should not grant retroactive tracking treatment." As stated earlier, Staff does not consider the adjustments made to GMO's cost of service for amortization that it has over-recovered to be retroactive ratemaking. The deferrals and related amortizations were established to recover certain costs; not to allow GMO to profit from the amortizations. In KCPL's last rate case, an agreement was made based on the language above and the inclusion of Staff's adjustments for the over-collection of amortizations in KCPL's cost of service. Staff will agree to the same treatment in this case as agreed to in KCPL's last rate case.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2016-0156

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 Surrebuttal Testimony and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Karen Lyons
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 1st day of September, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public

SCHEDULE KL-s1 and

SCHEDULE KL-s2

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Missouri Public Service Commission

Respond Data Request

Data Request No.	0160.1
Company Name	KCP&L Greater Missouri Operations Company-Investor (Electric)
Case/Tracking No.	ER-2016-0156
Date Requested	6/10/2016
Issue	Expense - Operations - Miscellaneous Operations Expense
Requested From	Lois J Liechti
Requested By	Nathan Williams
Brief Description	FERC Assessment-Additional Information
Description	Did KCP&L Greater Missouri Operations Company (GMO) incur any FERC assessment from Entergy or MISO during August 2008 to present that it would not have incurred if Crossroads was located in GMO's service territory and within the Southwest Power Pool (SPP) during that time period? If so, provide a detailed explanation and supporting documentation, including all calculations broken out for the MPS and L&P rate districts, of how the FERC assessment was calculated for Crossroads during that time period. Data Request submitted by Karen Lyons (Karen.lyons@psc.mo.gov).
Response	Please see the attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2016-0156** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **KCP&L Greater Missouri Operations Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **KCP&L Greater Missouri Operations Company-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

KCPL GMO
Case Name: 2016 GMO Rate Case
Case Number: ER-2016-0156

Response to Lyons Karen Interrogatories - MPSC_20160610
Date of Response: 6/24/2016

Question:0160.1

Did KCP&L Greater Missouri Operations Company (GMO) incur any FERC assessment from Entergy or MISO during August 2008 to present that it would not have incurred if Crossroads was located in GMO's service territory and within the Southwest Power Pool (SPP) during that time period? If so, provide a detailed explanation and supporting documentation, including all calculations broken out for the MPS and L&P rate districts, of how the FERC assessment was calculated for Crossroads during that time period. Data Request submitted by Karen Lyons (Karen.lyons@psc.mo.gov).

Response:

Did KCP&L Greater Missouri Operations Company (GMO) incur any FERC assessment from Entergy or MISO during August 2008 to present that it would not have incurred if Crossroads was located in GMO's service territory and within the Southwest Power Pool (SPP) during that time period?

Yes.

Response provided by: John Carlson, Generation Sales & Services

If so, provide a detailed explanation and supporting documentation, including all calculations broken out for the MPS and L&P rate districts, of how the FERC assessment was calculated for Crossroads during that time period.

MISO's FERC assessment is calculated by multiplying MISO's FERC Charge Recovery Rate times the total MWh of transmission in service. More detail can be found in the attached Schedule 10 from MISO's tariff.

Please see the attachment Q0160_HC FERC Assessments in Data Request question 0160 for the Schedule 10 FERC fees broken out for MPS & L&P rate districts. Any Schedule 10 fee beginning in January 2014 forward is related to Crossroads.

Response provided by: John Carlson, Generation Sales & Services
Stephanie Pryor, Energy Accounting

Attachments:
Q0160.1_Schedule 10-FERC.pdf

SCHEDULE 10-FERC

FERC Annual Charges Recovery

I. GENERAL

As a public utility, the Transmission Provider under this Tariff is subject to annual charges assessed by the Commission in accordance with Part 382 of the Commission's regulations. This Schedule 10-FERC recovers the Transmission Provider's obligation to the Commission for its annual charge. The Commission assesses its annual charge (referred to, variously, as "FERC Assessment," "FERC Annual Charge," "Annual FERC Assessment," "[year] FERC Assessment," or "[year] FERC Charge") to the Transmission Provider and other public utilities based on their usage of transmission of electric energy in interstate commerce as reported on FERC Form 582. Accordingly, the charge under this Schedule 10-FERC shall be assessed monthly to the Transmission Provider's Transmission Customers based on their MWh of Transmission Service used in a Month. The assessment will be a rate per MWh derived from a forecast of upcoming Annual FERC Assessment divided by a forecast of the MWh of Transmission Service to be used over the twelve (12) month period of time associated with the upcoming Annual FERC Assessment. The annual rate per MWh shall include a true-up component to account for any difference between the amount owed and the amount collected over the previous twelve (12) month period.

II. COLLECTION OF FERC ANNUAL CHARGE

A. RATE

To determine the monthly Schedule 10-FERC to be billed for a given Transmission Customer's MWh of Transmission Service, the FERC Charge Recovery Rate ("FCRR") shall be calculated each year in accordance with the following formula:

$$FCRR_t = \frac{EFC_t + (IFC_{pF} - CFC_{pF})}{ETTSP_t}$$

Where:

t = the Effective 12-month period (September – August)

pF = the Previous 12-month period (September – August)

$FCRR_t$ = FERC Charge Recovery Rate for the Effective 12-month period

EFC_t = Estimated FERC Charge for the Effective 12-month period

Represents the estimated costs directly related to FERC Annual Charges for the Effective 12-month period for which $FCRR_t$ is being calculated.

IFC_{pF} = Invoiced FERC Charge from the Previous FERC Fiscal Year

Represents the total amount of FERC Annual Charge invoiced by FERC and paid by the Transmission Provider: (a) for the FERC Fiscal Year preceding the Effective 12-month period for which $FCRR_t$ is being calculated, and (b) the true up for the FERC Fiscal Year preceding the FERC Fiscal Year in subpart (a) above.

CFC_{pF} = Collected FERC Charge from the Previous FERC Fiscal Year

Represents the total amount of FERC Annual Charge collected from to Transmission Customers by the Transmission Provider under this Schedule 10-FERC for the FERC Fiscal Year preceding the Effective 12-month period for which $FCRR_t$ is being calculated.

$ETTSP_t$ = Estimated Total Transmission Service Provided for the Effective 12-month period

Represents the estimated total quantity in MWh of Transmission Service to be taken by all Transmission Customers for which $FCRR_t$ is being calculated under this Tariff where $ETTSP_t$ shall be equal to the most recent twelve months of historical data, applying a two percent (2%) growth rate and adjusting for any known and measurable variables.

The difference (true up) between the IFC_{pF} and CFC_{pF} charges represents the difference in the invoiced FERC Assessment and the collected FERC Assessment for the previous FERC Fiscal Year, as well as any uncollectible Assessment charges.

B. CHARGES

The Schedule 10-FERC charges to be billed to a given Transmission Customer each Month shall be calculated by multiplying the FERC Charge Recovery Rate ("FCRR") by the total quantity in MWh of Transmission Service delivered to such Transmission Customer from the Transmission Provider under this Tariff during the specific Month being billed. The charge calculation methodology is shown below:

$BS10F_{Pm} = FCRR_t * TTSP_{Pm}$,

Where:

P = Designation for the individual Transmission Customer

m = Designation for the specific Month being billed

$BS10F_{Pm}$ = Billed Schedule 10-FERC charge for the individual Transmission Customer for the specific Month being billed.

$FCRR_t$ = FERC Charge Recovery Rate for the Effective 12-month period as calculated in Section II.A. of this Schedule 10-FERC.

$TTSP_{Pm}$ = Total Transmission Service (measured in MWh of Transmission Service)

Represents the total quantity in MWh of Transmission Service taken by the individual Transmission Customer under this Tariff during the specific Month being billed.

As the Transmission Provider receives payments from its Transmission Customers for charges under Section II.B of this Schedule 10-FERC, these monies will be deposited as received in a segregated bank account and shall earn interest at the Transmission Provider's overnight bank rate. The interest earned monthly on all funds in this segregated bank account shall be used to reduce the next Month's Schedule 10 billing rate for all Transmission Customers.

III. COLLECTION OF CHARGES FROM WITHDRAWN TRANSMISSION OWNERS

The Transmission Provider shall invoice those Transmission Owners that have withdrawn pursuant to Article V of the ISO Agreement, on behalf of the withdrawn Transmission Owners' transmission customers, any remaining Schedule 10-FERC charges for which funds have not been collected for the period the transmission customers received services from the Transmission Provider. Because the Transmission Provider is invoiced in arrears by FERC, withdrawn Transmission Owners will be invoiced for such Schedule 10-FERC charges pursuant to Section II of this Schedule 10-FERC and Article V of the ISO Agreement after the applicable Transmission Owner has left the Transmission Provider organization.

To calculate the amount due from a withdrawn Transmission Owner on behalf of its transmission customers, the Transmission Provider will use the applicable transmission customers' MWh reported in the appropriate FERC 582 and apply the rate from the Annual FERC Assessment invoice for the applicable period the transmission customers obtained

Transmission Service from the Transmission Provider. The total amount due associated with those transmission customers' respective share of the Annual FERC Assessment is the amount calculated minus a credit for the assessment amounts previously invoiced and collected by the Transmission Provider from the transmission customers prior to the date of the applicable Transmission Owner's withdrawal.

No later than July 31, the Transmission Provider shall deliver to the withdrawn Transmission Owner a written statement setting forth the total amount owed for their respective transmission customers' portion of the Annual FERC Assessment as calculated above. No later than thirty (30) calendar days after delivery to the withdrawn Transmission Owners of the written statements setting forth the total amount owed for their transmission customers' portion of the Annual FERC Assessment, the withdrawn Transmission Owners shall pay on behalf of their transmission customers their applicable portion of the Annual FERC Assessment.

Any controversy, claim or dispute arising out of or in connection with this Annual FERC Assessment or its calculation shall be resolved pursuant to the dispute resolution procedures outlined in Attachment HH of the Tariff.

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2016-0156

The response to Data Request # 0160.1 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: June 24, 2016

Missouri Public Service Commission

Respond Data Request

Data Request No.	0197
Company Name	KCP&L Greater Missouri Operations Company-Investor (Electric)
Case/Tracking No.	ER-2016-0156
Date Requested	3/21/2016
Issue	Rate Base - Allocations
Requested From	Lois J Liechti
Requested By	Nathan Williams
Brief Description	Greenwood
Description	If the Commission decides to not consolidate KCP&L Greater Missouri Operation's (GMO) MPS and L&P rate districts, provide a detailed explanation of the allocation methodology GMO will utilize to allocate the Greenwood solar project costs, capital and expenses, to its MPS and L&P rate districts. Provide all supporting documentation. Data Request submitted by Karen Lyons (karen.lyons@psc.mo.gov).
Response	Please see the attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2016-0156** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **KCP&L Greater Missouri Operations Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **KCP&L Greater Missouri Operations Company-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

KCPL GMO
Case Name: 2016 GMO Rate Case
Case Number: ER-2016-0156

Response to Lyons Karen Interrogatories - MPSC_20160321
Date of Response: 04/08/2016

Question:0197

If the Commission decides to not consolidate KCP&L Greater Missouri Operation's (GMO) MPS and L&P rate districts, provide a detailed explanation of the allocation methodology GMO will utilize to allocate the Greenwood solar project costs, capital and expenses, to its MPS and L&P rate districts. Provide all supporting documentation. Data Request submitted by Karen Lyons (karen.lyons@psc.mo.gov).

Response:

If the Commission decides not to consolidate the MPS and L&P rate districts, GMO proposes to allocate Greenwood solar capital and expenses to MPS and L&P based on an energy allocator. This is based on the fact that the facility's generation will eventually be used to comply with the Missouri Renewable Energy Standard which requires a certain percentage of GMO retail load to be served by solar energy.

At this time, GMO proposes to use a fixed allocation based on 2015 retail MWh energy sales. For operational simplicity, this allocation would not change over time.

Rate Area	2015 Retail Sales (MWh)[1]	Allocation
MPS	5,938,816	74%
L&P	2,054,424	26%
Total	7,993,240	

[1]Source: December 2015 Report 1

Information Provided by: Burton Crawford

Attachment: Q0197_Verification.pdf

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2016-0156

The response to Data Request # 0197 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: April 8, 2016