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Marke/Surrebuttal

Public Counsel

EO-2014-0189

SURREBUTTAL TESTIMONY

OF

GEOFF MARKE

Submitted on Behalf of
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY
AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

Case No. EO-2014-0189

July 15, 2014

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light)
Company and KCP&L Greater Missouri)
Operations Company's Application for)
Approval of Cost Allocation Manual)

File No. EO-2014-0189

AFFIDAVIT OF GEOFF MARKE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Geoff Marke, of lawful age and being first duly sworn, deposes and states:

1. My name is Geoff Marke. I am a Regulatory Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.




Geoff Marke

Subscribed and sworn to me this 15th day of July 2014.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My commission expires August 23, 2017.

SURREBUTTAL TESTIMONY
OF
GEOFF MARKE
KANSAS CITY POWER & LIGHT COMPANY
&
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. EO-2014-0189

1 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

2 A. Dr. Geoff Marke, Economist, Office of the Public Counsel (OPC or Public Counsel), P.O.
3 Box 2230, Jefferson City, Missouri 65102.

4 **Q. ARE YOU THE SAME GEOFF MARKE THAT FILED REBUTTAL TESTIMONY**
5 **IN EO-2014-0189**

6 A. I am.

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

8 A. The purpose of this testimony is to respond to the Staff Report submitted as schedule 2 in
9 the rebuttal testimony of Staff witness Charles R. Hyneman specifically regarding KCPL
10 Solar, and to respond to Staff's proposed CAM submitted as attachment 1 in the same
11 testimony.

12

13

1 **Q. IS PUBLIC COUNSEL IN GENERAL AGREEMENT WITH STAFF'S REPORT?**

2 **A.** Yes, we are. We share many of the concerns expressed in the report and believe that Staff
3 has provided ample evidence to support the inclusion of a more robust CAM for KCP&L
4 and GMO.

5 **Q. DO YOU HAVE ANY CONCERNS WITH STAFF'S COMMENTS REGARDING**
6 **KCPL SOLAR WITHIN THE CONTEXT OF THE AFFILIATE TRANSACTION**
7 **RULES?**

8 **A.** On page 17 of Staff's Report the following assertion is made:

9 "Staff has heard allegations of preferential treatment being shown by KCPL to KCPL Solar
10 versus non-affiliated solar vendors in meetings involving the Missouri Energy Efficiency
11 Investment Act (MEEIA) cases but Staff has no evidence of such activity."

12 Public Counsel clarifies that solar energy production is not part of any of the Commission-
13 approved MEEIA cases. MEEIA cases focus on the promotion of energy efficiency and
14 demand-side management programs as a least-cost option for ratepayers. Solar energy
15 production on the other hand, is mandated through Missouri's Renewable Energy Standards
16 (RES) requirements. It is in that context, RES Standards not MEEIA cases, that Public
17 Counsel has heard the same allegations of preferential treatment as Staff asserts.

Public Counsel is currently reviewing these allegations and has submitted data requests to KCP&L and GMO regarding potential affiliate transaction violations with the non-regulated affiliate KCPL Solar.

Q. DO YOU HAVE ANY CONCERNS REGARDING STAFF'S PROPOSED CAM?

A. Public Counsel is in general agreement with Staff's proposed CAM. However, we have included two additional parts to TAB A (Introduction) on pages five and six which are underlined. This can be found in Schedule 1.

Q. PLEASE DESCRIBE YOUR PROPOSED AMENDMENTS TO STAFF'S CAM?

A. Public Counsel is concerned with the time lapse in reporting the creation or deletion of an affiliated entity (currently on an annual basis) and supports Staff's recommendation of a thirty-day notice. Additionally, we are concerned with what constitutes non-regulated activity. We are suggesting a revision of the following item on page five of TAB A (Introduction) of Staff's submitted CAM:

"Anytime there is 1.) an addition or deletion of an affiliated entity; 2.) an addition or deletion of an unregulated service provided by the regulated entity; or 3.) an addition or deletion of a regulated service for which a tariff has not been approved, the CAM Team will be notified within the day of the event."

According to the Company's December 2013 CAM filing there are two non-regulated subsidiaries—KLT Inc. and Great Plains Energy Services Incorporated (GPES) in the

1 KCP&L family of companies: “KLT Inc. is an intermediate holding company that has
2 investments in affordable housing limited partnerships, KCP&L Solar, Inc., a solar supplier
3 and various wholly-owned unregulated companies that have no active operations” (pg 2).

4 Public Counsel has concerns with the non-regulated subsidiary KLT Inc., and its various
5 wholly-owned unregulated companies that report no active operations. First, this concern
6 arises out of ambiguity regarding what is properly characterized as active and inactive
7 operations respectively. Further, the Company’s present organizational structure and the
8 extended period prior to a requirement to formally notify regulators creates a scenario where
9 these wholly-owned unregulated companies purportedly with no “active” operations (as of
10 the last CAM filing) could be recipients of financial advantages from their regulated
11 electrical corporation(s). The inclusion of the language above is designed to provide greater
12 transparency in affiliate transaction activity.

13 Per Staff’s recommendation, Public Counsel supports the creation of an internal CAM Team
14 consisting of a necessary number of trained employees to oversee the operations and
15 management of the Company’s affiliate transactions and to file periodic reports. As an
16 additional level of assurance to ensure that due diligence is performed in these and related
17 CAM activities, Public Counsel propose the following text at the conclusion of TAB A
18 (Introduction) on page 6:

19 “Either MOPSC Staff or Office of Public Counsel can request an independent attestation
20 engagement of the CAM related to non-regulated affiliates and activities. If approved by the

1 Commission, the costs of any independent attestation engagement with the CAM shall be
2 charged to the non-regulated operations involved in said attestation.”

3 In light of the number of examples presented in Staff’s Report including significant
4 concerns regarding the Company’s affiliate activities related to All Connect and KCPL
5 Solar, it is a reasonable protection for consumers that Public Counsel and Staff should have
6 the ability to request an independent attestation. This safeguard mechanism would work to
7 ensure compliance with the affiliate transaction rules and promote transparency with respect
8 to the Company’s interactions with its affiliates.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes, it does.
11
12

Kansas City Power & Light Company (KCP&L)**INTRODUCTION**

Great Plains Energy Incorporated (GPE), headquartered in Kansas City, Missouri, is a registered public utility holding company with two wholly owned direct utility subsidiaries—Kansas City Power & Light Company (KCP&L) and KCP&L Greater Missouri Operations Company (GMO) and three direct non-regulated subsidiaries. All GPE subsidiaries and affiliates are shown on the four (4) pages of Appendix A entitled GREAT PLAINS ENERGY INCORPORATED Organizational Structure. Only KCP&L employees operate and manage the business and properties of GPE and its affiliates as well as the non-regulated activities of KCP&L and GMO.

KCP&L is a regulated electric utility serving approximately 515,000 customers as of November 2013 in western Missouri and eastern Kansas and owns Kansas City Power & Light Receivables Company, a wholly-owned subsidiary to whom all its retail electric accounts receivables are sold through an affiliate transaction.

KCP&L is regulated by the Public Service Commission of the State of Missouri (MoPSC) and The State Corporation Commission of the State of Kansas (KCC) with respect to retail rates, certain accounting matters, standards of service and, in certain cases, the issuance of securities, certification of facilities and service territories. KCP&L is classified as a public utility under the Federal Power Act and is subject to regulation by the Federal Energy Regulatory Commission (FERC). KCP&L has a 47% ownership

1 interest in Wolf Creek Generating Station (Wolf Creek), which is regulated by the
2 Nuclear Regulatory Commission. KCP&L also has a 47% ownership interest in Wolf
3 Creek Nuclear Operating Corporation (WCNOC), which operates the Wolf Creek.

4
5 GMO operates two separate Missouri-based electric divisions —Missouri Public Service
6 (MPS) and St. Joseph Light and Power (L&P). GMO also wholly owns GMO
7 Receivables Company and MPS Merchant Services, Inc., an unregulated subsidiary
8 which has certain long-term natural gas contracts, and several unregulated subsidiaries
9 some of which that no longer have active operations. These unregulated subsidiaries
10 are.

MPS Gas Pipeline Corporation
MPS Platt County Power LLC
MOPUB Group Inc.
Golden Bear Hydro Inc
Energia Inc
G.B. Hydro Partners L.P.
Mega Renewables
LoJamo, LLC MO
MPS Finance Corp.
SJLP Inc.
Trans MPS, Inc.
MPS Europe, Inc.
MPS Canada Holdings, Inc.
Missouri Public Service Company
MPS Canada Networks Corp
MPS Canada Corp
MPS Sterling Holdings, LLC

11
12
13 GMO serves approximately 315,000 customers as of November 2013 and is regulated
14 by the MoPSC and FERC. In addition to providing electrical services, L&P also

1 provides industrial steam to a limited number of customers in the St. Joseph service
2 area.

3
4 In 2012, Transource Energy, LLC (Transource) was formed as a joint venture between
5 GPE and American Electric Power (AEP) to pursue competitive transmission projects.
6 GPE owns 13.5% of Transource through its wholly owned direct subsidiary GPE
7 Transmission Holding Company, LLC (GPTHC) with AEP owning the remaining 86.5%.
8 Transource Missouri, LLC, a wholly owned subsidiary of Transource, was formed for
9 regional transmission projects in Missouri. AEP will operate Transource and intends to
10 provide the majority of staff and services through its service company. However,
11 KCP&L and GMO provide certain services to Transource and will be reimbursed
12 consistent with the Stipulation and Agreement approved by the MoPSC in File No. EA-
13 2013-0098. A copy of the relevant pages of that Report and Order is attached as
14 Appendix D for ease of reference. .

15
16 GPE has two non-regulated subsidiaries-KLT Inc. and Great Plains Energy Services
17 Incorporated (GPES), a service company. KLT Inc. is an intermediate holding company
18 that has investments in affordable housing limited partnerships, KCP&L Solar, Inc., a
19 solar supplier and various wholly-owned unregulated companies that have no active
20 operations and only receive corporate governance services from KCP&L at this time.
21 Refer to Appendix A for the organizational chart identifying GPE and its affiliates.

1 This Cost Allocation Manual (CAM) is a requirement of the MoPSC Affiliate
2 Transactions Rule (4 CSR 240-20.015). This rule is intended to prevent MoPSC
3 regulated utilities from subsidizing their non-regulated operations. KCP&L will include in
4 its annual CAM the criteria, guidelines and procedures it will follow to be in compliance
5 with this rule. GPE recently completed a major upgrade of its accounting systems and
6 processes. The upgrade resulted in significant revisions to the accounting chart field
7 codes and to certain cost assignment allocations. Work will be completed by March 15,
8 2015 to identify the specific accounting needed to support the Affiliate Transactions
9 Rule and reported in the KCP&L and GMO's CAM filed by that date. These revisions,
10 effective July 1, 2013, are documented and explained in this CAM filing as TAB I
11 through TAB M. Future CAM filings will include a discussion of how these codes and
12 assignments are used to satisfy the Affiliate Transactions Rule requirements with actual
13 examples related to each type of affiliate transactions that occurred in the reporting
14 period.

15
16 It is the objective of the KCP&L and the GMO CAM to provide a high level of assurance
17 that KCP&L has implemented and is monitoring a set of criteria, guidelines, and
18 procedures that also provides a high level of assurance that KCP&L and GMO are not
19 subsidizing their affiliated activities or non-regulated operations to the detriment of their
20 regulated electric customers in Missouri.

21
22 In 2014, KCP&L will create a fully- functioning CAM Team consisting of a necessary
23 number of trained employees to oversee the operations and management of KCP&L's

1 affiliate transactions. The CAM team will ensure that all affiliate transactions are either
2 consistent with the MoPSC's Affiliate Transactions Rule or KCP&L has followed the
3 required variance procures to allow KCP&L to participate in non-complying affiliate
4 transactions.

5
6 KCP&L will apply for a waiver from applicable affiliate transaction requirements
7 consistent with the process specified in 4 CSR 240-20.015(10) or it will not participate in
8 the noncomplying affiliate transaction as required in 4 CSR 240-20.015(2)(D).

9
10 Future CAM submittals will identify the KCP&L management position that is responsible
11 for the overall governance and enforcement of CAM preparation and implementation of
12 criteria, guidelines, and procedures necessary to provide full compliance with the
13 MoPSC's Affiliate Transactions Rule.

14
15 ~~The CAM Team will be involved in decision-making regarding all affiliate~~
16 ~~transactions to the extent necessary to ensure that these decisions will be based~~
17 ~~on information regarding complying with the MoPSC's Affiliate Transactions Rule.~~

18
19 Anytime there is 1) an addition or 2) a deletion of an affiliated entity or non-
20 regulated, the CAM Team will be notified within the day of the event.

21 Anytime there is 1.) an addition or deletion of an affiliated entity; 2.) an addition or
22 deletion of an unregulated service provided by the regulated entity; or 3.) an

1 addition or deletion of a regulated services for which a tariff has not been
2 approved, the CAM Team will be notified within the day of the event.

3
4 All additions to or deletions of affiliated entities / non-regulated activities will be
5 submitted in writing to the MoPSC's Staff Counsel's Office within thirty (30) of the event
6 occurring. The purpose for this reporting is to notify the MoPSC Staff of the change to
7 manage their expectations regarding the next CAM filings and allow the Staff to notify
8 KCP&L of potential problems that may have not been considered, thus improving the
9 quality assurance of KCP&L and GMO's future CAMs and avoiding other problems
10 such as noncomplying affiliate transactions.

11
12 Either MoPSC Staff or Office of Public Counsel can request an independent attestation
13 engagement of the CAM related to non-regulated affiliates and activities. If approved by
14 the Commission, the costs of any independent attestation engagement with the CAM
15 should be charged to the non-regulated operations involved in said attestation.