**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

REBUTTAL TESTIMONY OF

LINDA J. NUNN

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MAKE CERTAIN CHANGES IN
ITS CHARGES FOR ELECTRIC SERVICE**

DOCKET NO. 17-KCPE-201-RTS

I. INTRODUCTION

Q: Are you the same Linda J. Nunn who provided Direct Testimony on behalf of Kansas City Power & Light Company ("KCP&L" or "Company") in this case?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to address the rate base and income statement adjustments to the Company's cost of service as proposed by Kansas Corporation Commission Staff ("Staff") witnesses Andria Jackson and Joshua Frantz and Citizens' Utility Ratepayer Board ("CURB") witness Andrea Crane.

II. RATE BASE ADJUSTMENTS

RATE BASE ADJUSTMENT NO. RB-1 – PLANT IN SERVICE

Q: Do you agree with the adjustment made by Staff to rate base relating to plant.

A: Yes, the Company agrees with the update to actuals through February 28, 2017 adjustment made by Staff.

RATE BASE ADJUSTMENT NO. RB-2 – ACCUMULATED DEPRECIATION

Q: Do you agree with the adjustment made by Staff to rate base relating to Accumulated Depreciation?

A: Yes, the Company agrees with the update to actuals through February 28, 2017 adjustment made by Staff.

RATE BASE ADJUSTMENT NO. RB-3 – ACCUMULATED DEFERRED INCOME TAXES

Q: Do you agree with Staff's rate base Adjustment No. RB-3 adjusting for accumulated deferred income taxes ("ADIT")?

A: Yes, the Company agrees with the update to actuals through February 28, 2017 adjustment made by Staff.

III. INCOME STATEMENT ADJUSTMENTS

INCOME STATEMENT ADJUSTMENT NO. IS-1 – RATE MIGRATION REVENUE

Q: Do you agree with Staff's income statement Adjustment No. IS-1 removing the adjustment to mitigate the revenue impact of rate migration from the rate design of the previous rate case?

A: No, however, Staff witness Joshua Frantz has indicated that this adjustment will be updated as further actual information becomes available, which was not available at the time Staff drafted its testimony. The Company is in agreement that Staff should make an appropriate adjustment to account for the revenue lost due to the migration of customers to more favorable rates as ordered in the Company's last rate case. Please see Company witness Marisol Miller's Rebuttal Testimony in this case for further discussion on this issue.

INCOME STATEMENT ADJUSTMENT NO. IS-2 – MIRGRATION REGULATORY ASSET AMORTIZAITON

Q: Do you agree with Staff's income statement Adjustment No. IS-2 removing the adjustment to establish the amortization of the regulatory asset established as ordered in Docket No. 15-KCPE-116-RTS?

A: No, however, Staff witness Joshua Frantz has indicated that this adjustment will be updated as further actual information becomes available. This adjustment was agreed to as part of the settlement agreement and migration procedural filings approved in Docket No. 15-KCPE-116-RTS ("15-116 Docket" and "15-116 S&A").[1] The Company is in agreement that Staff should make an appropriate adjustment to account for the amortization of the amounts deferred to a regulatory asset relating to the revenue lost due to the migration of customers to more favorable rates from the effective date of rates in the 15-116 Docket through the last full calendar month prior to the date of the prehearing conference in this abbreviated case. The last full calendar month prior to the date of the prehearing conference in this abbreviated case would be March 2017. Please see Company witness Marisol Miller's Rebuttal Testimony in this case for further discussion on this issue.

[1] *See* 15-116 Docket, *Order on KCP&L's Application for Rate Change*, issued Sep. 10, 2015; *Order Granting Joint Motion for Approval of Process to Implement Migration Adjustment*, issued Oct. 27, 2015; and *Order Granting Joint Motion for Approval of Modified Process to Implement Migration Adjustment*, issued Mar. 3, 2016.

<u>INCOME STATEMENT ADJUSTMENT NO. IS-3 – DEPRECIATION EXPENSE</u>

Q: Do you agree with Staff's income statement Adjustment No. IS-3 which adjusts depreciation expense?

A: Yes, the Company agrees with adjusting depreciation expense to coincide with the adjusted level of plant in service as discussed above.

<u>INCOME STATEMENT ADJUSTMENT NO. IS-4 – AMORTIZATION EXPENSE</u>

Q: Do you agree with Staff's income statement Adjustment No. IS-4 which adjusts amortization expense?

A: Yes, and no.

Q: Please explain.

A: Staff witness, Andria Jackson has broken down Staff Adjustment No. IS-4 into four sections represented by Ms. Jackson's exhibits to her testimony identified as Exhibit ANJ-5(a)-ANJ 5(d).

Q: Do you agree with the adjustment proposed in Exhibit ANJ-5(a)?

A: Yes, the Company agrees with the adjustment to amortization made as a result of updating the budgeted plant regulatory liability to actual La Cygne Environmental Project costs at February 28, 2017.

Q: Do you agree with the adjustment represented in Exhibit ANJ-5(b)?

A: Exhibit ANJ-5(b) relates to updating the amortization over three years of the projected regulatory liability for the over-under collected amounts associated with the budgeted versus actual La Cygne Environmental Project costs from the effective date of new rates in the 15-116 Docket to February 28, 2017. The regulatory liability is made up of the return on component and depreciation expense component of the La Cygne

Environmental Project investment, as well as accrued interest. The Company agrees with each of the components of Staff's calculation except for the rate used to accrue interest on the investment.

Q: Do you agree with the adjustment represented in Exhibit ANJ-5(c) and ANJ-5(d)?

A: Just as in Exhibit ANJ-5(b) discussed above, the Company agrees with each of the components of the Staff's calculation except for the rate used to accrue interest.

Q: What rate does Staff use to accrue interest on these deferred balances?

A: Staff uses the rate of return ("ROR") as established in the 15-116 Docket.

Q: Why is this incorrect?

A: Staff should have used the after-tax weighted average cost of capital which would be the pre-tax ROR reduced by the impact of income taxes. On page 19 of Ms. Jackson's Direct Testimony in this case, she quotes a portion of the Joint Application in Docket No. 15-GIME-025-MIS (the "15-025 Docket"). The 15-025 Docket is where the Commission granted approval of KCP&L's request to file this abbreviated rate case. The Joint Application provides:

> In the event of an over-collection, the total over-collected amount, including annual interest at a rate equal to the ***after-tax* weighted average cost of capital** as determined in the 2015 rate case on the over- collected amount, will be calculated. The total refund amount will be applied as an amortization to cost of service over a three-year period, instead of as a refund on bills, and will be incorporated in rates effective from the abbreviated rate case."[2] (Emphasis added.)

Note that the quote above says that the *after-tax* weighted average cost of capital will be used to calculate interest on the over-collected amount. Staff has used ROR which would

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[2] *Joint Application of Kansas City Power & Light Company, Westar Energy, Inc., Kansas Gas and Electric Company, Commission Staff and CURB Regarding Timing and Process for Inclusion of La Cygne Environmental Project into Rate Base*, 15-025 Docket, ¶ 19, p. 11 (July 21, 2014).

be the weighted average cost of capital without tax consequences. Please see my Schedule LJN-5 for the calculation of the pre-tax ROR and the after-tax ROR. The pre-tax ROR grosses up the ROR and is used to calculate the return on the outstanding deferred balances as a revenue requirement. Then the after-tax ROR is used to determine the carrying costs or interest that should be added to the balance based on the Company's after-tax cost of capital. The Joint Application, which was signed by Staff and approved by the Commission and was quoted by Staff witness Jackson in her Direct Testimony in this case, specifically states that the Company will include annual interest at the **after-tax weighted average cost of capital** rate. The Company has complied with the Commission's Order while Staff has not. Ms. Jackson has mistakenly asserted that ROR, without consideration of the full tax impact, should be used as the interest rate in this case.

Q: Do you agree with Ms. Jackson when she says on page 20 of her testimony that this type of calculation is used in corporate finance applications, but is not appropriate or useful in the rate-setting process?

A: No. Ms. Jackson is in error when she makes this statement. As you can see in the calculation on my Schedule LJN-5, this calculation is necessary to move from a non-tax impacted ROR as approved by the Commission in its order for the 15-116 Docket to the pre-tax ROR needed to support the return on the deferred balance as well as the after-tax ROR that was approved to be used as interest on the deferred balance.

Q: Do you agree with Ms. Jackson's assertion that the interest rate calculated by the Company is nowhere in the record and therefore should not be used.

A: No. All of the inputs into the calculation can be found in the Final Order, its attachments and Staff's final Accounting Schedules in the 15-116 Docket. The calculation of the interest is just that, a calculation, based upon ordered inputs from the 15-116 Docket. Moreover, the use of the after-tax weighted average cost of capital was agreed to by Staff and ordered by the Commission in its September 9, 2009 "Order Approving Joint Application." Ordered paragraph B states that KCP&L shall utilize Budget Treatment with depreciation deferral for the La Cygne project as described in the Joint Application.

INCOME STATEMENT ADJUSTMENT NO. IS-5 – LA CYGNE OBSOLETE INVENTORY AMORTIZATION

Q: Do you agree with Staff's income statement adjustment No. IS-5 which removes the amortization for obsolete inventory as a result of the La Cygne Environmental Project?

A: The Company accepts Staff's position on this issue.

Q: Does CURB witness Andrea Crane propose a similar adjustment?

A: Yes. Ms. Crane proposes the same adjustment as Staff, and the Company accepts this position.

INCOME STATEMENT ADJUSTMENT NO. IS-6 – INCOME TAXES

Q: Do you agree with Staff Adjustment No. IS-6 related to the calculation of the income tax impact on Staff Adjustments?

A: No, Staff inadvertently included the amortization from Staff Adjustment No. IS-2 Migration Regulatory Asset, Staff Adjustment IS-4 La Cygne Budget Depreciation Deferral Regulatory Liability and Staff Adjustment No. IS-4 Wolf Creek Budget

Regulatory Liability as an add-back to Net Income before Taxes in its calculation of income taxes, *SCHEDULES; PREPARED BY STAFF; UTILITIES DIVISION KANSAS CORPORATION COMMISSION*, Schedule B-4, Line 3. Also on Staff's Schedule B-4, Staff inadvertently did not update Line 57, Tax Straight Line Amortization for the General Plant Amortization amount on Staff Adjustment No. IS-4. Per conversation with Staff witness, Andria Jackson, Staff will make the above corrections at the same time as the Migration adjustments are updated. The correction for Adjustment IS-6 will change Revenue Requirement by reducing the rate reduction by $61,474.

IV. OVERALL REVENUE REQUIREMENT

Q: After updating the Company's revenue requirement calculation and consideration of Staff's proposed adjustments, what is the Company's revised revenue requirement calculation?

A: The Company's revised revenue requirement calculation is ($3,585,582).

Q: What are the current differences between Staff's and Company's case at this point?

A: The differences between Staff's and Company's case at the time of this Rebuttal testimony is Rate Migration Revenue $399,736, Migration Regulatory Asset Amortization $127,417, the Rate used to accrue interest $18,474 and Staff's tax calculation errors $61,474.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company to Make Certain Changes in Its Charge for Electric Service	)	**Docket No. 17-KCPE-201-RTS**

AFFIDAVIT OF LINDA J. NUNN

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Linda J. Nunn, being first duly sworn on his oath, states:

1. My name is Linda J. Nunn. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Supervisor, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

Linda J. Nunn
Linda J. Nunn

Subscribed and sworn before me this 18th day of April, 2017.

Nicole A. Wehry
Notary Public

My commission expires: Feb 4, 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200

Kansas City Power & Light Company
2016 KS Abbreviated Rate Case
Rebuttal Testimony

LINE NO.	DESCRIPTION	TOTAL COMPANY	CAPITALIZATION RATIO'S	COST OF CAPITAL	WEIGHTED COST OF CAPITAL/ROR	TAX FACTOR	PRE-TAX ROR	TAX FACTOR	AFTER-TAX WEIGHTED COST OF CAPITAL
*******	*************************	*************	************	***********	***********	***********	***********	***********	***********
		A	B	C	D	E	F	G	H
1	LONG TERM DEBT	$3,487,920	48.9703%	5.5543%	2.7200%		2.7200%	0.604500	1.6442%
2	PREFERRED STOCK	$39,000	0.5476%	4.2913%	0.0235%	0.604500	0.0389%	0.604500	0.0235%
3	COMMON EQUITY	$3,595,605	50.4822%	9.3000%	4.6948%	0.604500	7.7664%	0.604500	4.6948%
4	TOTAL	$7,122,525	100.0001%		7.4383%		10.5253%		6.3625%

E = 1 minus the Tax Rate
F = D divided by E
G = 1 minus the Tax Rate
H = F times G