

Received
on

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

MAY 14 2012

by
State Corporation Commission
of Kansas

In the Matter of the Application of)
The Kansas Power Pool ("KPP"), A)
Municipal Energy Agency, for Approval) Docket No. 12-KPPE-630-MIS
of Its Annual Transmission Revenue)
Requirement (ATRR) For Its Transmission)
Facilities)

RESPONSIVE TESTIMONY OF PAUL D. REISING

ON BEHALF OF THE KANSAS POWER POOL

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

2 A. Paul D. Reising, 8409 Quail Hollow Road, Indianapolis, Indiana 46260-2206.

3 **Q. DID YOU PREVIOUSLY PRESENT DIRECT TESTIMONY AND YOUR**
4 **QUALIFICATIONS IN THIS PROCEEDING?**

5 A. Yes, I submitted direct testimony in this proceeding on February 17 2012. My
6 qualifications were including in Exhibit ____ PDR-1.

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

8 A. I have been asked by Kansas Power Pool ("KPP") to provide comments in
9 response to the KCC Staff Report and Recommendation issued in this proceeding
10 on May 4, 2012.

11 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR RESPONSIVE**
12 **TESTIMONY.**

1 A. KPP's application in this proceeding should be put in perspective with regard to
2 the effect that it will have on the FERC-jurisdictional rate for the Westar
3 Transmission Pricing Zone under the Southwest Power Pool, Inc. ("SPP") Open
4 Access Transmission Tariff ("Tariff").

5 The proxies used to develop the Annual Transmission Revenue Requirement
6 ("ATRR") for the transmission facilities of the City of Winfield are ultimately
7 reasonable.

8 **Q. YOUR OVERVIEW STATES THAT KPP'S APPLICATION NEEDS TO**
9 **BE PUT IN PERSPECTIVE. PLEASE EXPLAIN.**

10 A. In its application in this proceeding, KPP has submitted an initial ATRR of
11 \$432,438, with that ATRR to be recomputed annually using a transmission
12 formula rate or "TFR," as that acronym is used by KCC Staff. There is no stand-
13 alone transmission rate that KPP itself will charge. Instead, KPP's filing reflects
14 an ATRR that will be added to the aggregate annual transmission revenue
15 requirement of Westar Energy and any other transmission owners within the
16 Westar transmission pricing zone under the FERC-jurisdictional SPP Tariff. The
17 currently effective ATRR of Westar is \$156.5 million (Westar Energy 20111015
18 True-Up Update (2012 Rate)). Inclusion of KPP's ATRR of \$432,438 would
19 increase the total ATRR for the Westar transmission pricing zone by 0.28% and
20 increase the Westar Zonal rate by less than 1 cent per kW per month (\$0.0086 per
21 kW per month based on an annual load divisor of 4,199 MW). Thus, the effect of
22 the initial ATRR for KPP on the Westar zonal transmission rate charged by SPP is
23 insignificant.

1 **Q. ARE YOU SUGGESTING THAT THE KPP ATRR BE ACCEPTED BY**
2 **THE KCC SIMPLY BECAUSE IT HAS A DE MINIMIS IMPACT?**

3 A. Not at all. Setting aside the issue of regulatory jurisdiction in this matter, my
4 point is that in the end the initial ATRR applicable to the Winfield transmission
5 facilities, whether that determination is made before the KCC or the FERC, does
6 not require an exacting determination, but ultimately must only be shown to be
7 reasonable. For reasons stated in my Direct Testimony and here, KPP's approach
8 to defining its initial ATRR and its TRF are reasonable and if anything,
9 conservative.

10 **Q. YOU STATED THAT RATES IN THIS CASE DO NOT REQUIRE AN**
11 **EXACTING DETERMINATION. WHY NOT?**

12 A. In my over 35 years of experience in wholesale rate and contract matters before
13 the FERC, one thing is clear: in proceedings before that commission actual costs
14 for the year or years in which the rate is in effect are rarely known. I have
15 encountered many circumstances, including current proceedings before that
16 commission, in which actual asset data and operating expenses are not known, but
17 must be estimated or for which proxies are required. In those cases, the
18 commission does not simply dismiss such rate applications because actual cost
19 data is not known; instead, the commission and other participants must determine
20 the reasonableness of the proxies and/or estimates used and if those proxies and/or
21 estimates are determined not to be reasonable, to find alternative approaches that
22 do meet that test. Many wholesale rates, whether bundled or unbundled, have
23 been accepted by the FERC and under that commission's rules and procedures

1 have been based entirely on estimates. In such cases, the burden is on the
2 applicant to show that its estimates were reasonable when made, while at the same
3 time interveners and commission staff are free to demonstrate that alternative
4 estimates are more reasonable. Ultimately the commission has to decide from the
5 evidence presented what the reasonable components of revenue requirements
6 should be.

7 **Q. YOU STATED THAT KPP'S USE OF PROXIES IN ITS ATRR**
8 **DETERMINATION IS REASONABLE. PLEASE EXPLAIN.**

9 **A.** I believe that to be the case for the following reasons. First, the proxies for O&M,
10 A&G, payments in lieu of property taxes and return on investment are based on
11 Westar cost parameters and therefore reasonable when compared to that of the
12 host transmission owner in the Westar transmission pricing zone. I think that is
13 particularly true given the insignificant effect that KPP ATRR would have on the
14 Westar zonal transmission rate.

15 Second, I have compared the proxies I recommended be applied for the Winfield
16 facilities against the actual expense-to-plant ratios for 20 municipal electric
17 systems or municipal joint action agencies within the Midwest ISO region. I
18 used data from municipal electric systems within MISO because their formula
19 rate templates are readily available on the MISO website and the fact that there is
20 a large number of such systems from which to draw inference as to the
21 reasonableness of the values used here for the Winfield facilities. My analysis of
22 the data for the MISO municipal systems is presented in Exhibit ___ PDR-7 and
23 summarized in the following table:

1

	O&M%	A&G%	Payments In Lieu of Property taxes	Total %	Type	
1 Atlantic Municipal Utilities	6.1%	2.5%	1.0%	9.6%	Municipal	
2 Blue Earth	1.6%	1.0%	1.3%	3.8%	Municipal	Non-Joint
3 Cedar Falls Utilities	2.5%	1.0%	0.7%	4.3%	Municipal	
4 City of Columbia, Missouri, Water and Light Department	0.6%	1.7%	1.0%	3.4%	Municipal	Non-Joint
5 CITY WATER, LIGHT AND POWER - Springfield, Illinois	1.1%	1.8%	0.2%	3.2%	Municipal	Non-Joint
6 Delano	0.1%	0.3%	0.0%	0.4%	Municipal	Non-Joint
7 Elk River	1.4%	2.5%	0.0%	3.9%	Municipal	Non-Joint
8 Grand Haven	1.2%	0.1%	1.1%	2.3%	Municipal	Non-Joint
9 INDIANA MUNICIPAL POWER AGENCY	3.1%	1.3%	0.4%	4.9%	Agency	
10 Michigan Public Power Agency	7.4%	1.9%	0.0%	9.3%	Agency	
11 Missouri River Energy Services	5.9%	2.4%	0.3%	8.6%	Agency	
12 Mountain Lake	1.6%	1.0%	1.4%	4.1%	Municipal	Non-Joint
13 Municipal Energy Agency of Nebraska	0.0%	2.5%	0.3%	2.8%	Agency	
14 MUSCATINE POWER AND WATER	5.2%	2.8%	0.1%	8.1%	Municipal	Non-Joint
15 Southern Minnesota Municipal Power Agency	3.5%	2.6%	1.5%	7.6%	Agency	
16 TRAVERSE CITY LIGHT AND POWER	1.1%	0.4%	2.5%	4.0%	Municipal	Non-Joint
17 Waverly Light and Power	2.2%	1.1%	1.8%	5.2%	Municipal	
18 Willmar Municipal Utilities	1.8%	0.8%	2.8%	5.4%	Municipal	Non-Joint
19 Windom	6.9%	1.4%	1.8%	10.1%	Municipal	Non-Joint
20 Zeeland	7.2%	5.4%	0.8%	13.4%	Municipal	Non-Joint
21 Average	3.0%	1.7%	1.0%	5.7%		
22 Weighted Average	3.4%	2.0%	0.7%	6.1%		
23 Agencies	4.0%	2.1%	0.5%	6.6%		
24 Municipals	2.7%	1.6%	1.1%	5.4%		
25 Municipals with Non-Joint Owned Facilities	2.5%	1.6%	1.1%	5.2%		
26 Proxies Proposed for KPP/Winfield Initial TFR	1.62%	0.72%	0.91%	3.25%		

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The above table shows that no matter how the municipal systems are aggregated and compared (that is all municipal systems, non-agency systems or municipals with non-joint-owned facilities), the proxies I recommended be applied to the Winfield facilities for the initial ATRR are below the average for all groupings of municipal systems and when the totals for all three expense components are compared, the proxies for Winfield are substantially below the average for the MISO municipal systems. The table shows that out of the 20 MISO area municipal systems, 17 out of the 20 have total O&M, A&G and in-lieu property tax payments that are greater than that proposed for the Winfield facilities.

1 Third, use of proxy values for O&M, A&G and payments in lieu of property taxes
2 will only be necessary until the City of Winfield can record and document its
3 actual transmission-related expenses and populate its TFR with such data.

4 Fourth, an alternative approach would be to use Winfield actual cost data for its
5 total electric system and allocate those costs between transmission and
6 distribution functions based on the split in total electric system gross plant in
7 service between transmission and distribution. As I pointed out in my Direct
8 Testimony, had that approach been applied here, Winfield's ratio of O&M plus
9 A&G compared to electric system gross plant in service would have been 8.9% –
10 more than three times higher than the combined 2010 O&M and A&G factor of
11 2.34% that results from use of the Westar proxy. A similar result would occur for
12 payments made in lieu of property taxes. Repeating my Direct Testimony,
13 Winfield's total electric system payments in lieu of property taxes for 2010
14 amounted to 2.9% of total electric gross plant in service, while KPP's Westar-
15 based proxy value of less than 1% of gross plant is considerably lower.

16 **Q. YOUR DISCUSSION DEALT WITH PROXIES FOR O&M, A&G AND**
17 **LIEU PROPERTY TAX PAYMENTS. WHAT ABOUT DEPRECIATION**
18 **EXPENSE AND RATE OF RETURN? PLEASE EXPLAIN WHY THOSE**
19 **PROXIES ARE REASONABLE.**

20 A. With regard to depreciation expense, I did not see anything in the Staff Report
21 indicating that there was an issue with the depreciation expense ratio applied in
22 the KPP TFR. The Westar expense ratio of 2.36% represents a depreciation of
23 over 40 years for transmission facilities and is a reasonable proxy.

1 **Q. PLEASE CONTINUE REGARDING THE RATE OF RETURN APPLIED**
2 **IN THE KPP TFR.**

3 **A.** I have several comments in that regard. First, in my direct testimony I provided
4 substantial support for the approach taken in the KPP TFR regarding rate of
5 return. I provided discussion of and citations to important FERC cases that set the
6 standards for the rate of return and/or the equity component for integrated
7 transmission assets owned by municipal electric systems like Winfield. I will not
8 repeat that discussion here as it is readily available at pages 13 to 15 of my Direct
9 Testimony.

10 Second, the Staff report makes only passing mention of the rate of return element
11 of ATRR. The Staff report stated the following:

12 As opposed to earning a rate of return on ratebase as is the case
13 with investor owned utilities, municipal systems' revenue
14 requirements are routinely determined by allowing a margin over
15 and above operating expenses. Staff has not determined which
16 revenue requirement paradigm would best fit Winfield's situation.
17

18 I disagree with Staff that the only way to compute revenue requirements for
19 municipal systems is by allowing a margin over and above operating expenses as
20 opposed to earning a rate of return on ratebase. The method for determining
21 revenue requirements depends on the accounting system employed by the
22 applicable electric systems. While some report their financial results on a cash
23 basis, many other municipal electric systems use an accrual method of
24 accounting. Those employing the latter method record depreciation expense
25 AND earn a return on net depreciated plant in service. Referring back to the table
26 of MISO area municipal electric systems I presented earlier, of the 20 municipal

1 systems in the list, 16 keep their books on an accrual basis and, as a result, earn a
2 return on ratebase for transmission assets. In fact, MISO allows the use of two
3 different formula rate templates; one for accrual basis municipal electric systems
4 and one for cash basis systems. I note that SPP has also posted similar formula
5 rates templates for municipal electric systems.

6 The third point I would make is that using the Westar overall return as a proxy for
7 KPP's TFR adds another layer of conservatism to the ATRR for the Winfield
8 facilities. That is, Winfield's electric system has no outstanding debt meaning
9 that its net assets are capitalized 100% with proprietary capital. As the
10 Commission is well aware, equity capital generally has a higher return rate than
11 debt. Using Westar's overall return imputes a significant lower-cost debt
12 component to the capital mix.

13 **Q. AT THE END OF ITS REPORT, KCC STAFF STATES THAT**
14 **“WITHOUT KNOWING WHAT THE OWNER OF THOSE ASSETS**
15 **ACTUALLY INVESTED IN THE ASSETS AND HOW MUCH THE**
16 **OWNER SPENDS TO OPERATE ASSETS, WE CANNOT KNOW IF THE**
17 **REVENUE REQUIREMENTS ARE REASONABLE.” WHAT COMMENT**
18 **DO YOU HAVE IN RESPONSE?**

19 **A.** I disagree with the premise of Staff's comment that we do not know what the City
20 of Winfield invested in transmission assets. As described in detail in my Direct
21 Testimony and as supported by Exhibit ___ PDR-5, KPP used an accepted
22 methodology to determine the gross plant in service and net depreciated book
23 value of its transmission assets. As I noted in my Direct Testimony, the gross

1 plant in service per mile of Winfield's 69 kV lines is less than that of the Westar
2 Companies.

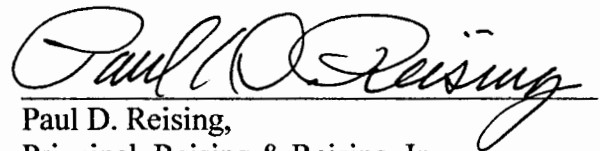
3 **Q. DOES THIS CONCLUDE YOUR RESPONSIVE TESTIMONY?**

4 **A.** Yes, it does.

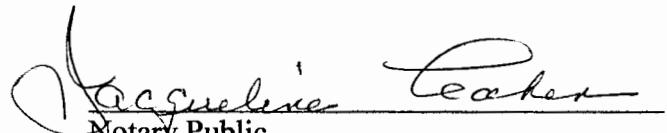
STATE OF INDIANA)
)ss.
COUNTY OF MARION)

VERIFICATION

Paul D. Reising, being duly sworn upon his oath deposes and states that he is a principal in the consulting firm of Reising & Reising, Inc., and a witness for the Kansas Power Pool; that he has read and is familiar with the foregoing Responsive Testimony, and attests that the statements contained therein are true and correct to the best of his knowledge, information, and belief.


Paul D. Reising,
Principal, Reising & Reising, Inc.

Subscribed and sworn to me this 10 day of May, 2012.


Notary Public

My Appointment Expires:

8-11-17



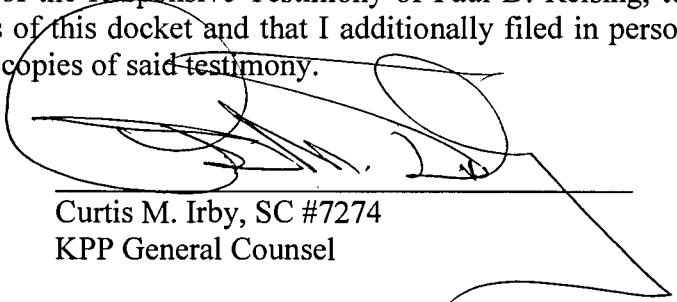
JACQUELINE COHEN, NOTARY PUBLIC
MY COMMISSION EXPIRES: 8/11/2017
MY COUNTY OF RESIDENCE: MARION

Exhibit ___ PDR-7 -- Comparative Ratio of Expense to Plant for MISO Municipal Systems

	Trans. Plant	O&M	A&G	Property Taxes and PILOT	O&M%	A&G%	PILOT%	Total %	Type
1 Atlantic Municipal Utilities	1,995,573	121,833	49,527	20,380	6.1%	2.5%	1.0%	9.6%	Municipal
2 Blue Earth	2,028,040	31,569	20,619	25,854	1.6%	1.0%	1.3%	3.8%	Municipal Non-Joint
3 Cedar Falls Utilities	9,795,382	249,653	95,987	72,311	2.5%	1.0%	0.7%	4.3%	Municipal
4 City of Columbia, Missouri, Water and Light Department	31,426,954	195,779	540,518	326,017	0.6%	1.7%	1.0%	3.4%	Municipal Non-Joint
5 CITY WATER, LIGHT AND POWER - Springfield, Illinois	75,053,607	829,996	1,386,897	150,028	1.1%	1.8%	0.2%	3.2%	Municipal Non-Joint
6 Delano	2,738,706	1,575	8,343	0	0.1%	0.3%	0.0%	0.4%	Municipal Non-Joint
7 Elk River	474,277	6,785	11,795	0	1.4%	2.5%	0.0%	3.9%	Municipal Non-Joint
8 Grand Haven	1,733,828	20,202	1,419	18,371	1.2%	0.1%	1.1%	2.3%	Municipal Non-Joint
9 INDIANA MUNICIPAL POWER AGENCY	81,285,538	2,522,117	1,059,697	360,888	3.1%	1.3%	0.4%	4.9%	Agency
10 Michigan Public Power Agency	51,284,525	3,788,839	995,132	0	7.4%	1.9%	0.0%	9.3%	Agency
11 Missouri River Energy Services	59,089,426	3,464,861	1,411,116	176,639	5.9%	2.4%	0.3%	8.6%	Agency
12 Mountain Lake	449,034	7,299	4,492	6,507	1.6%	1.0%	1.4%	4.1%	Municipal Non-Joint
13 Municipal Energy Agency of Nebraska	10,432,072	1,568	257,970	32,411	0.0%	2.5%	0.3%	2.8%	Agency
14 MUSCATINE POWER AND WATER	11,989,283	617,589	338,601	12,240	5.2%	2.8%	0.1%	8.1%	Municipal Non-Joint
15 Southern Minnesota Municipal Power Agency	97,749,581	3,376,729	2,568,078	1,504,278	3.5%	2.6%	1.5%	7.6%	Agency
16 TRAVERSE CITY LIGHT AND POWER	12,619,530	137,511	51,294	319,910	1.1%	0.4%	2.5%	4.0%	Municipal Non-Joint
17 Waverly Light and Power	1,333,908	29,807	14,904	24,315	2.2%	1.1%	1.8%	5.2%	Municipal
18 Willmar Municipal Utilities	12,797,974	225,636	105,759	364,081	1.8%	0.8%	2.8%	5.4%	Municipal Non-Joint
19 Windom	518,284	35,726	7,244	9,510	6.9%	1.4%	1.8%	10.1%	Municipal Non-Joint
20 Zeeland	7,531,461	540,532	406,000	62,593	7.2%	5.4%	0.8%	13.4%	Municipal Non-Joint
21 Average					3.0%	1.7%	1.0%	5.7%	
22 Weighted Average					3.4%	2.0%	0.7%	6.1%	
23 Agencies					4.0%	2.1%	0.5%	6.6%	
24 Municipals					2.7%	1.6%	1.1%	5.4%	
25 Municipals with Non-Joint Owned Facilities					2.5%	1.6%	1.1%	5.2%	
26 Proxies Proposed for KPP/Winfield Initial TFR					1.62%	0.72%	0.91%	3.25%	

CERTIFICATE OF SERVICE

I, Curtis M. Irby, KPP General Counsel, hereby certify that on this 14th day of May, 2012, I caused a true and correct copy of the Responsive Testimony of Paul D. Reising, to be served electronically upon to the parties of this docket and that I additionally filed in person at the KCC docket room the original and 7 copies of said testimony.



A handwritten signature in black ink, appearing to read "Curtis M. Irby", is written over a horizontal line. The signature is somewhat stylized and includes a large loop on the right side.

Curtis M. Irby, SC #7274
KPP General Counsel