

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

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

**STAFF TESTIMONY IN SUPPORT OF
UNANIMOUS SETTLEMENT AGREEMENT**

PREPARED BY

ANDRIA N. JACKSON

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

April 26, 2017

1 **Q. Please state your name and business address.**

2 A. My name is Andria N. Jackson and my business address is 1500 Southwest
3 Arrowhead Road, Topeka, Kansas, 66604.

4

5 **Q. Are you the same Andria N. Jackson who filed direct testimony in this docket**
6 **on April 6, 2017?**

7 A. Yes.

8

9 **Q. What is the purpose of your testimony?**

10 A. I am testifying on behalf of the Staff of the Kansas Corporation Commission
11 (Staff and Commission, respectively) in support of the settlement of the issues
12 outlined in the Unanimous Settlement Agreement (Agreement) between Kansas
13 City Power & Light (KCP&L), the Citizens' Utility Ratepayers Board (CURB),
14 and Staff (collectively, the Parties).¹

15 My testimony will explain why the Commission should approve the
16 Agreement as a reasonable resolution of the issues in this docket, which will
17 produce just and reasonable rates. Specifically, I will:

- 18 • Provide background information about this docket;
19 • Provide an overview and discussion of the Agreement;

¹ *Joint Motion to Approve Unanimous Settlement Agreement and Modify Procedural Schedule*, Docket No. 17-KCPE-201-RTS (April 25, 2017).

- 1 • Discuss the standard of review used to guide the Commission in its
- 2 consideration of whether to accept the Agreement²; and
- 3 • Discuss the evidence in the record that supports the Agreement.

4

5 **BACKGROUND INFORMATION**

6

7 **Q. Please provide a brief background of this case.**

8 A. On November 9, 2016, KCP&L filed an Application seeking Commission

9 approval to decrease its rates for electric service. KCP&L was required by the

10 Commission in Docket No. 15-GIME-025-MIS (15-025 Docket) to file an

11 abbreviated rate case to true-up to actual costs for the LaCygne Environmental

12 Project and Wolf Creek Capital Additions. Additional items to include in this

13 case, such as the termination of several regulatory asset and liability amortizations

14 as well as adjustment for customer migration, were also identified and approved

15 by the Commission in Docket No. 15-KCPE-116-RTS (15-116 Docket). In

16 support of its Application, KCP&L provided direct testimony and supporting

17 schedules indicating a revenue excess of \$2,829,191.

18 On April 6, 2017, Staff filed direct testimony recommending a total revenue

19 decrease of \$4,192,681. As discussed in direct testimony, Staff proposed updates

20 to plant balances and all affected components for the LaCygne Environmental

21 Project and Wolf Creek Additions to actuals as of February 28, 2017, accepted

22 KCP&L's proposed adjustments for regulatory assets and liabilities, rejected

² *Order Approving Contested Settlement Agreement*, Docket No. 08-ATMG-280-RTS, pp. 4-6 (May 12, 2008).

1 KCP&L's proposed adjustment for LaCygne obsolete inventory, and revised the
2 calculation of the carrying charges (interest expense) for customers related to the
3 LaCygne Environmental Project and Wolf Creek Capital Addition Project.
4 Additionally, Staff reversed KCP&L's adjustments related to customer migration
5 until actual data was available.

6 CURB also filed its direct testimony on April 6, 2017, recommending a total
7 revenue decrease of at least \$3,792,805, based on its analysis of KCP&L's
8 Application. CURB also rejected KCP&L's proposed adjustment for LaCygne
9 obsolete inventory but accepted all of KCP&L's adjustments to regulatory assets
10 and liabilities.

11 On April 18, 2017, KCP&L filed rebuttal testimony accepting some of the
12 adjustments recommended by Staff and CURB, and provided adjustments related
13 to customer migration based on actual data through March 31, 2017. KCP&L's
14 rebuttal testimony recommended a revenue decrease of \$3,585,582.

15 On April 20, 2017, the Parties held settlement discussions at the
16 Commission's Topeka office and reached a unanimous settlement.

17

18 **TERMS OF THE SETTLEMENT AGREEMENT**

19

20 **Q. Please provide an overview of the Agreement.**

21 A. The Agreement establishes an agreed upon total revenue decrease of \$3,557,588.

22

23 **Q. Please discuss in detail the provisions of the Agreement.**

1 A. The provisions of the Settlement Agreement are as follows:

- 2 • The Parties agree that KCP&L's total overall revenue requirement
3 decrease will be \$3,557,588. This amount includes an adjustment to
4 accept Staff and CURB's position to remove LaCygne obsolete inventory
5 amortization, Staff's adjustments to update plant balances for the LaCygne
6 Environmental Project and Wolf Creek Plant Additions to February 28,
7 2017, updated customer migration adjustments, and a compromise related
8 to Staff's position on accrued interest.
- 9 • The Parties agree that KCP&L's revenue requirement is based on the cost
10 of capital established by the Commission in the 15-116 Docket.
- 11 • The Parties agree to the adjustments for customer rate migration revenue
12 and migration regulatory asset amortization in the amounts of (\$436,964)
13 and \$127,417, respectively; however, the Parties disagree on the exact
14 methodology and application of the customer migration adjustment and
15 reserve their rights to argue their respective positions on customer
16 migration and weather-normalization methodology in future cases.
- 17 • The Parties agree the revenue requirement decrease will be allocated
18 among the customer classes as listed in the table below, and the
19 Company's retail rates for each customer class will be adjusted as shown
20 in the schedules attached to the Settlement.

<u>Customer Class</u>	<u>Revenue Allocation (\$millions)</u>
Large General Service	(1,037,038)
Medium General Service	(381,589)
Small General Service	(208,442)
Residential	(1,874,761)
Lighting	(55,758)
TOTAL	(3,557,588)

COMMISSION STANDARDS FOR APPROVING SETTLEMENT

AGREEMENTS

Q. Has the Commission previously used factors or standards to review a settlement agreement?

A. Yes. The Commission's Order in Docket No. 08-ATMG-280-RTS (08-280 Docket) discusses five factors, or standards, and multiple agreements have been reviewed by the Commission using the five factors since that Order.³ However, more recent Commission Orders have noted that, for unanimous settlement agreements, parties need not apply the historical five-factors test set forth in the 08-280 Docket.⁴

³ *Order Approving Contested Settlement Agreement*, 08-280 Docket, p. 5 (May 5, 2008).

⁴ *Order on KCP&L's Application for Rate Change*, 15-116 Docket, ¶ 16, p. 6 (Sept. 10, 2015).

1 **Q. What standards does the Commission generally examine when considering a**
2 **unanimous settlement agreement?**

3 A. The Commission may accept a unanimous settlement agreement so long as
4 approval of the settlement is: (1) supported by substantial competent evidence in
5 the record as a whole; (2) results in just and reasonable rates; and (3) is in the
6 public interest.^{5 6} Each of these factors is discussed individually below.

7

8 **SUPPORT FOR THE SETTLEMENT AGREEMENT**

9

10 **Q. Please address whether the Agreement is supported by substantial competent**
11 **evidence in the record as a whole.**

12 A. The Agreement is supported by substantial competent evidence in the record as a
13 whole. The Agreement is supported by KCP&L's Application and the Parties'
14 direct and rebuttal testimony. Staff vigorously analyzed the Application and
15 formed its own conclusions which were filed in direct testimony. In addition,
16 CURB reviewed the filing and stated its position in direct testimony. These filed
17 positions represent the body of evidence the Commission would likely rely on to
18 make a determination of the issues presented by this case if the case were to be
19 fully litigated. The Parties also relied on this evidence in negotiations and
20 eventually arrived at an agreed upon resolution of the issues. It is Staff's position

⁵ *Ibid*, ¶ 15.

⁶ *Citizens' Util. Ratepayer Bd. v. State Corp. Comm'n of State of Kansas*, 28 Kan. App. 2d 313,316, 16 P.3d 319, 323 (2000).

1 that the terms of this Agreement are commensurate with what could be expected
2 if the case were to be fully litigated.

3

4 **Q. How was the revenue requirement decrease of \$3,557,588 arrived at by the**
5 **Parties?**

6 A. The revenue requirement decrease of \$3,557,588 is the product of the following:

- 7 • Staff's adjustments to update plant balances and all affected components
8 for the LaCygne Environmental Project and Wolf Creek Additions as of
9 February 28, 2017.
- 10 • Staff and CURB's adjustment to remove obsolete inventory amortization.
- 11 • Updates to Staff Adjustments IS-1 and IS-2 to include KCP&L's updated
12 adjustments to rate migration revenue and migration regulatory asset
13 amortization. Staff was provided the final data necessary to complete its
14 review of these adjustments and agrees the settled adjustments are
15 reasonable. The impact of these migration adjustments reduced Staff's
16 recommended decrease by \$564,382.
- 17 • An adjustment to Staff's position on accrued interest as presented in Staff
18 Adjustment No. IS-4. While Staff and KCP&L disagree on the definition
19 and application of the term "after-tax" weighted average cost of capital
20 (WACC) as included in the Commission-approved Joint Application filed
21 in the 15-025 Docket, for purposes of settlement, the Parties agreed to an
22 adjustment decrease of \$9,237, which is halfway between Staff and
23 KCP&L's position on this issue.

- A correction to Staff Adjustment IS-6 to income taxes which reduced Staff's recommended rate reduction by \$61,473.

Overall, the settled upon revenue decrease is the result of Staff's initial recommended position of a reduction of \$4,192,681, adjusted for the aforementioned changes to its customer migration adjustments, interest expense, and income taxes.

Q. Does the Agreement result in just and reasonable rates?

A. Yes. This Agreement results in rates that fall within the "zone of reasonableness" described by the Kansas courts in which the result is balanced between the interests of investors versus ratepayers, present versus future ratepayers, and is in the public interest generally. The agreed-upon revenue requirement decrease strikes the proper balance between the Company's desire to have a reasonable assurance that it will earn sufficient revenues and cash flows to meet its financial obligations and the need to keep rates as low as possible for the customers, while providing reliable electric service. In short, the level of cost recovery afforded under this settlement reflects KCP&L's cost of providing reasonably sufficient and efficient service.⁷

The presence of professional expert witnesses and attorneys helps ensure that any unreasonable positions taken by any party are eliminated by opposing parties through the settlement process. More specifically, while an unreasonable position may or may not be discussed explicitly in settlement, each party is generally

⁷ K.S.A. 66-101b.

1 unwilling to make concessions to unreasonable position and will exclude such
2 unreasonable position from their respective settlement positions. The fact that all
3 Parties in this case, with diverse interests, have found common ground for
4 resolving their respective issues strongly supports Staff's contention that the
5 settled revenue decrease in this case is just and reasonable and is in the public
6 interest.

7

8 **Q. Are you aware of the balancing test set forth by the Kansas Supreme Court**
9 **for determining whether rates are "just and reasonable"?**

10 A. Yes, the Kansas Supreme Court has stated:

11 The leading cases in this area clearly indicate that the goal should be a rate
12 fixed within the "zone of reasonableness" after the application of a balancing
13 test in which the interests of all concerned parties are considered. In rate-
14 making cases, the parties whose interests must be considered and balanced are
15 these: (1) the utility's investors vs. the ratepayers; (2) the present ratepayers
16 vs. the future ratepayers; and (3) the public interest.⁸

17

18

19 **Q. What evidence in this case should be considered when performing the**
20 **balancing test set forth by the Kansas Supreme Court?**

21 A. Staff's contention is the Agreement before the Commission comfortably passes
22 the balancing test set forth by the Kansas Supreme Court. The following supports
23 this assertion: (1) the agreed-upon revenue requirement balances the interests of
24 the utility's investors and the ratepayers because it is a reduction from KCP&L's
25 filed position without jeopardizing the ability of KCP&L to provide efficient and
26 sufficient electric service; (2) Staff has strived to eliminate any intergenerational

⁸ *Kan. Gas and Electric Co. v. State Corp Comm'n*, 239 Kan. 483, 488 (1986).

1 inequity in its filed position and the settlement, and therefore the Agreement
2 provides a fair balance between present and future ratepayers; and (3) the fact that
3 both of the two factors above have been met is itself an indication that the
4 Agreement is in the public interest generally. I will discuss this in greater detail
5 below.

6
7 **Q. Does Staff believe the results of the Agreement are in the public interest?**

8 A. Yes. There were multiple interests represented by the Parties involved in the
9 negotiations, with CURB representing the interests of residential and small
10 general service ratepayers, KCP&L representing the interest of its management
11 and shareholders, and Staff attempting to balance each of those interests while
12 representing the interests of the public generally. The fact that these varied
13 interests were able to collaborate and present a unanimous resolution of the issues
14 in this case strongly indicates the public interest standard has been met.

15 Generally speaking, the public interest is served when ratepayers are protected
16 from unnecessarily high prices, discriminatory prices and/or unreliable service.
17 More specifically, it is Staff's opinion that the Agreement meets the public
18 interest because:

- 19 • It adjusts KCP&L's requested revenue decrease to a level that better
20 reflects the Company's cost of service;
- 21 • It provides KCP&L with sufficient revenues and cash flows to meet its
22 financial obligations and provide reliable service;

- 1 • In settlement negotiations, each of the Parties represented their respective
2 interests by putting time, thought, and analysis into deriving a settlement
3 position it found reasonable;
- 4 • The stipulated revenue decrease was based on the record and is a
5 reasonable compromise among the Parties based on each party's own
6 analysis of a reasonable outcome; and
- 7 • If this Agreement is approved, the Parties would avoid the costly and
8 time-consuming process of a fully-litigated hearing. It is in the public
9 interest to avoid these costs if possible and this Agreement accomplishes
10 this result.

11

12 **Q. Should the Commission accept the Agreement as a reasonable resolution of**
13 **the issues in this docket?**

14 A. Yes, the Agreement represents a reasonable resolution of the issues in this docket,
15 results in just and reasonable rates, is in the public interest, and is supported by
16 substantial competent evidence in the record.

17

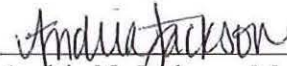
18 **Q. Does this conclude your testimony?**

19 A. Yes, thank you.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

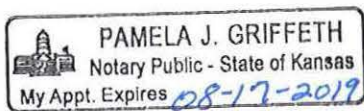
VERIFICATION

Andria N. Jackson, being duly sworn upon her oath deposes and says that she is the Managing Auditor for the State Corporation Commission of the State of Kansas, that she has read and is familiar with the foregoing *Staff Testimony in Support of Unanimous Settlement Agreement* and that the statements contained therein are true and correct to the best of her knowledge, information and belief.



Andria N. Jackson, Managing Auditor
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 26th day of April, 2017.





Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

17-KCPE-201-RTS

I, the undersigned, certify that a true and correct copy of the above and foregoing Staff Testimony in Support of Unanimous Settlement Agreement was served by electronic service on this 26th day of April, 2017, to the following:

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17-KCPE-201-RTS

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