

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

DIRECT TESTIMONY

OF

SUSAN M. MCGRATH

WESTAR ENERGY

DOCKET NO. 18-WSEE³²⁸-RTS

I. INTRODUCTION

1

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

3 A. Susan M. McGrath, 818 South Kansas Avenue, Topeka, Kansas
4 66612.

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. Westar Energy, Inc. (Westar) as Director, Corporate Finance.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **BUSINESS EXPERIENCE.**

9 A. I graduated from Emporia State University with a Bachelor of Science
10 degree with a major in Accounting. I also have a Master's degree in
11 Business Administration from Emporia State University. I have
12 passed the certified public accountant exam. I began my career at
13 KGE in 1983 as an intern in the accounting department. I have held
14 various accounting, power marketing and finance positions during

1 my 34 years at KGE and Westar. I currently hold the position of
2 Director, Corporate Finance, responsible for oversight of the finance,
3 planning & performance reporting and budget & performance
4 reporting departments.

5 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

7 A. I am sponsoring Westar's capital structure, cost of debt, and overall
8 rate of return found in Section 7 of the Minimum Filing Requirements
9 (MFRs). Messrs. Somma and Hevert sponsor our cost of equity
10 capital that I include in my calculation of the overall rate of return. In
11 addition, I will be recommending an appropriate funding level for
12 Westar's trust fund for the decommissioning of the Wolf Creek
13 Nuclear Generating Station (Wolf Creek).

14 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

15 A. Since our last general rate case, we have aggressively taken
16 advantage of capital market conditions that have allowed us to
17 significantly reduce interest expense reflected in the cost of service.
18 As a result, the overall rate of return included in our Application is
19 lower than the rate of return currently reflected in rates.

20 The capital structure we utilize in our Application is Westar's
21 actual capital structure as of June 30, 2017 updated through
22 September 30, 2017.

23 I also recommend a funding level for Westar's nuclear
24 decommissioning trust fund. In September 2017, the joint owners of

1 Wolf Creek Generating Station filed Docket No. 18-WCNE-107-GIE,
2 which included the triennial decommissioning cost study for Wolf
3 Creek. This triennial cost study was prepared by TLG Services, Inc.
4 and contained a cost estimate for the decommissioning of Wolf
5 Creek in 2017 dollars. The joint owners' filing also included a
6 recommended escalation rate of 2.91% per year to be used to
7 escalate the 2017 decommissioning cost estimate from 2017 dollars
8 to the appropriate year dollars for when the decommissioning costs
9 are expected to occur. As you will see later in my testimony, I am
10 recommending that we leave the annual funding level unchanged
11 from the amount currently being recovered in rates at \$5,772,700. I
12 came to this recommendation after considering the latest cost
13 estimate and the proposed escalation rate included in our Docket No.
14 18-WCNE-107-GIE filing.

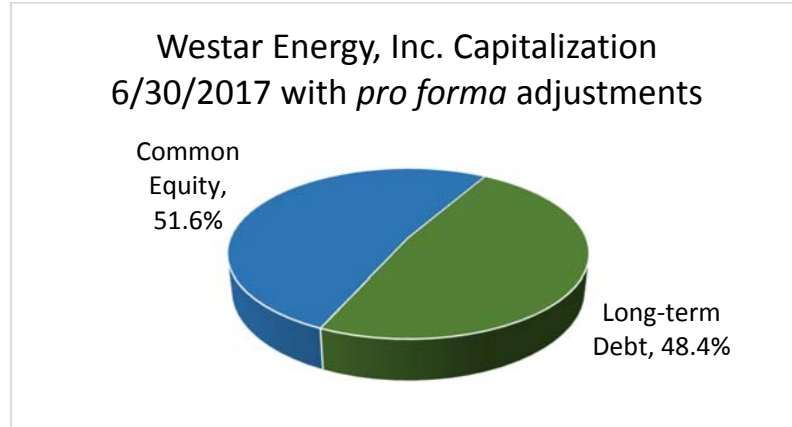
15 **III. WESTAR'S CAPITAL STRUCTURE, COST OF DEBT AND**
16 **OVERALL RATE OF RETURN**

17 *A. Westar's Capital Structure and Cost of Debt.*

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY WITH RESPECT TO**
19 **CAPITAL STRUCTURE.**

20 *A.* Westar's proposed capital structure is currently comprised of two
21 components of investor-supplied capital: common equity (51.6%)
22 and long-term debt (48.4%) as shown in Figure 1 below.

FIGURE 1



1 Westar’s capital structure is based on the actual amounts
2 recorded on Westar’s audited books and records and, consistent
3 with long-standing Commission practice and the FERC Uniform
4 System of Accounts, updated through our last quarterly financial
5 statements (September 30, 2017) including *pro forma* adjustments.

6 I have made this calculation consistent with past practice and
7 Commission precedent, including appropriately excluding short-term
8 debt.

9 **Q. HOW DID YOU DETERMINE THE AMOUNTS AND**
10 **PERCENTAGES OF THE TWO TYPES OF INVESTOR-SUPPLIED**
11 **CAPITAL: DEBT AND COMMON EQUITY?**

12 A. I used the respective amounts on Westar’s audited books and
13 records as of June 30, 2017, updating them to reflect amounts
14 included in our financial statements as of September 30, 2017. In
15 the past, Staff has updated these amounts through a date closer to
16 the evidentiary hearing as part of the discovery process. I

1 recommend we continue that practice, as it ensures that rates will
2 better match actual costs. This will provide the most recent capital
3 cost information and would still allow adequate time for Staff and the
4 intervenors to validate the figures. This is also consistent with the
5 Commission's long-standing practice of using the most recent
6 available capitalization and capital cost data in setting rates.

7 **Q. HOW DOES ONE ESTABLISH THE COST OF DEBT FOR**
8 **RATEMAKING?**

9 A. Long-standing regulatory precedent is to use the actual underlying
10 contractual obligations for these securities: the cost the Company
11 actually incurs.

12 **Q. WHAT IS WESTAR'S COST OF DEBT?**

13 A. Westar's cost of debt is 4.6524%, as shown on Schedule 7-C. This
14 figure reflects the weighted average contractual interest cost on
15 Westar's various series of outstanding bonds, as well as the
16 amortization of applicable premiums, discounts, issuance costs and
17 refinancing costs.

18 **Q. HOW DOES THIS COST OF DEBT COMPARE TO WESTAR'S**
19 **COST OF DEBT IN PREVIOUS YEARS?**

20 A. Because of our aggressive refinancing, we have reduced the cost of
21 debt significantly over the last decade and since our last general rate
22 case. In the last rate case, our cost of debt was 5.6877%. Our

1 actions have thus reduced annual revenue requirement by about \$29
2 million.

3 **Q. WHAT HAS WESTAR DONE TO REDUCE ITS COST OF DEBT?**

4 A. First, we successfully executed our business strategy which allowed
5 us to aggressively refinance a portion of our debt at lower rates and
6 raise new debt capital at attractive interest rates. Since our last
7 general rate case, we have refinanced \$625 million of debt that
8 carried an average coupon rate of 6.97%. We were also able to
9 issue \$625 million of new debt to finance utility plant – including the
10 Western Plains wind farm – during that same time period. The
11 average coupon rate for both refinanced and new debt since our last
12 GRC was 3.23%, a 374 basis point reduction.

13 **Q. HOW DO WESTAR'S CREDIT RATINGS COMPARE TO THOSE**
14 **IN THE LAST GENERAL RATE CASE?**

15 A. Westar's corporate issuer and senior secured credit ratings are the
16 same as they were at the time of our 2015 GRC. Moody's Investor
17 Service (Moody's) has assigned a rating of A2 on Westar's senior
18 secured debt and an issuer rating of Baa1. Moody's ratings outlook
19 for Westar is "stable." Standard & Poor's (S&P) has assigned a rating
20 of A on Westar's senior secured debt and a corporate rating of BBB+.
21 S&P's ratings outlook for Westar is "positive." In our previous GRC,
22 S&P's ratings outlook for the Company was "stable."

23 B. *Weighted Cost of Capital (i.e., Return on Rate Base).*

1 **Q. WHAT IS WESTAR’S OVERALL COST OF CAPITAL OR RATE**
 2 **OF RETURN REQUESTED IN THIS FILING?**

3 A. The cost of capital included in the overall cost of service should be
 4 the weighted costs of debt and common equity. As supported in Mr.
 5 Somma’s direct testimony, and corroborated by the analysis in Mr.
 6 Hevert’s testimony, Westar’s recommended ROE is 9.85%. These
 7 component costs multiplied by the respective capitalization ratios
 8 result in a weighted cost of capital of 7.3338% on Schedule 7-A and
 9 illustrated below:

TABLE 3

		Return on Rate Base (as filed)		
		A	B	C
		Percent of Capitalization	Component Cost	Weighted Avg. Cost
1	Debt	48.4102%	4.6524%	2.2522%
2	Common Equity	<u>51.5898%</u>	9.8500%	<u>5.0816%</u>
3	Totals	100.0000%		7.3338%

10 **III. RECOMMENDED FUNDING LEVEL FOR WESTAR’S**
 11 **NUCLEAR DECOMMISSIONING TRUST**

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING**
 13 **THE APPROPRIATE FUNDING LEVEL FOR WESTAR’S TRUST**
 14 **FUND FOR THE DECOMMISSIONING OF WOLF CREEK.**

15 A. I am recommending that the annual funding level for Westar’s trust
 16 fund for the decommissioning of Wolf Creek be set at \$5,772,700 as
 17 shown on attached Schedule SMM-1. No adjustment to Westar’s

1 test year expenses is necessary because this funding level is equal
2 to the contributions Westar made during the test year.

3 This funding level will begin with the first quarterly contribution
4 in 2019 and will continue at the same level through the first quarter
5 of 2045 unless the funding level is changed in a future proceeding
6 before the Commission. Wolf Creek's operating license is currently
7 set to expire in 2045.

8 **Q. PLEASE OUTLINE THE ASSUMPTIONS THAT WERE USED TO**
9 **ARRIVE AT THE RECOMMENDED ANNUAL FUNDING LEVEL.**

10 A. The following factors were considered in determining the appropriate
11 accrual level:

- 12 1. Decommissioning cost estimate,
- 13 2. Decommissioning cost escalation rate,
- 14 3. Decommissioning cost timing,
- 15 4. Remaining life of the fund,
- 16 5. Westar Energy's ownership percentage,
- 17 6. Kansas jurisdictional allocation factor,
- 18 7. Trust fund investment mix,
- 19 8. Trust fund management fees,
- 20 9. Taxes on decommissioning trust earnings,
- 21 10. Earnings on fund investments,
- 22 11. Current trust fund balance,
- 23 12. Accrual escalation methodology, and

1 13. IRS tax qualification of the trust.

2 Each of these items will be addressed in turn below.

3 **Decommissioning Cost Estimate**

4 **Q. WHAT IS THE CURRENT DOLLAR DECOMMISSIONING COST**
5 **ESTIMATE FOR WOLF CREEK AND WHAT IS THE BASIS FOR**
6 **THAT ESTIMATE?**

7 A. As presented in Docket 18-WCNE-107-GIE, the decommissioning
8 cost estimate for Wolf Creek is \$813,733,000 in 2017 dollars. This
9 cost estimate is based on a study dated August 2017 performed by
10 TLG Services, Inc. (“TLG”). TLG is a recognized industry leader in
11 nuclear decommissioning cost analysis. The \$813,733,000 cost
12 estimate is based on the immediate dismantlement and site
13 restoration alternative for decommissioning (also known as the
14 DECON alternative). Westar’s 47% share of this amount is
15 \$382,454,510 in 2017 dollars.

16 **Q. HAS THE COMMISSION RELIED ON DECOMMISSIONING**
17 **ESTIMATES MADE BY TLG IN THE PAST?**

18 A. Yes. TLG has performed the cost estimate study in all but one of the
19 decommissioning reviews presented to the Commission during the
20 more than thirty-year life of the plant and, in each of those cases, the
21 Commission accepted TLG’s recommendations.

22 **Q. HAS THE COMMISSION CONSIDERED THE**
23 **REASONABLENESS OF THIS COST ESTIMATE?**

1 A. This cost estimate was included in our Docket No. 18-WCNE-107-
2 GIE filing. This docket is currently open; however, we expect the
3 Commission will rule on the docket in August 2018. And, as I just
4 mentioned, the Commission has accepted the results of TLG's cost
5 estimate studies in every previous case. We have nothing to indicate
6 that they will not accept this latest decommissioning cost study as
7 well.

8 **Decommissioning Cost Escalation Rate**

9 **Q. WHAT DECOMMISSIONING COST ESCALATION RATE WAS**
10 **USED TO ARRIVE AT YOUR RECOMMENDED FUNDING**
11 **LEVEL?**

12 A. I used a cost escalation rate of 2.91% per year to escalate the 2017
13 decommissioning cost estimate of \$813,733,000 from 2017 dollars
14 to the appropriate year dollars for when the decommissioning costs
15 are expected to occur. This is consistent with the cost escalation rate
16 we included in our filing under Docket No. 18-WCNE-107-GIE.

17 **Decommissioning Cost Timing**

18 **Q. WHAT IS THE ASSUMED TIMING OF THE FUTURE**
19 **DECOMMISSIONING COSTS?**

20 A. Wolf Creek's operating license expires in 2045 and the 2017 TLG
21 Wolf Creek decommissioning cost study showed a schedule of
22 decommissioning costs beginning in 2045 and continuing through
23 2053.

1 **Remaining Life of the Fund**

2 **Q. WHAT IS THE REMAINING LIFE OF THE TRUST FUND?**

3 A. Accruals for the trust fund will continue until Wolf Creek’s operating
4 license expires in 2045. The remaining investments in the fund,
5 however, will continue to generate earnings throughout the
6 decommissioning process. We expect that at the time the
7 decommissioning process is complete in 2053, all funds will be
8 exhausted.

9 **Westar Energy’s Ownership Percentage**

10 **Q. WHAT IS WESTAR ENERGY’S OWNERSHIP PERCENTAGE IN**
11 **WOLF CREEK?**

12 A. Westar Energy owns 47% of Wolf Creek.

13 **Kansas Jurisdictional Allocation Factor**

14 **Q. WHAT KANSAS JURISDICTIONAL ALLOCATION FACTOR DID**
15 **YOU USE TO DETERMINE THE ACCRUAL LEVEL?**

16 A. I used a Kansas jurisdictional allocation factor of 100% consistent
17 with the methodology used in previous Westar cases involving Wolf
18 Creek decommissioning funding. Stated differently, I am proposing
19 that 100% of the annual contribution amount of \$5,772,700 be
20 included in retail rates, recognizing that there will continue to be an
21 offset from contributions from FERC-jurisdictional customers through
22 the Retail Energy Cost Adjustment, consistent with past practice.

1 **Trust Fund Investment Mix**

2 **Q. WHAT TRUST FUND ASSET ALLOCATION IS ASSUMED IN THE**
3 **DETERMINATION OF THE ACCRUAL LEVEL?**

4 A. The asset allocation assumes a diversified balance of 53% equities,
5 42% fixed income (primarily investment grade corporate,
6 government and high yield bonds) and 5% other investments. This
7 investment allocation is close to the current investment mix of the
8 fund. The investment allocation assumptions, however, are adjusted
9 over time. The equity position is reduced and the fixed income
10 position is increased as the time for decommissioning approaches.
11 This concept is similar to how one might manage their individual
12 retirement account: the closer an individual is to retirement, or the
13 decommissioning period, the more conservative the investment mix
14 becomes. The assumed changes in the investment mix are detailed
15 in Exhibit SMM-1.

16 **Trust Fund Management Fees**

17 **Q. WHAT ARE THE ESTIMATED TRUST FUND MANAGEMENT**
18 **FEES?**

19 A. Westar maintains a well-diversified portfolio comprised of 14 funds
20 with the majority of funds having numerous fund managers. Westar
21 also has a trustee for its decommissioning fund. Fee structures for
22 account managers vary, but currently average approximately 54.0
23 basis points (0.540%) annually based on the market value of assets

1 under management. We also pay the trustee a variable fee of
2 approximately 1.5 basis points (0.015%) annually, the majority of
3 which is based on the market value of the fund. The trustee charges
4 additional fees based on the number of funds and the number of
5 transactions. The recommended funding level assumes average
6 annual asset management and trustee fees of 55.5 basis points
7 (0.555%).

8 **Taxes on Decommissioning Trust Earnings**

9 **Q. WHAT IS THE ASSUMED TAX RATE FOR THE**
10 **DECOMMISSIONING TRUST FUND?**

11 A. The earnings on the investments in the decommissioning trust fund
12 are subject to a 20% Federal income tax rate. The earnings on the
13 investments in the decommissioning trust fund are not subject to
14 state tax.

15 **Earnings on Fund Investments**

16 **Q. WHAT IS THE ASSUMED INVESTMENT RETURN FOR THE**
17 **DECOMMISSIONING TRUST FUND?**

18 A. The assumed composite investment return will vary over time based
19 on the investment mix of the decommissioning trust fund. In our
20 previous general rate case, Docket No. 15-WSEE-115-RTS, as well
21 as in previous filings in which we determined the appropriate funding
22 level for Westar's decommissioning trust fund, we relied primarily on
23 historical returns. In our 2015 general rate case, however, KCC Staff

1 challenged our return assumptions stating their “concern with a
 2 reliance on historic returns is that historic returns embody a level of
 3 annual economic growth that is considerably higher than what is
 4 likely in the future.” In that case, KCC Staff used the 10 to 15 year
 5 returns forecasted by J.P. Morgan Asset Management. While I
 6 believe those returns are conservative – and they certainly are very
 7 conservative relative to historical returns – for my analysis, I
 8 incorporated the projected long-term capital returns published in J.P.
 9 Morgan Asset Management’s “2017 Long-Term Capital Market
 10 Assumptions.” The projected pre-tax annual returns for each
 11 investment category are as follows:

12	Equities – Large Cap	7.25%
13	Equities – Small Cap	8.67%
14	Equities – International	7.95%
15	Core Bonds	3.44%
16	High Yield Bonds	6.13%
17	Real Estate	7.32%
18	Cash and equivalents	2.00%

19 **Q. WHY DID YOU CHOOSE TO USE THESE MORE CONSERVATIVE**
 20 **RETURNS?**

21 A. Of all the inputs that go into calculating the appropriate contribution
 22 level, earnings on fund investments is the most difficult to forecast.
 23 The use of J.P. Morgan Asset Management’s forecasted returns is

1 consistent with KCC Staff's methodology in our previous rate review.
2 And, while conservative forecasted returns result in a higher annual
3 contribution, it provides better assurance that the funds available for
4 decommissioning Wolf Creek will be sufficient. Finally, the annual
5 contribution amount is not fixed for the remaining life of Wolf Creek.
6 Rather, it is reviewed every three years, providing future
7 Commissions with numerous opportunities to make adjustments in
8 the future.

9 **Current Trust Fund Balance**

10 **Q. WHAT IS THE BALANCE IN THE DECOMMISSIONING TRUST**
11 **FUND?**

12 A. Westar's nuclear decommissioning trust fund had a market value at
13 September 30, 2017 of \$229,926,870.

14 **Q. WHY DOES THIS AMOUNT DIFFER FROM THE BEGINNING**
15 **BALANCE SHOWN ON PAGE 1, LINE 1 OF EXHIBIT SMM-1?**

16 A. The market value of Westar's trust fund needs to recognize income
17 taxes that must be paid on the net amount of the trust fund's
18 unrealized gains at some point in the future. As of September 30,
19 2017, the trust fund had unrealized gains of \$38,247,812. Based on
20 a 20% federal income tax rate, the amount of taxes that will have to
21 be paid on the unrealized gains in the future is \$7,649,562. I
22 subtracted that amount from the September 30 trust balance to arrive

1 at the beginning balance of \$222,277,308 shown on page 1, line 1 of
2 Exhibit SMM-1.

3 **Accrual Escalation Methodology**

4 **Q. WHAT ACCRUAL ESCALATION METHODOLOGY WAS USED IN**
5 **THE DETERMINATION OF THE ACCRUAL LEVEL?**

6 A. A level annual amount of funding was assumed.

7 **IRS Tax Qualification of the Trust**

8 **Q. DOES THE IRS HAVE SPECIAL RULES REGARDING FUNDING**
9 **FOR DECOMMISSIONING NUCLEAR FACILITIES?**

10 A. Yes. The funding of decommissioning nuclear facilities is governed
11 by Internal Revenue Code (“Code”) Section 468A and Treasury
12 Regulations 1.468A-1 through 1.468A-9. Section 468A was added
13 to the Code by the Deficit Reduction Act of 1984. The Treasury
14 Regulations were first proposed in 1986, adopted in 1988 and
15 subsequently amended in 1992, 1994, 2007, and, most recently,
16 2010.

17 **Q. PLEASE DESCRIBE THE APPLICABLE PROVISIONS OF THE**
18 **IRS CODE AND REGULATIONS.**

19 A. Section 468A and Treasury Regulations 1.468A-1 through 1.468A-9
20 allow an eligible taxpayer to elect to deduct, in the tax year paid, the
21 amount of cash payments made or deemed made by the taxpayer to
22 a nuclear decommissioning fund and to deduct the ratable portion of
23 any special transfer to the nuclear decommissioning fund. A special

1 transfer is a contribution of some or the entire amount required to
2 fund pre-1984 nuclear decommissioning costs that have not been
3 previously funded.

4 The taxpayer is deemed to have made a payment to the
5 nuclear decommissioning fund on the last day of the tax year if the
6 payment is irrevocably designated by the taxpayer on its timely filed
7 federal income tax return as made on account of that tax year and is
8 made within two and one-half months after the close of that tax year.

9 **Q. IS THE AMOUNT PAID INTO A NUCLEAR DECOMMISSIONING**
10 **FUND AND DEDUCTED BY THE TAXPAYER SUBJECT TO ANY**
11 **LIMITATION?**

12 A. Yes. The deductible contribution is limited to the “ruling amount.”
13 Thus, no deduction is allowed for cash payments made or deemed
14 made to a nuclear decommissioning fund unless the taxpayer
15 requests and receives from the IRS a schedule of ruling amounts for
16 the fund. The ruling amount for any tax year is defined as the amount
17 which the IRS determines to be necessary to fund the total nuclear
18 decommissioning costs of the taxpayer over the estimated useful life
19 of the nuclear power plant. This term is further defined to include the
20 amount necessary to prevent any excessive funding of nuclear
21 decommissioning costs or the funding of these costs at a more rapid
22 than level funding, taking into account discount rates the IRS deems

1 appropriate. The ruling amount, therefore, is the maximum annual
2 contribution that the taxpayer is allowed to accumulate in the fund.

3 **Q. WHAT IS A SCHEDULE OF RULING AMOUNTS?**

4 A. A schedule of ruling amounts for a nuclear decommissioning fund is
5 a ruling specifying annual payments that, over the tax years
6 remaining in the fund period as of the date the schedule first applies,
7 will result in a projected balance of the nuclear decommissioning
8 fund as of the last day of the funding period equal to, and in no event
9 more than, the amount of decommissioning costs allocable to the
10 fund.

11 **Q. IS WESTAR AN ELIGIBLE TAXPAYER?**

12 A. Yes, Westar is an eligible taxpayer. An eligible taxpayer is a
13 taxpayer that has a direct ownership interest in a nuclear power
14 plant. It includes an interest held as tenant in common or joint tenant.

15 **Q. WILL THE IRS ACCEPT A SCHEDULE OF RULING AMOUNTS
16 PROPOSED BY WESTAR AND APPROVED BY THIS
17 COMMISSION?**

18 A. Yes. The IRS will provide a schedule of ruling amounts that is
19 identical to the schedule of ruling amounts proposed by the taxpayer
20 so long as the proposed schedule of ruling amounts is consistent
21 with the principles and provisions of Section 468A and its regulations
22 and is based on reasonable assumptions concerning three factors.
23 The three factors include (a) the after-tax rate of return to be earned

1 by the amounts collected for decommissioning; (b) the total
2 estimated cost of decommissioning the nuclear power plant; and (c)
3 the frequency of contributions to a nuclear decommissioning fund for
4 a taxable year (e.g., monthly, quarterly, semi-annual or annual). The
5 regulations also provide that the taxpayer has calculated its
6 proposed schedule of ruling amounts on a reasonable basis, if the
7 schedule of ruling amounts is calculated using the assumptions used
8 by the public utility commission in its most recent rate order.
9 Consequently, Westar will continue using the schedule of ruling
10 amounts approved by this Commission. Moreover, Westar believes
11 it is required by state law and Commission order to obtain a funding
12 amount approved by this Commission.

13 **Q. ARE THERE ANY OTHER PROVISIONS WHICH THE**
14 **COMMISSION SHOULD BE MADE AWARE?**

15 A. The IRS is required to review, and revise if necessary, the schedule
16 of ruling amounts (a) once every ten years (on or before the deemed
17 payment deadline date for the tenth tax year that begins after the tax
18 year in which the most recent schedule of ruling amounts was
19 received), (b) whenever the Nuclear Regulatory Commission
20 extends the operating license of the nuclear power plant, and (c)
21 upon the request of the taxpayer.

22 **Q. ARE CASH PAYMENTS IN EXCESS OF THE RULING AMOUNT**
23 **TAX DEDUCTIBLE?**

1 A. No. If the amount of cash payments made or deemed made to a
2 nuclear decommissioning fund exceeds the ruling amount, the
3 excess is an excess contribution for the tax year. The amount of the
4 excess contribution is not deductible and must be withdrawn by the
5 taxpayer from the fund, including the after-tax earnings on the excess
6 contribution. If the taxpayer claimed a deduction for the excess
7 contribution, the taxpayer must file an amended return.

8 **Q. HOW IS THE ELECTION MADE?**

9 A. The election is made by attaching a statement and a copy of the
10 schedule of ruling amounts to the taxpayer's Federal income tax
11 return for the tax year.

12 **Q. ABSENT THE ELECTION, WHEN ARE NUCLEAR**
13 **DECOMMISSIONING COSTS DEDUCTIBLE BY AN ELIGIBLE**
14 **TAXPAYER?**

15 A. Without the election, qualified nuclear decommissioning costs are
16 deductible by taxpayers using an accrual method of accounting in
17 the tax year when economic performance occurs.

18 **Q. WHAT IS YOUR RECOMMENDATION TO THIS COMMISSION?**

19 A. I recommend that the Commission approve the level of funding
20 contained in Exhibit SMM-1 and incorporate the schedule of
21 contributions and accruals into a final order of this Commission in
22 this docket. In addition, the order should state the decommissioning
23 funding amount for year 2019 is \$5,772,700 and that the amounts

1 shown on Exhibit SMM-1 be incorporated into rates as the
2 Commission previously has done.

3 **Q. THANK YOU.**

WOLF CREEK DECOMMISSIONING COSTS
 EXTERNAL TRUST FUND
 Review of 2017 Cost Estimate

Exhibit SMM-1
 Page 1 of 2

	in 2017 \$	In 2045 \$
TOTAL COST DECON method	\$813,733,000	\$1,765,373,244
KGE'S SHARE OF TOTAL COST	\$382,454,510	\$829,725,425
CURRENT VALUE OF TRUST (9/30/17)	\$229,926,870	

EQUIVALENT BEFORE TAX RETURN: THE EXPECTED INVESTMENT RETURNS ARE SHOWN ON PAGE 2 OF 2

PAYMENT GROWTH AMOUNT	\$0
GROWTH RATE FOR COSTS (INFLATION)	2.91%
# OF PERIODS FOR ANALYSIS	27
# OF PERIODS - 1	26
PERIOD OF PAYMENTS	MID YEAR
DECOMMISSIONING PERIOD IN YEARS	9
FUND MANAGER FEES	0.555%

LINE	YEAR	BEGIN YR. BALANCE	DECOM EXPENSE	ANNUAL CONTRIB.	EARNINGS AFTER FEES AND TAXES	END YR. BALANCE
	2015					
	2016					
	2017					
1	2018	\$222,277,308		\$5,772,700	\$10,203,936	\$238,253,944
2	2019	238,253,944		5,772,700	10,926,826	254,953,470
3	2020	254,953,470		5,772,700	11,682,424	272,408,594
4	2021	272,408,594		5,772,700	12,472,211	290,653,505
5	2022	290,653,505		5,772,700	13,297,732	309,723,937
6	2023	309,723,937		5,772,700	14,160,606	329,657,243
7	2024	329,657,243		5,772,700	15,062,522	350,492,465
8	2025	350,492,465		5,772,700	16,005,246	372,270,411
9	2026	372,270,411		5,772,700	13,914,341	391,957,452
10	2027	391,957,452		5,772,700	14,643,680	412,373,832
11	2028	412,373,832		5,772,700	15,400,039	433,546,571
12	2029	433,546,571		5,772,700	16,184,419	455,503,690
13	2030	455,503,690		5,772,700	16,997,857	478,274,247
14	2031	478,274,247		5,772,700	17,841,431	501,888,378
15	2032	501,888,378		5,772,700	18,716,256	526,377,334
16	2033	526,377,334		5,772,700	19,623,490	551,773,524
17	2034	551,773,524		5,772,700	20,564,335	578,110,559
18	2035	578,110,559		5,772,700	21,540,034	605,423,293
19	2036	605,423,293		5,772,700	18,902,023	630,098,016
20	2037	630,098,016		5,772,700	19,668,091	655,538,807
21	2038	655,538,807		5,772,700	20,457,943	681,769,449
22	2039	681,769,449		5,772,700	21,272,317	708,814,467
23	2040	708,814,467		5,772,700	22,111,975	736,699,142
24	2041	736,699,142		5,772,700	22,977,702	765,449,543
25	2042	765,449,543		5,772,700	23,870,306	795,092,549
26	2043	795,092,549		5,772,700	24,790,623	825,655,872
27	2044	825,655,872		5,772,700	25,739,513	857,168,085
28	2045	857,168,085	73,606,722		13,123,821	796,685,184
29	2046	796,685,184	154,668,416		11,257,602	653,274,370
30	2047	653,274,370	177,114,388		8,682,992	484,842,974
31	2048	484,842,974	148,285,340		6,260,778	342,818,411
32	2049	342,818,411	117,936,095		4,284,157	229,166,473
33	2050	229,166,473	110,059,183		2,523,549	121,630,839
34	2051	121,630,839	58,739,565		1,335,836	64,227,110
35	2052	64,227,110	39,833,521		609,292	25,002,881
36	2053	25,002,881	25,135,095		132,241	28
						\$905,378,324

FEDERAL TAX RATE 20.00%

FOR THE YEARS 2017 THROUGH 2025				
INVESTMENT MIX	EXPECTED RETURNS	RATIO	WEIGHTED RETURN	AFTER TAX
1 Large Cap	7.25%	27%	1.96%	1.57%
2 Small Cap	8.67%	6%	0.52%	0.42%
3 International Equities	7.95%	20%	1.59%	1.27%
4 Core Fixed Income	3.44%	25%	0.86%	0.69%
5 High Yield Bonds	6.13%	17%	1.04%	0.83%
6 Real Estate	7.32%	5%	0.37%	0.30%
7 Cash and equivalents	2.00%	0%	0.00%	0.00%
		100%	6.34%	5.08%

FOR THE YEARS 2026 THROUGH 2035				
INVESTMENT MIX	EXPECTED RETURNS	RATIO	WEIGHTED RETURN	AFTER TAX
8 Large Cap	7.25%	20%	1.45%	1.16%
9 Small Cap	8.67%	5%	0.43%	0.34%
10 International Equities	7.95%	12%	0.95%	0.76%
11 Core Fixed Income	3.44%	44%	1.51%	1.21%
12 High Yield Bonds	6.13%	8%	0.49%	0.39%
13 Real Estate	7.32%	5%	0.37%	0.30%
14 Cash and equivalents	2.00%	6%	0.12%	0.10%
		100%	5.32%	4.26%

FOR THE YEARS 2036 THROUGH 2044				
INVESTMENT MIX	EXPECTED RETURNS	RATIO	WEIGHTED RETURN	AFTER TAX
15 Large Cap	7.25%	10%	0.73%	0.58%
16 Small Cap	8.67%	5%	0.43%	0.34%
17 International Equities	7.95%	5%	0.40%	0.32%
18 Core Fixed Income	3.44%	57%	1.96%	1.57%
19 High Yield Bonds	6.13%	8%	0.49%	0.39%
20 Real Estate	7.32%	5%	0.37%	0.30%
21 Cash and equivalents	2.00%	10%	0.20%	0.16%
		100%	4.58%	3.66%

FOR THE YEARS 2045 THROUGH COMPLETION OF DECOMMISSIONING				
INVESTMENT MIX	EXPECTED RETURNS	RATIO	WEIGHTED RETURN	AFTER TAX
22 Large Cap	7.25%	0%	0.00%	0.00%
23 Small Cap	8.67%	0%	0.00%	0.00%
24 International Equities	7.95%	0%	0.00%	0.00%
25 Core Fixed Income	3.44%	50%	1.72%	1.38%
26 High Yield Bonds	6.13%	0%	0.00%	0.00%
27 Real Estate	7.32%	0%	0.00%	0.00%
28 Cash and equivalents	2.00%	50%	1.00%	0.80%
		100%	2.72%	2.18%