

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

**TESTIMONY IN SUPPORT OF
UNANIMOUS SETTLEMENT AGREEMENT**

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

1 **Q: Are you the same Linda J. Nunn that provided Direct and Rebuttal Testimony on**
2 **behalf of Kansas City Power & Light Company (“KCP&L” or “Company”) in this**
3 **case?**

4 **A: Yes, I am.**

5 **Q: What is the purpose of your testimony?**

6 **A: The purpose of my testimony is to provide support on behalf of KCP&L of the**
7 **Unanimous Settlement Agreement (“Settlement”) submitted jointly by the parties for**
8 **approval to the State Corporation Commission of the State of Kansas (“Commission”) on**
9 **April 25, 2017 in this docket. I will do so by:**

- 10 ▪ describing the background leading up to this docket;
- 11 ▪ describing the current abbreviated rate case and the terms of the Settlement; and
- 12 ▪ addressing the standards under which the Commission reviews a unanimous
- 13 settlement agreement.

1 **I. BACKGROUND**

2 **Q: Please provide a description of the background leading up to this docket.**

3 A: This abbreviated rate case was originally authorized by the Commission in Docket No.
4 15-GIME-025-MIS (“15-025 Docket”)¹ with the primary goal to adjust KCP&L’s base
5 rates to account for the final true-up to actual costs related to the La Cygne
6 Environmental Project (“La Cygne Project”) and the Wolf Creek Capital Additions;
7 specifically, for actual costs through February 28, 2017. Both the La Cygne Project and
8 Wolf Creek Capital Additions are now considered complete.

9 **Q: Did KCP&L present its plan regarding the La Cygne Environmental Project to the**
10 **Commission?**

11 A: Yes. In Docket No. 11-KCPE-581-PRE (“11-581 Docket”), KCP&L filed with the
12 Commission an application requesting preapproval under K.S.A. 66-1239 of the
13 investment planned for La Cygne. The Commission and the intervening parties in that
14 docket studied the proposal in depth, a hearing was held, and ultimately the Commission
15 issued an order (“11-581 Order”) approving the upgrades, finding that the decision to
16 build the La Cygne Project was prudent.² The 11-581 Order also found that the cost of
17 the upgrades would be deemed to be reasonable up to the \$1.23 billion estimate available
18 at that time.³ In addition, KCP&L was ordered to file with the Commission monthly
19 reports throughout the life of the La Cygne Project updating the Commission on the
20 progress of the project.⁴

¹ 15-025 Docket, *Order Approving Joint Application*, issued Sep. 9, 2014 (“15-025 Order”).

² 11-581 Order, issued Aug. 19, 2011, ¶ 66, p. 35.

³ 11-581 Order, ¶ 71, pp. 38-39.

⁴ 11-581 Order, ¶ 93, p. 50.

1 **Q: Have there been additional dockets addressing the La Cygne Project since the 11-**
2 **581 Docket?**

3 A: Yes. On April 20, 2012, in Docket No. 12-KCPE-764-RTS (“12-764 Docket”), KCP&L
4 filed its first rate case wherein its investment in the La Cygne Project up to that time was
5 included for rate recovery. The Commission’s Order in the 11-764 Docket (“11-764
6 Order”) approved increased rates for KCP&L and also granted KCP&L the ability to file
7 an abbreviated rate case under K.A.R. 82-1-231(b)(3) within one year of the 11-764
8 Order. The items for consideration in that abbreviated case (Docket No. 14-KCPE-272-
9 RTS) were limited to including the additional amount KCP&L had invested in the
10 La Cygne Project since the 11-764 Docket, and addressing two regulatory asset items.⁵
11 As noted above, the 15-025 Docket, provided for accounting parameters for the La Cygne
12 Project and Wolf Creek Capital Additions and approval for an abbreviated rate case
13 following the Company’s next full general rate case. On September 15, 2014, KCP&L
14 filed its rate case docketed as Docket No. 15-KCPE-116-RTS (“15-116 Docket”) which
15 included additional investment in the La Cygne Project as well as identification of several
16 other items to include in the abbreviated rate case – termination of four regulatory assets
17 and one regulatory liability as well as the effects of customer migration from the rate
18 changes resulting from the 15-116 Docket.

19 **II. CURRENT RATE CASE AND TERMS OF THE SETTLEMENT**

20 **Q: Please summarize the application KCP&L filed in this abbreviated rate case.**

21 A: KCP&L’s application was consistent with the parameters set out by the Commission for
22 this case, as contained in the 15-025 Order and the 15-116 Order. The only items

⁵ 11-764 Order, issued Dec. 13, 2012, p. 43.

1 included in the application for inclusion in rates were the true-up of La Cygne Project and
2 Wolf Creek Capital Addition costs to actual costs, update to actual costs of the Wolf
3 Creek refueling outage 20, termination of several regulatory asset items and one
4 regulatory liability, and customer migration impacts.

5 **Q: Has the amount included in rates for the La Cygne Project, up to and including this**
6 **case, remained below the amount pre-approved by the Commission in the 11-581**
7 **Order?**

8 A: Yes. If the Commission approves the Settlement in this case, approximately 94% of the
9 Company's Kansas share of the La Cygne Project as established in the 11-581 Docket
10 will have been approved for recovery in rates. The La Cygne Project is considered
11 complete and has come in on schedule and below budget.

12 **Q: Have the parties to this docket submitted a Settlement to the Commission for**
13 **consideration?**

14 A: Yes, we have. On April 25, 2017, the parties filed the Settlement with the Commission.

15 **Q: Please provide an overview of the Settlement.**

16 A: First, I would like to explain that there was very little disagreement between the parties
17 about the requests made by KCP&L in its application. The list of contested issues was
18 very limited. It is not a "black box" settlement in that all of the components of the
19 resulting recommended revenue requirement decrease are identified by each party in the
20 same way. The difference between the Company's original request for a decrease of
21 \$2.8 million and the Settlement decrease recommendation of \$3.6 million is primarily a
22 result of actual La Cygne Project costs coming in lower than KCP&L projected in its
23 Application. Staff and CURB agree with KCP&L's treatment of the regulatory assets

1 and liability that will be terminated effective with the rates resulting from this case and
2 with the accounting for the Wolf Creek Capital Additions. The primary issue where the
3 parties disagreed related to inclusion of an amortization amount for obsolete inventory
4 related to the equipment changes at the La Cygne Station. KCP&L agreed to remove this
5 requested recovery. The other primary difference between Staff and the Company
6 regarded the definition of the after-tax weighted average cost of capital (“WACC”)
7 approved by the Commission for calculation of interest related to the La Cygne Project.
8 While both parties agree that the after-tax WACC is what the Commission approved for
9 use, they disagree on the definition of after-tax WACC. The issue was resolved by an
10 adjustment halfway between the positions. All parties reserve the right to argue their
11 respective positions regarding the definition of after-tax WACC in future proceedings.
12 The Settlement addresses and resolves all of the issues that were in dispute in this case. It
13 was the result of negotiations and concessions made by all signatory parties. The terms
14 are not based on any specific party’s filed positions on the issues resolved by the
15 Settlement.

16 **Q: Is the Settlement unanimous?**

17 A: Yes.

18 **Q: Would you please explain the terms of the Settlement?**

19 A: The Settlement recommends a decrease to KCP&L’s revenue requirement of \$3,557,588.

20 That amount includes:

- 21 ▪ True-up of La Cygne Project costs to actual with all affected components of
22 KCP&L’s revenue requirement, including deferred taxes, trued-up consistently.
23 Allowance for Funds Used During Construction (“AFUDC”) amounts recorded on
24 the Project were also trued-up;
- 25 ▪ True-up of La Cygne deferred depreciation total amortization amount, including
26 deferred taxes, as well as annual amortization amount;

- 1 ▪ True-up of Wolf Creek capital additions costs to actual with all affected components
2 of KCP&L's revenue requirement, including deferred taxes, trued-up consistently.
3 AFUDC amounts recorded on the Wolf Creek Additions were also trued-up;
- 4 ▪ Update to the amortization of Wolf Creek refueling outage costs included in base
5 rates to refueling outage 20 actual expenditures;
- 6 ▪ Termination of the following regulatory assets and liabilities:
- 7 ○ Removal of amortization of pre-existing FAS 87 regulatory asset;
- 8 ○ Removal of amortization of the regulatory assets associated with rate case
9 expense for all rate cases prior to the 15-116 Docket;
- 10 ○ Removal of amortization of the regulatory asset associated with the Kansas
11 Merger Transition Costs;
- 12 ○ Removal of the amortization of the regulatory asset associated with the talent
13 assessment expenses; and
- 14 ○ Removal of amortization of the regulatory liability of a legal fee
15 reimbursement.
- 16 ▪ Adjustment for the billing determinant and revenue impacts of customer migration
17 from one customer class to another as the result of the 15-116 Docket; and
- 18 ▪ Allocation of the recommended decrease across the customer classes.⁶

19 **Q: Are there any other items addressed in the Settlement?**

20 A: No. This was a very limited case and the resolution is very straight-forward.

21 **Q: Does the Company believe the Settlement is a reasonable resolution of the identified**
22 **issues involved in this proceeding?**

23 A: Yes. Taken in its entirety, the Settlement provides a reasonable resolution of the issues it
24 addresses. The final outcomes are acceptably aligned within the range of positions taken
25 by the parties for each of the issues and supported by their respective testimonies.

26

⁶ If the Commission has specific questions regarding the customer migration issue or the allocation of the revenue requirement across the customer classes, KCP&L witness Marisol Miller will be available at the Settlement Hearing, if held, to answer questions on those topics.

1 **III. COMMISSION’S REVIEW STANDARD FOR SETTLEMENTS**

2 **Q: Are you familiar with the factors the Commission considers when reviewing a**
3 **proposed settlement?**

4 A: Yes, I am. It is my understanding that because this is a unanimous settlement agreement
5 the “five-factor test” the Commission often uses when reviewing a non-unanimous
6 settlement agreement does not apply.

7 **Q: On what do you base this understanding?**

8 A: In the Commission’s Order in KCP&L’s last full general rate case, it stated,
9 The Revenue Requirement Settlement is a unanimous settlement
10 agreement as defined by K.A.R. 82-1-230a. Therefore, there is no need to
11 apply the five-factor test.⁷

12 **Q: On what standards should the Commission then review the unanimous settlement**
13 **agreement before it in this docket?**

14 A: I am not an attorney, but I understand that when approving a settlement, the Commission
15 must make an independent finding that the settlement is supported by substantial
16 competent evidence in the record as a whole, establishes just and reasonable rates, and is
17 in the public interest.⁸ I will discuss how the proposed Settlement meets each of these
18 three standards.

⁷ Docket No. 15-KCPE-116-RTS, *Order on KCP&L’s Application for Rate Change*, ¶ 16, p. 6.

⁸ *Citizens’ Util. Ratepayer Bd. v. Kansas Corp. Comm’n*, 28 Kan. App. 2d 313, 316 (2000), rev denied March 20, 2001.

1 (1) *The Settlement is Supported by Substantial Competent Evidence*

2 **Q: Is there substantial competent evidence in the record of this docket to support the**
3 **Settlement submitted by the parties?**

4 A: Yes. All items agreed to and included in this Settlement are supported by substantial
5 competent evidence in the record as a whole. Four KCP&L witnesses filed direct and/or
6 rebuttal testimony in support of its Application. Staff and interveners have filed the
7 testimony of various witnesses, comprising direct testimony only as there was no cross-
8 answering testimony filed in this case. The terms of the Settlement reflect a compromise
9 of the positions taken by the various parties in their pre-filed testimony.

10 **Q: Are the terms of the Settlement consistent with the testimony filed in the docket?**

11 A: Yes. The terms of the Settlement fall within the range of positions taken by the parties in
12 this case.

13 (2) *The Settlement Results in Just and Reasonable Rates*

14 **Q: Does the Settlement result in just and reasonable rates for KCP&L's customers?**

15 A: Yes. My understanding is that, in determining whether rates are just and reasonable, the
16 focus of inquiry is on the end result or “total effect” of the rate order, rather than on the
17 specific rate-setting method employed. The agreed-upon terms in the Settlement
18 represent a compromise between the positions proposed by the parties on the items
19 addressed. Although this by itself is not conclusive evidence of the reasonableness of the
20 Settlement provisions, the Commission has said its goal in a ratemaking is to determine
21 that a rate that falls within a “zone of reasonableness” after applying a balancing test in
22 which the interests of all concerned parties are considered. The Settlement falls within
23 the zone of reasonableness. It takes into account the interests of all parties involved.

1 Further, the Settlement terms are within the range of the original positions of the parties.
2 The Settlement also satisfies the balancing test aspect of the zone of reasonableness
3 evaluation because it necessarily represents the parties' recognition of the litigation risk
4 that a party will not prevail on every element of its case.

5 **Q: Please discuss the fact that this Settlement is considered unanimous?**

6 A: The parties to this docket represent a variety of interests. The fact that there is agreement
7 between these parties regarding the terms of this Settlement indicates the Settlement is
8 balanced and fair. This Settlement is structured so that the terms are within the range of
9 the original positions of the parties.

10 (3) **The Results of the Settlement are in the Public Interest**

11 **Q: Is the Settlement in the public interest?**

12 A: Yes. Each party to this proceeding has a duty to protect the interests of the party it
13 represents. KCP&L has a duty to both its customers and its shareholders. CURB
14 represents the interests of residential and small commercial customers. Staff represents
15 the public generally. The "total effect" of the terms of the Settlement will result in just
16 and reasonable rates and it represents an equitable balancing of the interests of all parties.

17 **Q: Does that conclude your testimony?**

18 A: Yes, it does.

