

Exhibit No.: 138
Issue: Injuries and Damages Expense
Witness: Graham A. Vesely
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2006-0314
Date Testimony Prepared: October 6, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

GRAHAM A. VESELY

FILED

NOV 13 2006

Missouri Public
Service Commission

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

~~Staff~~ Exhibit No. 138
Case No(s). ER-2006-0314
Date 10-16-06 Rptr XF

Jefferson City, Missouri
October 2006

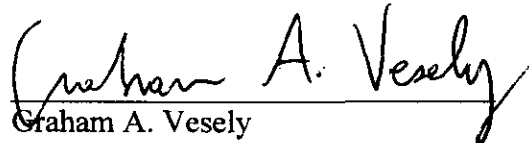
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company for Approval to Make) Case No. ER-2006-0314
Certain Changes in its Charges for Electric Service)
to Begin the Implementation of Its Regulatory Plan.)

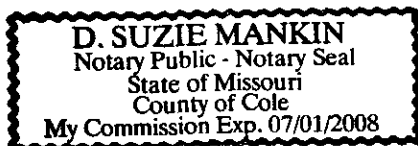
AFFIDAVIT OF GRAHAM A. VESELY

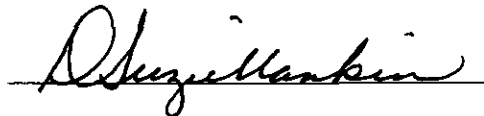
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Graham A. Vesely, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Graham A. Vesely

Subscribed and sworn to before me this 3rd day of October 2006.





1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **GRAHAM A. VESELY**

4 **KANSAS CITY POWER AND LIGHT COMPANY**

5 **CASE NO. ER-2006-0314**

6 Q. Please state your name and business address.

7 A. Graham A. Vesely, 615 East 13th Street, Kansas City, MO 64106.

8 Q. By whom are you employed and in what capacity?

9 A. I am a Regulatory Auditor for the Missouri Public Service Commission
10 (Commission).

11 Q. Are you the same Graham A. Vesely that filed direct testimony in this Case
12 No. ER-2006-0314?

13 A. Yes, I am. I filed direct testimony on August 8, 2006 concerning corporate
14 costs, SO2 emission allowances, advertising expense, and injuries and damages expense.

15 Q. What is the purpose of your surrebuttal testimony?

16 A. My purpose is to respond to the rebuttal testimony of Kansas City Power and
17 Light Company (KCPL or Company) witness Lori Wright in the area of injuries and damages
18 expense.

19 **INJURIES AND DAMAGES EXPENSE**

20 Q. Witness Lori Wright states on page 11 of her rebuttal testimony, that your
21 proposal to reflect injuries and damages expense on a cash basis "fails to consider that the
22 results of the cash lead/lag study accounts for the effects of the timing of cash payments
23 versus accrual accounting". How do you respond?

1 A. The lead/lag study included in Staff witness Phillip K. Williams' testimony
2 only reflects the cash flow effects of the time lag between receipt of funds from ratepayers
3 and payment by KCPL of injuries and damages expenses. Thus, the lead/lag study identifies
4 the time between the date KCPL collects funds from customers and the date KCPL pays out
5 monies for settling claims from injuries and damages. However, this lead/lag analysis does
6 not attempt to establish the annualized amount of such injuries and damages expenses.
7 Determining the Staff's annualized level of injuries and damages expense was one of my
8 areas of responsibility in this rate case, as described in my direct testimony.

9 Q. Has Staff modified its cash working capital study to ensure that the annualized
10 value you are sponsoring for injuries and damages expense is included?

11 A. Yes, Staff witness Williams addresses the amount included in the lead/lag
12 study in his surrebuttal testimony.

13 Q. Also on page 11 of her rebuttal testimony, Lori Wright disagrees with your
14 method of using a three-year average of cash payments for determining annualized injuries
15 and damages expense. How do you respond?

16 A. Cash payments are a better reflection of KCPL's actual known and measurable
17 injuries and damages expense. The accruals that KCPL proposes to use for setting rates are
18 simply projections of the costs KCPL estimated it might eventually incur to settle claims
19 arising from certain accidents. Unlike cash payments actually made, these accrual amounts
20 do not represent real costs to KCPL, but rather are projections or estimates made at the time
21 casualty events took place.

22 Q. Please discuss how the actual costs of injuries and damages, as reflected by
23 cash payments, differ from projected costs, as reflected by accruals, over the last five years.

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Graham A. Vesely

A. As shown in the following table, accruals have exceeded actual cash payments in four of the five years ending with the test year:

ACCOUNT	DESCRIPTION	General Ledger					Total 2001-2005
		2001	2002	2003	2004	2005	
228201	Cash Paid	392,637	389,684	386,188	234,078	521,449	
228203	Cash Paid	<u>659,088</u>	<u>237,787</u>	<u>2,097,178</u>	<u>1,546,817</u>	<u>1,261,258</u>	
	Total Cash	1,051,725	627,471	2,483,366	1,780,895	1,782,707	\$ 7,726,164
228206	Accruals	1,510,983	2,469,021	2,527,128	1,162,510	3,101,294	\$ 10,770,936

Source: DR 374 response

In 2004, total cash basis amounts exceeded accrual amounts, but over the five-year period 2001-2005 it can be seen that accruals exceed actual cash payments by over \$3 million.

Q. Why did you apply a three-year average of cash payments instead of a five-year average to arrive at Staff's annualized injuries and damages expense?

A. I believe that going back five years would include values that are no longer representative of KCPL's ongoing costs and would result in an excessively large negative adjustment to the test year. Though the last two years of the analysis (2004 and 2005) show similar cash basis expense levels, I also included the cash payments for 2003 in my three-year average to allow for the fact that costs can fluctuate. However, even including the relatively high cash payout of 2003, the cash basis three-year average is still about \$1 million less than what KCPL had accrued for the 2005 test year.

Q. Should you have compared the cash basis three-year average to the accrual basis three-year average as suggested by Lori Wright, on page 12 of her rebuttal testimony?

A. No, I do not believe I should have. Whereas accrual basis estimates serve a purpose at the time they are made, for ratemaking purposes the record of cash payments is a more accurate indicator of KCPL's injuries and damages expense. The cash basis three-year average level, which exceeds the cash basis test year level, takes into consideration the fluctuations in the amount of yearly cash payouts. None of these determinations rely on an

Surrebuttal Testimony of
Graham A. Vesely

1 analysis of the estimated amounts accrued. The necessary adjustment compares the Staff's
2 annualized value to the level KCPL recorded in the test year, not the accrual basis three-year
3 average. In my testimony I have made reference to the accruals only to show: a) how they
4 differed from actual cash payments and, b) that company's recommended reliance on them for
5 rate making purposes would result in an overstatement of injuries and damages expense.

6 Q. Can you provide any other examples of areas where the Staff relies on cash
7 basis rather than accrual accounting for ratemaking?

8 A. As described in Staff witness Philip K. Williams' testimony, KCPL and the
9 Staff currently disagree on the preferred approach to determining annualized property tax
10 expense, with the Staff opting for reliance on actual beginning of year property values. As
11 described in Staff witness Kim Bolin's testimony, both KCPL and Staff have determined
12 annualized bad debt expense by relying on actual net write-offs, rather than using the amounts
13 accrued throughout the year.

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes, it does.