

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

**EXHIBIT**

Regulatory Plan Amortization

Trippensee/

Rebuttal

Public Counsel

ER-2006-0314

**REBUTTAL TESTIMONY**

**OF**

**RUSSELL W. TRIPPENSEE**

**FILED**

**NOV 13 2006**

Missouri Public  
Service Commission

Submitted on Behalf of the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

CASE NO. ER-2006-0314

September 8, 2006

*OPC* Exhibit No. 213  
Case No(s) ER-2006-0314  
Date 10-16-06 Rptr xf

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

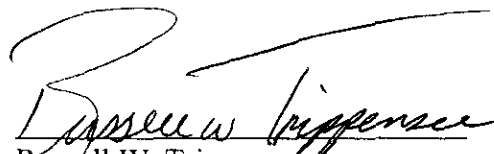
In the Matter of the Application of Kansas )  
City Power & Light Company for )  
Approval to Make Certain Changes in its ) **ER-2006-0314**  
Charges for Electric Service to Begin the )  
Implementation of Its Regulatory Plan )

**AFFIDAVIT OF RUSSELL W. TRIPPENSEE**

**STATE OF MISSOURI** )  
 ) ss  
**COUNTY OF COLE** )

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:


1. My name is Russell Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of 8 pages and Schedule RWT pages 1-3.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
Russell W. Trippensee

Subscribed and sworn to me this 8th day of September 2006.



JERENE A. BUCKMAN  
My Commission Expires  
August 10, 2009  
Cole County  
Commission #05754036

  
Jerene A. Buckman  
Notary Public

My Commission expires August 10, 2009.

**REBUTTAL TESTIMONY**  
**OF**  
**RUSSELL W. TRIPPENSEE**  
**KANSAS CITY POWER & LIGHT COMPANY**  
**CASE NO. ER-2006-0314**

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

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my  
3 business address is P.O. Box 2230, Jefferson City, Missouri 65102.

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

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public  
6 Counsel).

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in  
9 Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program at  
10 Michigan State University.

11 **Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT?**

12 A. Yes, I hold certificate/license number 2004012797 in the State of Missouri.

13 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

14 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public  
15 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a  
16 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and  
17 assumed my present position.

18

19

1    **Q.    PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

2    A.    I served as the chairman of the Accounting and Tax Committee for the National Association of State  
3           Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a  
4           member of the Missouri Society of Certified Public Accountants.

5    **Q.    PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**  
6           **STAFF.**

7    A.    Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations  
8           of the books and records of public utility companies operating within the State of Missouri with  
9           regard to proposed rate increases.

10   **Q.    WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**  
11          **THE PUBLIC COUNSEL?**

12   A.    I am responsible for the Accounting section of the Office of the Public Counsel and coordinating our  
13           activities with the rest of our office and other parties in rate proceedings. I am also responsible for  
14           performing audits and examinations of public utilities and presenting the findings to the MPSC on  
15           behalf of the public of the State of Missouri.

16   **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

17   A.    Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the  
18           Missouri Office of the Public Counsel or MPSC Staff.

19   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

20   A.    I will address the Staff's proposal for a Regulatory Plan Amortization (RPA) for Kansas City Power  
21           & Light Company (KCPL or Company) as set out in the direct testimony of Steve M. Traxler. There  
22           are three areas of concern Public Counsel has with the recommendation of Staff. The first area of

1 concern is the level of off-balance sheet amounts used in the determination of the RPA. The amount  
2 of the respective components of the capital structure used in RPA calculation is the second area of  
3 concern. Finally, I will address the appropriate level of the RPA and the appropriate classification of  
4 the RPA for ratemaking and book purposes.

5 **Q. PLEASE EXPLAIN WHAT THE REGULATORY PLAN AMORTIZATION IS AND**  
6 **ITS GENESIS.**

7 A. The Stipulation and Agreement approved by the Commission in Case No. EO-2005-0329  
8 (Regulatory Plan) contained provisions providing for a calculation of an amortization expense in  
9 addition to the traditional revenue requirement in order that specific financial ratios could be met  
10 based on the Missouri jurisdictional revenue requirement as determined by the Commission for  
11 Missouri retail operations of the Company. It should be emphasized that the determination of  
12 whether or not the financial ratios were met is based not on actual financial results but on the  
13 Commission findings in the general rate cases provided for in the Regulatory Plan filed prior to June  
14 1, 2010. The RPAs are designed to provide additional cash flows to the Company.

15 **Q. DID YOU PARTICPATE IN CASE NO. EO-2005-0329?**

16 A. Yes, I participated not only in EO-2005-0329 but also presented written and oral testimony on behalf  
17 of Public Counsel at the hearing at which the signatory parties presented the non-unanimous  
18 Stipulation & Agreement to the Commission for consideration.

19 **Q. WHAT IS YOUR CONCERN WITH RESPECT TO OFF-BALANCE SHEET**  
20 **AMOUNTS DISCUSSED IN MR. TRAXLER'S DIRECT TESTIMONY BEGINNING**  
21 **ON PAGE 17, LINE 27?**

1 A. The off-balance sheet amounts are calculated with two variables that effect the quantification, those  
2 being a discount rate and a risk factor associated with long-term purchased power contracts that rating  
3 agencies classify as a debt-equivalent transaction. Mr. Traxler made an adjustment to the discount  
4 rate using 6.1% instead of 10.0% in his quantification of the appropriate off-balance sheet level for  
5 these transactions. I concur with Mr. Traxler's use of a 6.1% rate. However, Mr. Traxler used a risk  
6 factor of 30%. While rating agencies provide for a risk factor of 30% or and even larger risk factor  
7 such as the 50% incorporated in KCPL workpapers in response to Staff data request no. 0444, Public  
8 Counsel does not agree that any risk factor higher than the minimum is an appropriate factor for a  
9 regulated utility.

10 Q. HAVE THE PARTIES AGREED ON THE RISK FACTOR TO APPLY TO THE  
11 INDIVIDUAL OFF-BALANCE SHEET OBLIGATIONS?

12 A. No. The Stipulation & Agreement in the Regulatory Plan case contained no reference to the risk  
13 factor to be used.

14 Q. WHAT RISK FACTOR WOULD PUBLIC COUNSEL RECOMMEND BE APPLIED TO  
15 THE INDIVIDUAL OFF-BALANCE SHEET OBLIGATIONS?

16 A. It is the Public Counsel's belief that the lowest risk factor available within the rating agency  
17 methodology should be utilized to determine the debt-equivalent value of each off-balance sheet  
18 obligation included in the calculation of the amortization. KCPL is a regulated entity providing  
19 service to Missourians as a monopoly provider of electric service. Any risk associated with a loss of  
20 market share for the services provided, loss of revenue streams, or this Commission's obligation to  
21 provide KCPL with an opportunity to earn a reasonable rate of return (i.e. all expense supported by

1 revenue including a reasonable return) is minimal. Thus, Public Counsel recommends that the risk  
2 factor to apply be 10%.

3 **Q. WOULD UTILIZATION OF A 10% RISK FACTOR BE A VIOLATION OF THE**  
4 **TERMS OF THE REGULATORY PLAN?**

5 A. No. The parties to the plan set out a procedure by which to determine if additional monies were  
6 necessary to meet certain cash flow criteria. That procedure specified what inputs would be included  
7 but did not specify how those input are calculated. Rating agencies use a range of risk factors with  
8 10% being the lowest. Since KCPL is a regulated public utility operating under the jurisdiction of the  
9 Commission (which has the statutory duty to provide the Company with an opportunity to earn a  
10 reasonable rate of return), Public Counsel believes the risk of default on any off-balance sheet  
11 obligations is virtually non-existent. In fact, I could argue that 10% is too high, but I used it anyway  
12 because it is the lowest rate used by rating agencies.

13 **Q. DOES PUBLIC COUNSEL AGREE WITH THE CAPITAL STRUCTURE THAT HAS**  
14 **BEEN ASSIGNED TO MISSOURI UNDER THE REGULATORY PLAN**  
15 **AMORTIZATION CALCULATED BY THE STAFF?**

16 A. No. Staff allocated the total capital structure of Great Plains Energy (GPE) to Missouri electric  
17 operations using an allocation ratio based on Missouri electric operations rate base divided by total  
18 KCPL electric rate base. The result of this method is that those portions of GPE's capital structure  
19 that support non-regulated operations such as Strategic Energy are assigned to Missouri.

20

21

1 Q. HOW DOES THE ASSIGNMENT OF CAPITAL STRUCTURE SUPPORTING NON-  
2 REGULATED OPERATIONS EFFECT THE REGULATORY PLAN AMORTIZATION?

3 A. There is an increase in two critical components of the RPA calculation, the amount of interest expense  
4 and total debt assigned to Missouri electric operations. Missouri electric operations are responsible  
5 for providing cash flow to cover additional increased interest expense included in the financial metric  
6 Funds From Operations Interest Coverage {  $(\text{FFO} + \text{Interest Expense}) \div \text{Interest Expense}$  }.  
7 Missouri would also be responsible to provide cash flow so that the financial metric of Funds From  
8 Operations as a percent of Total Debt could be met {  $\text{FFO} \div \text{Adjusted Total Debt}$  }. By  
9 increasing the two components, the amount of FFO must increase in order to meet the financial  
10 metrics of 3.8 interest coverage and 25% FFO as Percent of Total Debt.

11 Q. IS IT YOUR UNDERSTANDING THAT THE STAFF AND COMPANY HAVE  
12 RECOGNIZED THIS PROBLEM WITH THE CALCULATION IN THE STAFF'S  
13 DIRECT TESTIMONY?

14 A. Yes. However a specific solution has not yet been agreed to. Staff and Public Counsel have  
15 discussed various options and also had communications with Company personnel on this issue. A  
16 final resolution has not been reached.

17 Q. DOES PUBLIC COUNSEL HAVE A PREFERENCE AMONG THE OPTIONS  
18 DISCUSSED?

19 A. Yes. Public Counsel believes the RPA calculation should recognize all components of the balance  
20 sheet that are attributable to Missouri retail electric operations that are not recognized in rate base.  
21 Specifically, Public Counsel believes the levels of capital structure necessary to support electric  
22 Construction Work in Progress and the Nuclear Decommissioning Trust Fund should be included in  
23 the calculation.



1 Public Counsel is agreeable to continue working with Staff, the Company, and other parties and try to  
2 reach consensus on this issue prior to surrebuttal testimony. Public Counsel would point out that this  
3 concern was not addressed in Appendix F-3 to the Stipulation and Agreement in Case No. EO-2005-  
4 0329. This is due to the fact that the numbers contained in Appendix F-3 were for illustrative  
5 purposes only. The language of the III.B.1.i of the Stipulation & Agreement clearly anticipated that  
6 the RPA would provide cash flows related to Missouri Operations.

7 KCPL also recognizes and agrees that its Missouri operations are only responsible  
8 for and will only provide cash flow for its Missouri operating share of the necessary  
9 cash flows as set out in the Paragraph III.B.1.i

10 Page 21 of Stipulation & Agreement, Case No. EO-2005-0329

11 **Q. DOES PUBLIC COUNSEL AGREE WITH STAFF'S POSITION REGARDING THE**  
12 **GROSS-UP OF THE REGULATORY PLAN AMORTIZATION FOR INCOME**  
13 **TAXES?**

14 **A.** Yes. The treatment of the RPA as a supplement to depreciation of existing plant will result in  
15 additional straight line tax depreciation deduction.

16 **Q. DOES PUBLIC COUNSEL AGREE THAT STAFF HAS QUANTIFIED THE**  
17 **APPROPRIATE LEVEL OF AMORTIZATION IN ITS DIRECT TESTIMONY**  
18 **USING THE TREATMENT OF THE RPA AS A SUPPLEMENT TO**  
19 **DEPRECIATION OF EXISTING PLANT-IN-SERVICE?**

20 **A.** No. During discussions on this issue, it became apparent to Public Counsel (and I believe to Staff  
21 also) that the Staff's direct testimony had understated the RPA. The treatment of the RPA as a  
22 supplement to depreciation requires that the initial level of RPA calculated based upon the revenue  
23 requirement using traditional overall cost of service methods must be increased by a factor to

1 recognize the reduction of deferred taxes available for cash flows under the RPA. This additional  
2 depreciation factor would be equal to the following formula:

3 1 divided by (1 minus effective tax rate)

4 as example

5  $1 / (1 - .038) = 1 / .962 = 1.041$

6 **Q. HAS THE COMPANY BEEN MADE AWARE OF THIS CONCERN?**

7 A. Yes. Public Counsel, Staff, and KCPL have been in discussions regarding the additional depreciation  
8 necessary under the RPA. It is my belief that an agreement on the need to recognize an additional  
9 depreciation factor has been reached in concept. However, as of the time of filing this testimony, a  
10 final agreement has not been formally stipulated to by the parties. I should also point out that other  
11 parties to the case were alerted via email of a conference call held on this date and some participated.

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

13 A. Yes.

Rebuttal Testimony  
Russell W. Trippensee  
Case No. ER-2006-0314

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179  
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180  
Missouri Edison Company, Electric Dept., Case No. ER-79-120  
Southwestern Bell Telephone Company, Case No. TR-79-213  
Doniphan Telephone Company, Case No. TR-80-15  
Empire District Electric Company, Case No. ER-83-43  
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181  
Missouri Public Service Company, Electric Dept., Case No. ER-81-85  
Missouri Water Company, Case No. WR-81-363  
Osage Natural Gas Company, Case No. GR-82-127  
Missouri Utilities Company, Electric Dept., Case No. ER-82-246  
Missouri Utilities Company, Gas Dept., Case No. GR-82-247  
Missouri Utilities Company, Water Dept., Case No. WR-82-248  
Laclede Gas Company, Case No. GR-83-233  
Great River Gas Company, Case No. GR-85-136 (OPC)  
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)  
United Telephone Company, Case No. TR-85-179 (OPC)  
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)  
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)  
KPL/Gas Service Company, GR-86-76 (OPC)  
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)  
Union Electric Company, Case No. EC-87-115 (OPC)  
Union Electric Company, Case No. GR-87-62 (OPC)  
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)  
St. Louis County Water Company, Case No. WR-88-5 (OPC)  
West Elm Place Corporation, Case No. SO-88-140 (OPC)  
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)  
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)  
Osage Utilities, Inc., Case No. WM-89-93 (OPC)  
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)  
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)  
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)  
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)  
Capital City Water Company, Case No. WR-90-118 (OPC)  
Laclede Gas Company, Case No. GR-90-120 (OPC)  
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)

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Russell W. Trippensee  
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Empire District Electric Company, Case No. ER-90-138 (OPC)  
Associated Natural Gas Company, Case No. GR-90-152 (OPC)  
Southwestern Bell Telephone Company, Case No. TO-91-163  
Union Electric Company, Case No. ED-91-122  
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360  
The Kansas Power and Light Company, Case No. GR-91-291  
Southwestern Bell Telephone Co., Case No. TO-91-163  
Union Electric Company, EM-92-225 and EM-92-253  
Southwestern Bell Telephone Company, TO-93-116  
Missouri Public Service Company, ER-93-37, (January, 1993)  
Southwestern Bell Telephone Company, TO-93-192, TC-93-224  
Saint Louis County Water Company, WR-93-204  
United Telephone Company of Missouri, TR-93-181  
Raytown Water Company, WR-94-300  
Empire District Electric Company, ER-94-174  
Raytown Water Company, WR-94-211  
Missouri Gas Energy, GR-94-343  
Capital City Water Company, WR-94-297  
Southwestern Bell Telephone Company, TR-94-364  
Missouri Gas Energy, GR-95-33  
St. Louis County Water Company, WR-95-145  
Missouri Gas Energy, GO-94-318  
Alltel Telephone Company of Missouri, TM-95-87  
Southwestern Bell Telephone Company, TR-96-28  
Steelville Telephone Exchange, Inc., TR-96-123  
Union Electric Company, EM-96-149  
Imperial Utilities Corporation, SC-96-247  
Laclede Gas Company, GR-96-193  
Missouri Gas Energy, GR-96-285  
St. Louis County Water Company, WR-96-263  
Village Water and Sewer Company, Inc. WM-96-454  
Empire District Electric Company, ER-97-82  
UtiliCorp d/b/a Missouri Public Service Company, GR-95-273  
Associated Natural Gas, GR-97-272  
Missouri Public Service, ER-97-394, ET-98-103  
Missouri Gas Energy, GR-98-140

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Russell W. Trippensee  
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St. Louis County Water, WO-98-223  
United Water Missouri, WA-98-187  
Kansas City Power & Light/Western Resources, Inc. EM-97-515  
St. Joseph Light & Power Company, HR-99-245  
St. Joseph Light & Power Company, GR-99-246  
St. Joseph Light & Power Company, ER-99-247  
AmerenUE, EO-96-14, (prepared statement)  
Missouri American Water Company, WR-2000-281  
Missouri American Water Company, SR-2000-282  
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292  
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369  
St. Joseph Light & Power Company, EO-2000-845  
St. Louis County Water Company, WR-2000-844  
Union Electric Company, EO-2001-245  
Laclede Gas Company, GM-2001-342  
Empire District Electric Company, ER-2001-299  
Missouri-American Water Company, et. al., WM-2001-309  
AmerenUE, EC-2002-152, GC-2002-153  
UtiliCorp United Inc., ER-2001-672  
Aquila, Inc., GO-2002-175  
AmerenUE, ER-2002-001  
Laclede Gas Company, GA-2002-429  
AmerenUE, GR-2003-0517  
Algonquin Water Resources of Missouri & Silverleaf Resort, Inc. WO-2005-0206  
Kansas City Power & Light Company, Case No. EO-2005-0329  
Empire District Electric Company, Case No. ER-2006-0315  
Kansas City Power & Light Company, Case No. ER-2006-0314