

Staff-15

Exhibit No.:
Issue: Advertising Expense, Dues
and Donations Expense
Witness: Graham A. Vesely
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2007-0291
Date Testimony Prepared: September 20, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

GRAHAM A. VESELY

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2007-0291

115
Exhibit No. ~~215~~
Case No(s) ER-2007-0291
Date 10/1/07 Rptr MV

Jefferson City, Missouri
September 2007

1
2
3
4
5
6
7
8
9

TABLE OF CONTENTS OF
SURREBUTTAL TESTIMONY OF
GRAHAM A. VESELY
KANSAS CITY POWER AND LIGHT COMPANY
CASE NO. ER-2007-0291

EXECUTIVE SUMMARY..... 1
ADVERTISING EXPENSE 2
DUES AND DONATIONS 4

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

1 membership dues paid to a number of organizations in excess of that which can be justified as
2 reasonable and necessary for providing service to its current customers.

3 **ADVERTISING EXPENSE**

4 Q. At the bottom of page 2 of his rebuttal testimony, Mr. Spielberger states that he
5 disagrees with your proposed disallowance of the advertising costs you classified as
6 institutional. Do you have a response to that testimony?

7 A. Yes. My proposed adjustment recommended eliminating costs that KCPL
8 itself had described as "corporate image advertising" in its response to Staff Data Request
9 No. 146. In my work I merely used the term "institutional advertising" to describe those same
10 costs, since this was the specific terminology the Commission used to label these costs in its
11 final order issued in Re: Kansas City Power and Light Company, 28 MO P.S.C. (N.S.) 228
12 (1986) (KCPL). It was in that case that the Commission addressed in detail what types of
13 advertising costs it was appropriate to charge to utility customers. Institutional advertising
14 costs, the Commission stated, should never be charged to customers.

15 Q. Did you rely on KCPL's classification of its various types of advertising as in
16 making your recommended disallowance of institutional advertising costs?

17 A. Yes, while I did review all other classifications of advertising costs on a
18 case-by-case basis, I proposed disallowing, based on principle, all costs that KCPL labeled
19 "corporate image advertising," as being "institutional" in character. In the above-cited
20 1986 KCPL case, the Commission described "institutional advertising" as advertising for the
21 purpose of improving the company's public image. Staff is of the opinion that KCPL's
22 customers form their impression of the Company largely based on the service they receive,

Surrebuttal Testimony of
Graham A. Vesely

1 | rather than based on institutional advertising. On the other hand, a possible target audience of
2 | KCPL's institutional advertising might be prospective investors.

3 | Q. Has KCPL informed Staff that the Company had incorrectly labeled as
4 | "corporate image" (institutional) some of the advertising costs contained in its response to
5 | Staff Data Request No. 146?

6 | A. Yes, it has, as confirmed also in Mr. Spielberger's rebuttal testimony.

7 | Q. Are you changing your previously proposed adjustment to advertising
8 | expense?

9 | A. Yes, I am. After being presented with Company's revised Data Request
10 | No. 146 response, I have reviewed the advertising costs previously disallowed as institutional
11 | in nature. I agree that to a large extent the costs in question are not for institutional
12 | advertising and do not require disallowance.

13 | Q. Do you agree, then, as Mr. Spielberg recommends on page 5 of his rebuttal
14 | testimony, that Staff's disallowance of institutional advertising should be reduced from
15 | \$644,996 to \$154,799?

16 | A. No, I do not, for the following reason. In a meeting with Company to discuss
17 | various matters, Staff raised the fact that the advertisements in question were aimed at
18 | informing customers of the projects and programs included in KCPL's Regulatory Plan, as
19 | adopted by the Commission in the Stipulation and Agreement under case No. EO-2005-0329,
20 | leading to a series of rate filings. Mr. Spielberg confirms that is the purpose of these ads on
21 | page 4 of his rebuttal testimony. Staff therefore recommends that the reclassified advertising
22 | costs described by Mr. Spielberg be allowed in rates, but amortized over a two-year period,

1 consistent with the amortization period ordered by the Commission for all rate case related
2 expenses in previous Case No. ER-2006-0314.

3 **DUES AND DONATIONS**

4 Q. What is Mr. Weisensee's objection to your proposed disallowance of dues and
5 donations costs?

6 A. It sounds like Mr. Weisensee, beginning on page 14 of his rebuttal testimony,
7 disagrees with the entirety of my proposed adjustment when he states that the dues I
8 eliminated "provide benefits to customers, as well as the community." However, he only
9 attempts to provide specific support for the dues KCPL paid to the Kansas City Area
10 Development Council (KCADC). He provided an example of language from KCADC's
11 website to support his assertion that KCADC is "involved in economic development."

12 Q. Is the mere fact that an organization might have an effect on economic
13 development within a regulated utility's service area justification for allowing utility
14 customers to be charged for dues paid to said organization?

15 A. No, this is not sufficient cause for doing so; otherwise, there would no limit to
16 the number of such organizations that could be found that in some way might affect economic
17 development. In fact, it is understandable that the goals of most, if not all, organizations,
18 whether for-profit, governmental, or not-for-profit (all three of these types can be found
19 among KCADC's membership roster), include promoting increased economic activity for the
20 benefit of their members. However, Staff believes that no tangible benefits to KCPL's current
21 utility customers can be discerned that would justify charging the latter for dues that KCPL
22 chose to incur, at its own discretion.

Surrebuttal Testimony of
Graham A. Vesely

1 Q. Has Staff allowed the cost of dues KCPL paid to Chamber of Commerce
2 (COC) chapters in the various communities where the Company provides service?

3 A. Yes, Staff has proposed no reduction of these dues paid, continuing its practice
4 of accepting the cost of membership in one organization that promotes business interests.

5 Q. Has KCPL paid dues specifically to the Greater Kansas City Area Chamber of
6 Commerce?

7 A. Yes, it has, and Staff has not proposed any reduction of the amount paid.

8 Q. Is the Greater Kansas City Area Chamber of Commerce a member of the
9 Kansas City Area Development Council?

10 A. Yes, it is. Therefore, through its membership in the Greater Kansas City Area
11 Chamber of Commerce, the cost of which Staff has agreed to pass on to customers, KCPL is
12 already supporting the activities of the KCADC. If KCPL wishes to provide further support
13 to the KCADC, Staff recommends this be done at shareholder expense.

14 Q. Mr. Weisensee concludes his rebuttal remarks in the area of dues expense by
15 stating that "Dues paid for economic development could result in an increase in the customer
16 base that fixed costs are spread across, thereby decreasing the cost of service to ratepayers."
17 Do you agree with him?

18 A. Yes, that is one possible outcome, but not the only one. Dues paid for
19 economic development could also not result in an increase in customer base. It is speculation
20 to guess what outcome will occur and rates should not be based on speculation. Electric rates
21 for current customers are typically set based on the cost of currently providing service. What
22 the impact on cost of service might be, for *future* customers, in the event that unspecified
23 economic development takes place, is pure speculation at this point, assuming even that such

Surrebuttal Testimony of
Graham A. Vesely

1 development could be attributed to KCPL's support of certain organizations. Would an
2 increase in customer numbers have the effect Mr. Weisensee mentions, or would it create the
3 need for additional investment in generation plant, with consequent rate increases? This is,
4 after all, precisely the situation that has given rise to the current rate case. Staff believes the
5 answer to these questions is far beyond the scope of the decision of whether or not to allow in
6 rates the cost of membership dues. The Staff recommends rates continue to be set based on
7 prudent and necessary costs of serving current customers.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

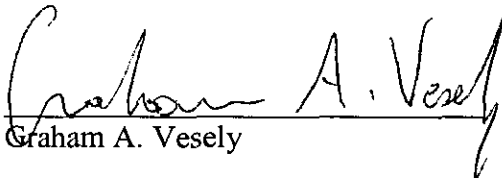
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power and Light Company for) Case No. ER-2007-0291
Approval to Make Certain Changes in its)
Charges for Electric Service To Implement Its)
Regulatory Plan.)

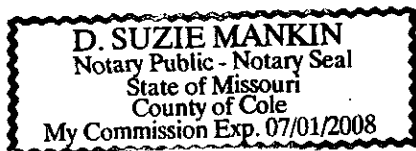
AFFIDAVIT OF GRAHAM A. VESELY

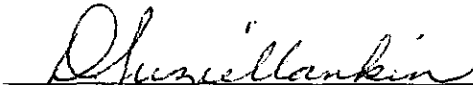
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Graham A. Vesely, being 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 6 pages to be presented in the above case; that the answers in the following 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 19th day of September, 2007.




Notary Public