

Staff-1 NP

FILED  
Oct. 15, 2007  
Data Center  
Missouri Public  
Service Commission

STAFF'S  
COST-OF-SERVICE  
REPORT  
FOR  
KANSAS CITY POWER & LIGHT  
COMPANY  
AS OF MARCH 31, 2007  
CASE NO. ER-2007-0291

NP

Exhibit No. 101-NP  
Case No(s) ER-2007-0291  
Date 10/1/07 Rptr mv

# TABLE OF CONTENTS

COST-OF-SERVICE REPORT.....	1
I. Executive Summary.....	1
II. Reconciliation of Staff's 3-31-07 Direct Case to KCPL's 9-30-07 Update Case.....	2
III. Rate of Return.....	5
IV. Rate Base.....	6
A. Plant-in-Service.....	6
1. In-Service Criteria.....	6
2. Net Plant In Service as of March 31, 2007.....	7
B. Cash Working Capital.....	7
C. Prepayments and Materials and Supplies.....	11
D. Deferred Sales from SO2 Emissions Allowances.....	11
E. FAS 87 – Pension Cost – Prepaid Pension Asset – Regulatory Asset - Rate Base.....	11
F. Fuel Inventories.....	12
G. Customer Deposits.....	13
H. Contributions In Aid of Construction.....	13
I. Regulatory Plan Additional Amortization - Rate Base.....	14
V. Jurisdictional Allocations.....	15
VI. Income Statement.....	16
A. RATE REVENUES.....	16
1. Introduction.....	16
2. Definitions.....	16
3. The Development of Rate Revenue in this Case.....	17
4. Regulatory Adjustments to Test Year Sales and Rate Revenue.....	18
B. Bulk Power Sales.....	23
1. Firm Off-System Sales.....	23
2. Non-Firm Off System Sales.....	24
C. Miscellaneous Revenues.....	25
1. Late Payment Revenue Gross-up.....	25
2. Annualized Revenues from LaCygne-West Gardner 345kV Transmission Upgrade.....	25
D. FUEL AND PURCHASED POWER.....	26
1. Fixed Costs.....	26
2. Variable Costs.....	27
3. Spot Market Prices.....	30
4. Hourly Net System Input.....	30
5. Planned and Forced Outages.....	33
E. DEPRECIATION.....	33
F. PAYROLL AND BENEFITS.....	33
1. FAS 87 and FAS 88 Pension Cost.....	33

2. FAS 106 – Other Post Retirement Benefit Costs (OPEB).....	34
3. Supplemental Executive Retirement Plan (SERP) .....	35
4. Payroll, Payroll Taxes and 401K Benefit Costs.....	35
5. Short Term Annual Executive Incentive Compensation .....	36
6. Long -Term Equity Incentive Compensation .....	37
7. Severance Costs – Talent Assessment .....	37
8. Severance Costs – Non -Talent Assessment .....	38
G. Maintenance Normalization Adjustments.....	39
H. Other Non-Labor Expenses.....	40
1. Hawthorn No. 5 Subrogation Proceeds.....	40
2. Regulatory Expenses.....	41
3. Relocation Expense.....	43
4. Meals and Entertainment Expense.....	43
5. Lobbying Expenses.....	44
6. Miscellaneous ER-2006-0314 Deferred Expense Amortizations .....	45
7. Capitalization of Sierra Club Collaboration Agreement.....	45
8. Nuclear Decommissioning.....	45
9. DOE Refund of Nuclear Fuel Overcharges .....	46
10. Property Tax Expense .....	46
11. Bad Debt Expense.....	47
12. Advertising Expense .....	47
13. Dues and Donations Expense.....	48
14. Remove Gross Receipts Taxes from Test Year Revenues.....	49
15. KC Receivables Bank Fees .....	49
16. Annualize Southwest Power Pool (SPP) Fees .....	49
17. Miscellaneous Adjustments .....	49
18. Non-Operating Costs in Account 923.1 .....	50
19. Amortization of Demand-Side Management Costs – Regulatory Asset .....	50
I. Current and Deferred Income Tax .....	51
1. Current Income Tax .....	51
2. Deferred Income Tax Expense: .....	52
VII. Reliability and Customer Service.....	53
A. QUALITY OF SERVICE: CALL CENTER AND RELIABILITY METRICS .....	53
B. Reliability .....	54
Appendices:.....	54

# **COST-OF-SERVICE REPORT**

## **I. Executive Summary**

The Staff has conducted a review of all cost of service components (capital structure and return on rate base, rate base, depreciation expense and operating expenses) which comprise KCPL's Missouri jurisdictional revenue requirement. KCPL has updated its filed case to substitute actual data for budgeted data for the last three months of the 2006 test year and made additional changes in annualization and normalization adjustments to reflect more current actual data and projections to September 30, 2007. The known and measurable date adopted for this case, Case No. ER-2007-0291, is March 31, 2007. The Staff's recommended increase in revenue requirement is based upon a measurement of KCPL's cost of service components as of March 31, 2007 with an estimate for the revenue requirement impact of known and measurable changes expected as of the true-up date adopted for this case, September 30, 2007. The Staff's recommended revenue requirement for KCPL based upon results through March 31, 2007 is approximately \$672,000. The Staff has added an additional \$14 million to its recommended revenue requirement representing \$11 million for the projected impact of known and measurable changes expected between March 31, 2007 and September 30, 2007, and an additional \$3 million to cover contingencies in the Staff's direct case filing. Some of the more significant revenue requirement impacts expected between March 31 and September 30, 2007 are:

**Capital Structure** - GPE plans on issuing an additional \*\* \_\_\_\_ \*\* million in long term debt between March 31 and September 30, 2007.

**Plant Additions** – New plant additions including the selective catalytic reduction (SCR) equipment at the LaCygne Unit 1 generating facility.

**Customer Growth** – KCPL is projecting additional customer growth which will increase both revenues and fuel and purchase power costs.

**Payroll & Benefits** – KCPL has wage rate changes scheduled between March 31 and September 30, 2007. Increases in employee benefits for medical, dental, vision and other miscellaneous benefits are expected to occur by September 30, 2007.

**Depreciation Expense** – The Staff's depreciation expense amount will increase when the additional plant investment expected through September 30, 2007 is included in Staff's plant in service balances.

**Regulatory Plan Additional Amortization** - Due to the debt ratio in the Staff's capital structure for GPE as of March 31, 2007, no increase in the Regulatory Plan Amortization is required based solely on the cost of service results as of March 31, 2007. However, the additional \$14 million constituting the Staff's recommended revenue requirement for known and measurable changes through September 30, 2007 is based on a significant increase, \$15 - \$17 million, in the Regulatory Plan Additional Amortization when the GPE capital structure reflects the increase in the debt ratio projected by KCPL as of September 30, 2007.

Absent a significant error in the Staff's cost of service results as of March 31, 2007 and assuming that KCPL's projected changes through September 30, 2007 are accurate, the preliminary Reconciliation done for the Staff's direct filing indicates that the Staff's projected revenue requirement recommendation at September 30, 2007 will be negative by approximately \$6 million prior to the recognition of the revenue requirement increase required for the Regulatory Plan Additional Amortization. Although on the basis of dollar value in revenue requirement, the principal issue between KCPL and the Staff is return on equity, its revenue requirement being \$22 million, the provision for the Regulatory Plan Additional Amortization itself can be viewed as the driver of revenue requirement.

**Impact of Staff's Revenue Requirement on Retail Rate Revenue**

The Staff's recommended revenue requirement of approximately \$14.7 million would represent an approximate increase in KCPL's retail rate revenue of 2.72 %.

**II. Reconciliation of Staff's 3-31-07 Direct Case to KCPL's 9-30-07 Update Case**

The direct testimony of Staff witness Steve M. Traxler provides a preliminary Reconciliation of the Staff's cost of service results as of March 31, 2007, and KCPL's updated projected results as of September 30, 2007. The preliminary Reconciliation appears on page 20 of Mr. Traxler's direct testimony.

The Reconciliation is separated between 1) contested issues - issues where the Staff has a philosophical/methodological difference and significant dollar difference with KCPL and 2) "issues" which result primarily from the Staff's direct case being based upon results through March 31, 2007, the known and measurable period agreed to for this case, Case No. ER-2007-0291, and KCPL's updated case which includes adjustments to reflect the revenue

requirement impact of projected changes through September 30, 2007. The preceding portion of this Executive Summary discusses the major differences between the Staff and KCPL which are expected to get resolved when the Staff updates its case to reflect actual data as of September 30, 2007 – the true-up date selected for this case, Case No. ER-2007-0291.

The contested issues are reflected on lines 2 - 9 on the Reconciliation which appears on page 20 of Mr. Traxler's direct testimony. A brief explanation for each issue follows:

**Return on Equity** – Issue Value – (\$21.7) million. The Staff has recommended a 9.72% ROE at the midpoint. KCPL is recommending an 11.25 % ROE. This issue is addressed in detail in the direct testimony of Staff witness Matt Barnes.

**Recognition of Hawthorn 5 Subrogation Proceeds** – Issue Value (\$2.6) million. KCPL received \$38.9 million in litigation proceeds related to the boiler explosion at Hawthorn Unit 5 in 1999. Of this amount, \$23.1 million was recorded in the income statement with the balance allocated to construction accounts. KCPL is treating the proceeds as a non-recurring event for ratemaking purposes which assigns the benefit of the litigation proceeds to KCPL's shareholders. Staff is proposing deferred accounting treatment for the \$23.1 million KCPL charged to its income statement and amortizing this amount as a reduction to cost of service over five years.

**Talent Assessment Severance Costs** – Issue Value (\$1.3) million. KCPL is requesting recovery over five years of approximately \$9.3 million in severance cost it recorded in 2006. The costs, primarily severance payments were incurred as a result of reducing employee levels under KCPL's Talent Assessment Program. The Staff has recommended no rate recovery of this amount consistent with its position in KCPL's last rate case, ER 2006-0314 on the grounds that severance costs provide no customer benefit and are primarily paid with the goal of preventing potential discrimination lawsuits. With its Talent Assessment Program, KCPL has not even shown that there was a need for such a significant employee termination program. Even if a need was demonstrated, KCPL cannot show that the newly hired employees have or will perform at a higher level than the severed employees. An additional concern is that if the severed employees were poor performers, then KCPL's management should absorb the responsibility for this performance since it was responsible for the hiring and training of these employees. Finally, KCPL's executives or Board of Directors decided not to include the cost of the Talent Assessment Program in the calculation of KCPL's executives incentive compensation that is based on earnings per share (EPS). In Case No. ER-2006-0314, the Commission determined that

it was unfair to allow KCPL to recover costs from customers that are not even recognized by management in its incentive compensation calculation.

**Short-Term Incentive Compensation – Issue Value (\$972,000)** The Staff has recommended a disallowance of incentive compensation paid to GPE and KCPL executive management related to an earnings per share EPS goal and discretionary bonuses which are unsupported by any well defined goals with tangible benefits to ratepayers. Staff's position is consistent with the Commission's decision on this issue in KCPL's recent rate case, Case No. ER-2006-0314.

**Long-Term Equity-Based Compensation – Issue Value (\$1.3) million.** Staff is recommending a disallowance of equity-based compensation to GPE and KCPL executive management which is awarded on achievement of goals tied primarily to EPS or return on total capital which benefit KCPL shareholders, not KCPL ratepayers. Equity-based compensation ultimately results in the issuance of GPE common stock which never results in a cash outlay by KCPL. Staff's position on this issue is consistent with the position taken in KCPL's recent rate case, Case No. ER-2006-0314.

**Property Tax Expense – Issue Value – (\$426,000)** – Staff's method for calculating property tax expense is consistent with the method adopted by the Commission in KCPL's recent rate case, ER 2006-0314. KCPL's proposed treatment computes property tax expense on projected plant additions through September 30, 2007. KCPL will not pay property tax on any plant addition placed in service after January 1, 2007 until December of 2008. KCPL's proposed method violates the "matching" principle of matching KCPL's cost of service components at the same point in time, which in this current case, should not reflect costs beyond the September 30, 2007 true-up agreed to for this case, Case No. ER-2007-0291.

**Advertising and Dues and Donations – Issue Value (\$553,000).** The Staff is recommending a disallowance for advertising costs, dues and donations that fail to meet the criteria used by Staff for cost of service recognition. Details regarding specific costs involved are provided in the section in the Cost of Service Report which addresses Staff's specific disallowance adjustments.

**Demand Side Management Costs – Rate Base - Issue Value (\$840,000)** KCPL is requesting rate base treatment for deferred costs related to DSM costs which are being recovered in rates using a ten year amortization period. KCPL's proposed rate base treatment is

contradictory to language in KCPL's Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329 which provides for construction accounting using KCPL's existing Allowance for Funds Used During Construction (AFUDC) rate for the purpose of capitalizing a return component to the deferred asset balance consistent with what is done for capital projects until they go into service. This treatment is in lieu of rate base treatment and was agreed to by KCPL in the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329.

**Deferred Surface Transportation Board Costs – Rate Base – Issue Value – (\$198,000)** Staff does not believe that rate base treatment, in addition to cost recovery, is justified for these costs.

**Deferred Rate Case Expense – Rate Base – Issue Value – (\$250,000)** Staff does not believe that rate base treatment, in addition to cost recovery, is justified for these costs.

Staff Expert – Steve M. Traxler

### **III. Rate of Return**

The Staff's weighted cost of capital for this Case No. ER-2007-0291 was calculating using the actual capital structure of Great Plains Energy Inc. (GPE) at March 31, 2007. The Staff determined KCPL's cost of common equity by applying the DCF model to a comparable group of electric utility companies. The Staff evaluated a number of factors to test the reasonableness of its recommendation. The Staff's recommendation is that the Commission authorize KCPL an overall rate of return of 7.97% to 8.73% based on a recommended return on common equity of 9.14% to 10.30%.



**Weighted Cost of Capital as of March 31, 2007  
for Kansas City Power and Light Company**

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			9.14%	9.72%	10.30%
Common Equity	66.01%	----	6.03%	6.42%	6.80%
Preferred Stock	1.67%	4.29%	0.07%	0.07%	0.07%
Long-Term Debt	32.32%	5.77%	1.86%	1.86%	1.86%
Short-Term Debt	0.00%				
Total	<u>100.00%</u>		<u>7.97%</u>	<u>8.35%</u>	<u>8.73%</u>

The capital structure for GPE used in the Staff's weighted cost of capital calculation will be updated to GPE's actual capital structure as of September 30, 2007 during the true-up agreed to for this case, Case No. ER-2007-0291. GPE plans to issue an additional \*\* \_\_\_\_\_ \*\* million in long term debt between March 31 and September 30, 2007. KCPL projects GPE's debt ratio to increase from 32.32% at March 31, 2007 to 45.72% at September 30, 2007.

The support for Staff's return on equity recommendation for KCPL is provided in the direct testimony of Staff witness Matt Barnes.

## **IV. Rate Base**

### **A. Plant-in-Service**

#### **1. In-Service Criteria**

La Cygne Unit 1 emissions control equipment.

As part of the KCPL regulatory plan the Commission approved in Case No. EO-2005-0329, KCPL, Staff and Public Counsel, at page 23, agreed to develop, before installation, in-service criteria for new emissions control equipment, and that the equipment must meet the criteria before the costs for the equipment will be included in rate base. KCPL, Staff and Public Counsel have agreed to those criteria.

KCPL has installed new selective catalytic reduction nitrogen oxide (NO<sub>x</sub>) emissions control equipment (SCR) at its La Cygne Unit I to improve compliance with the Environmental Protection Agency's ozone attainment standards for the Kansas City area. The Staff has

evaluated this emissions control equipment under the agreed upon in-service criteria. The specific criteria (with Staff's evaluation notes) are attached as Appendix 2 to this Report and the criteria alone are also found as Schedule JRG-1 to the Direct Testimony of KCPL witness John R. Grimwade (KCPL) filed in this case (ER-2007-0291). Based on Staff's observations and review, provided in Appendix 2, the Staff concludes this emissions control equipment did not meet all of the criteria until May 28, 2007; therefore, the SCR was not fully operational and used for service during the update period for this direct case which ended March 31, 2007. The Staff is not including the cost of this equipment in KCPL's rate base at this time. The Staff will address the costs of this equipment in KCPL's rate base as a true-up item.

Staff Expert – Michael Taylor

## **2. Net Plant In Service as of March 31, 2007**

Accounting Schedule 2, Rate Base reflects the rate value of KCPL's plant in service and depreciation reserve at March 31, 2007. This Staff is proposing no adjustments to plant in its direct filing.

Staff Expert: Charles R. Hyneman

### **B. Cash Working Capital**

Cash Working Capital (CWC) is the amount of cash necessary for a utility to pay the day-to-day expenses incurred to provide utility services to its customers. The results of Staff's CWC analysis is reflected on the Rate Base Accounting Schedule 2, line 4 - Cash Working Capital. In addition to calculation of CWC on Schedule 8, there are other offsets to rate base that are considered part of CWC. These additional CWC components are shown on line 8 - Federal Tax Offset, line 9 - State Tax Offset, line 10 - City Tax Offset and line 11 - Interest Expense Offset on Schedule 2, Rate Base.

When the Company expends funds to pay an expense before its customers provide the cash, the shareholders are the source of the funds. This cash represents a portion of the shareholders' total investment in the Company. The shareholders are compensated for the CWC funds they provided by the inclusion of these funds in rate base. By including these funds in rate base, the shareholders earn a return on the funds they have provided/invested.

Customers supply CWC when they pay for electric services received before the Company pays expenses incurred to provide that service. Utility customers are compensated for the CWC they provide by a reduction to the utility's rate base.

A positive CWC requirement indicates that, in the aggregate, the shareholders provided the CWC for the test year. This means that, on average, the utility paid the expenses incurred to provide the electric services to its customers before those customers had to pay the Company for the provision of these utility services.

A negative CWC requirement indicates that, in the aggregate, the utility's customers provided the CWC for the test year. This means that, on average, the customers paid for the utility's electric services before the utility paid the expenses that the utility incurred to provide those services.

There were no contested issues between KCPL and the Staff related to CWC in KCPL's 2006 rate case, Case No. ER-2006-0314. With the exception of correcting the collection lag to represent the actual percent of accounts receivable being sold by KCPL, as proposed by KCPL, the Staff made no changes to its CWC study from KCPL's 2006 rate case, Case No. ER-2006-0314.

KCPL, however, is proposing a major change to the expense lag for the Wolf Creek refueling outage accrual, which results in a significant increase in revenue requirement that must be paid by its customers.

At page 7 of her direct testimony in this case, KCPL witness Chris Davidson explains that KCPL adopted a new method of accounting for its Wolf Creek refueling outages for both financial accounting and regulatory accounting (ratemaking) purposes. The result of KCPL's adoption of this new method of accounting for ratemaking purposes is an increase in revenue requirement by \$1 million in CWC impact and a reduction in expense of approximately \$500,000 for a net increase in Missouri jurisdictional revenue requirement of approximately \$500,000. This change is so significant because the under the accrue-in-advance method which it was using, KCPL received the refueling costs in rates prior to when it had to make the payments, resulting in a negative CWC requirement. Under KCPL's new accounting method KCPL will not collect the costs of the refueling in advance, but make the payments after the cost has been incurred creating a positive CWC requirement. As will be explained below, KCPL is not required to change its accounting method for this cost for ratemaking purposes and the Staff

revenue requirement proposal for KCPL in this case does not reflect KCPL's new accounting method for Wolf Creek refueling outages.

The Staff of the Financial Accounting Standards Board (FASB) issued Staff Position No. AUG AIR-1: Accounting for Planned Major Maintenance Activities (FSP No. AUG AIR-1). This position addresses the accounting for planned major maintenance activities, amending certain provisions in the AICPA Industry Audit Guide, Audits of Airlines (Airline Guide). The principle source of guidance on this issue is found in the Airline Guide, which permits four alternative methods of accounting for such activities, including the method used in KCPL's last rate case, referred to as the "accrue-in-advance" method.

The FASB staff determined that the accrue-in-advance method results in the recognition of liabilities that do not meet the definition of a liability in current generally accepted accounting principles (GAAP) guidance. As a result, the FASB Staff prohibits the use of the accrue-in-advance method for financial reporting purposes. However, this new guidance has no effect on how KCPL must treat the costs incurred during the Wolf Creek refueling outage for ratemaking purposes. In addition, while a scheduled refueling outage may not meet the requirements of a liability in the airline industry, scheduled refueling outages certainly meets the definition of a liability in the regulated electric utility industry. It does not appear that the FASB Staff had regulated nuclear refueling outages in mind when the change was made to prohibit the accrue-in-advance accounting method for plant outages.

While KCPL is required by GAAP to adopt the new accounting method for financial reporting purposes, KCPL is not required to adopt this method for regulatory accounting purposes. Historically, a utility's rates have been based on its actual cost of providing service. As a result, utilities are subject to certain accounting standards that are not applicable to other business enterprises in general. KCPL has the authority under Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71) to set up a regulatory asset or regulatory liability to account for the difference in the way the utility recovers its costs from its regulated customers from the way it has to report its financial results for financial reporting purposes. FAS 71 requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain costs expected to be recovered in future rates.

Aquila Inc., a Missouri electric utility the parent of KCPL has contracted to acquire, subject to certain contingencies, including regulatory approvals, recently announced that it will apply the provisions of FAS 71 to set up a regulatory liability and maintain the accrue-in-advance accounting method. In its SEC Form 10Q filed with the SEC on May 7, 2007, Aquila stated at page 12:

In September 2006, the FASB issued FSP AUG AIR-1, "Accounting for Planned Major Maintenance Activities." FSP AUG AIR-1 amends the guidance on the accounting for planned major maintenance activities; specifically, it precludes the use of the previously acceptable "accrue-in-advance" method, which we followed as allowed by regulatory authorities.

FSP AUG AIR-1 was effective for our financial statements as of January 1, 2007, and was applied retrospectively. Before considering the effect of our regulatory "accrue-in-advance" method, we adopted the direct expense method under FSP AUG AIR-1.

We believe, however, it is probable that the cost of planned major maintenance will continue to be recovered through customer rates charged by our rate-regulated utility operations in advance of such maintenance being performed consistent with our historical rate recovery of these costs.

Therefore, a regulatory liability was recorded. Upon adoption as of January 1, 2007, our accrued liability for planned major maintenance in our continuing operations of \$4.7 million was reclassified as a regulatory liability.

To resolve the CWC difference between KCPL and the Staff on the Wolf Creek refueling outage, the Staff is proposing a tracking mechanism. As reflected in adjustments S-22.2 and S-27.2, the Staff is including an annualized level of \$10,666,667 in refueling expense in accounts 524 and 530 in this case for Wolf Creek's scheduled refueling outage No. 17 which will occur in October 2009. This translates into a total operations and maintenance refueling cost for outage No. 17 of \$16,000,000. In current rates, KCPL is accruing in advance for Wolf Creek's refueling outage No. 16 which will occur in April 2008.

Under the Staff's proposal, KCPL will track the difference between the amount included in current rates and the cost of Wolf Creek's outage No. 16. Any under or over accrual of outage No. 16 will be applied to the actual cost of outage No. 17. KCPL will be required to defer the difference in the refueling outage expense included in rates in this case (annualized level of \$10.7 million) and the actual operations and maintenance costs charged to accounts 524 and 530

from its October 2008 refueling outage (No. 17). This difference will be recorded as a regulatory asset or liability to be included in KCPL's rate base.

This proposed rate treatment should resolve the cash working capital differences between the Staff and KCPL.

Staff Expert: Charles R. Hyneman

### **C. Prepayments and Materials and Supplies**

The Company has utilized its own funds for pre-paid items such as insurance premiums and postage. Staff has included these prepayments in rate base at the 13-month average level. The Company also holds a variety of materials and supplies in inventory so as to be readily available in performing its utility operations. Staff has included in rate base the 13-month average value of this inventory.

Staff Expert: Graham A. Vesely

### **D. Deferred Sales from SO2 Emissions Allowances**

Since the Company receives more SO2 allowances from the U.S. Environmental Protection Agency (EPA) than it requires for its own coal-burning operations, it is able to sell surplus allowances and record the proceeds in FERC account 254, as a regulatory liability. The balance of this account serves as a reduction in rate base. Also recorded in this account are any premiums KCPL pays when the coal it receives from suppliers is lower in SO2 content than required to be by contract, thus requiring the use of fewer allowances and therefore making the coal more valuable since the retained allowances can be sold. Staff has included in its March 31, 2007 case the balance of account 254 as an offset to rate base. This approach is consistent with the treatment specified by the Commission in its ruling issued in previous KCPL Case No. ER-2006-0314.

Staff Expert: Graham A. Vesely

### **E. FAS 87 – Pension Cost – Prepaid Pension Asset – Regulatory Asset - Rate Base**

The Staff and KCPL entered into a Stipulation and Agreement in Case No. ER-2006-0314 titled, "Nonunanimous Stipulation and Agreement Regarding Pension Issues," which addressed the ratemaking treatment for annual pension cost under Financial Accounting

Standard (FAS) 87, and pension settlement and curtailment accounting under FAS 88. The Nonunanimous Stipulation and Agreement Regarding Pension Issues affirms the agreement regarding these matters reached and memorialized as part of the Regulatory Plan Stipulation and Agreement the Commission approved in Case No. EO-2005-0329, clarifies the accounting for pension cost allocated to KCPL's joint partners in the Iatan and LaCygne generating stations, and addresses the ratemaking treatment for a curtailment or settlement recognized under FAS 88.

There are two amounts in rate base resulting from the Stipulation and Agreements in Case Nos. EO-2005-0329 and ER-2006-0314:

1) Prepaid Pension Asset – The prepaid pension asset represents the unrecovered balance of negative pension cost flowed back to ratepayers in prior years. When this regulatory asset has been fully recovered, KCPL will be required to fund its annual FAS 87 pension cost reflected in its financial statements under the terms of the Stipulation & Agreements in Case Nos. EO-2005-0329 and ER-2006-0314.

2) FAS 87 Regulatory Asset – Under the terms of the Stipulation & Agreements referenced in the last paragraph, the difference between FAS 87 reflected in rates and KCPL's actual cost recorded in its financial statements is tracked and recorded as either a regulatory asset or liability, and amortized over five years in the next rate case. KCPL's rate base includes a regulatory asset as of March 31, 2007.

Both of these rate base amounts will be trued-up as of September 30, 2007, during the true-up audit scheduled for this case, Case No. ER-2007-0291.

Staff Expert: Steve M. Traxler

#### **F. Fuel Inventories**

The Staff used the results of its fuel model to calculate the annual amount of coal used by each plant to meet the normalized native load. I divided the annual tons burned by 365 days to calculate an average daily burn by unit. I then multiplied this average daily burn by an appropriate number of days of inventory for each plant. The Staff multiplied the total tonnage of inventory for each unit by the Staff's proposed delivered cost of coal per ton for that unit. This dollar amount was multiplied by the Staff's energy jurisdictional factor with the result being the amount that is reflected as Coal Inventory in Accounting Schedule 2, Rate Base.

Added to the Staff's normalized coal inventory is a level of basemat coal inventory. Basemat coal is that portion of the coal pile that may not be fully usable due to soil, clay and other contaminations. The tons of basemat coal are not considered available for burn.

In KCPL's 2006 rate case (Case No. ER-2006-0314), the Staff reviewed KCPL's annual coal inventory targets expressed in days of burn for the past several years and also had several discussions with personnel in KCPL's fuels department concerning its target coal inventory levels. Each year KCPL determines target levels of coal inventory using the Electric Power Research Institute's (EPRI) Utility Fuel Inventory Model (UFIM). The UFIM is based on least cost ordering policies for fuel inventories. It incorporates variables such as the financial cost of maintaining coal inventories, supply uncertainties, demand uncertainties, and the cost of running out of fuel.

Based on a review of the coal inventory targets, discussions with KCPL personnel, and the recent coal supply disruptions, the Staff determined that the inventory levels as expressed in average days of coal burn that KCPL proposes to include in rate base are reasonable. The Staff notes that the increase in average days' burn for the LaCygne 1 coal plant is due to the lower percentage of high sulfur coal burned at this unit. The Staff has accepted KCPL's proposed daily burn for this plant in this case.

**Oil and Limestone Inventory** - The Staff used the 13-month average inventory quantities and prices proposed by KCPL for oil and limestone inventory levels.

Staff Expert: Charles R. Hyneman

### **G. Customer Deposits**

The amount of Customer Deposits reflected on Accounting Schedule 2, Rate Base represents a 13-month average (March 2006 – March 2007) of KCPL's Missouri jurisdictional customer deposits.

Staff Expert: Charles R. Hyneman

### **H. Contributions In Aid of Construction**

The amount of Contributions in Aid of Construction reflected on Accounting Schedule 2, Rate Base represents a 13-month average (March 2006 – March 2007) of KCPL's Missouri jurisdictional contributions.

Staff Expert: Charles R. Hyneman



## **I. Regulatory Plan Additional Amortization - Rate Base**

A stipulation and agreement, titled, "Nonunanimous Stipulation and Agreement Regarding Regulatory Plan Additional Amortizations" was filed in KCPL's last rate case, Case No. ER-2006-0314. Paragraph 5 provides for a rate base offset for the accumulated balance of the Regulatory Plan Additional Amortization collected in rates:

Further, KCPL acknowledges that this Agreement is a resolution and is an implementation of the resolution of the gross-up issue that was intentionally left unresolved by the Regulatory Plan Stipulation And Agreement in Case No. EO-2005-0329. This resolution is implemented pursuant to and in compliance with the provisions of that Stipulation And Agreement, and that as a result thereof, any Regulatory Plan additional amortization that is provided to KCPL pursuant to that Stipulation And Agreement shall be used as reduction to rate base for the longer of (a) at least ten (10) years following the effective date of the July 28, 2005 Report And Order in Case No. EO-2005-0329 or (b) until the investment in the plant in service accounts to which the Regulatory Plan amortizations are ultimately assigned by the Commission is retired. Such reduction to rate base is understood and accepted by KCPL without reservation.

The revenue requirement approved by the Commission's Report and Order in Case No. ER-2006-0314 included a Regulatory Plan Additional Amortization in the amount of \$21,679,061. KCPL began recovering the Regulatory Plan Additional Amortization beginning January 1, 2007, the effective date of the Commission's Report and Order. The Staff has reflected a rate base offset equal to  $3/12$  of \$21,679,061 = \$ 5,419,765 representing the amount of the Regulatory Plan Additional Amortization collected in rates as of the known and measurable date of March 31, 2007, used for the Staff's direct filing to measure KCPL's rate base.

Staff Expert: Steve M. Traxler

## V. Jurisdictional Allocations

Because KCPL operates in both Kansas and Missouri it is necessary to determine a method of allocating between those jurisdictions various demand and energy capital costs KCPL incurs. Staff calculated the Demand and Energy jurisdictional allocation factors shown below.

	<u>Missouri Retail</u>	<u>Non-Missouri Retail</u>	<u>Wholesale</u>
Demand	0.5361	0.4575	0.00638
Energy	0.5707	0.4230	0.00632

### Demand:

Staff recommends the continued use of the 4 Coincident Peak (4 CP) demand allocation methodology which reflects KCPL's peak demand in the four summer months. This methodology was supported by the Commission in Case No. ER-2006-0314 and the Company also used it in this case.

### Energy:

Variable expenses, such as fuel and certain operational and maintenance (O&M) costs, are allocated to the jurisdictions based on energy consumption. The energy allocation factor for an individual jurisdiction is the ratio of the adjusted annual kilowatt-hour (kWh) usage in the particular jurisdiction to the total adjusted kWh usage in all jurisdictions. Adjustments for weather, days, customer growth, large customer annualization, and rate switching were made before the energy allocation factors were calculated. The jurisdictional energy allocation factors are as shown in the above table.

Staff Expert – Erin Maloney

## **VI. Income Statement**

### **A. RATE REVENUES**

#### **1. Introduction**

This section describes how the Staff determined the level of KCPL Operating Revenues. Since the largest component of operating revenues result from rates charged KCPL's Missouri retail customers, a comparison of operating revenues with cost of service is fundamentally a test of the adequacy of the currently effective Missouri jurisdictional retail electricity rates. If the overall cost of providing service to Missouri retail customers exceeds operating revenues, an increase in the current rates KCPL charges its Missouri retail customers for electricity is required.

One of the major tasks in a rate case is to determine the magnitude of any deficiency (or excess) between cost of service and operating revenues. Once determined, the deficiency (or excess) can only be made up (or otherwise addressed) by adjusting Missouri retail rates (i.e., rate revenue) prospectively. Neither Other Operating Revenue nor Margin from Off-System Sales is directly subject to change by the Missouri Public Service Commission (Commission), but KCPL has made proposals as to how these revenues should be treated.

#### **2. Definitions**

Operating Revenues are composed of Rate Revenue, Margin from Off-system Sales, and Other Operating Revenue.

**Margin from Off-System Sales:** Margin from off-system sales is the profits that KCPL makes conducting sales of electricity to other utilities at non-regulated prices (off-system sales). The profit (margin) is calculated as the gross revenues from the sale less the expenses KCPL incurs. The rationale for assigning the profits to ratepayers is that the electricity being sold is generated by power plants being paid for by ratepayers. The Missouri jurisdictional portion of the profits is determined by the Staff applying the jurisdictional allocation factors as determined by the Staff.

**Other Operating Revenue:** Other operating revenue includes Forfeited Discounts (bad debts), Transmission Services for Others, Temporary Installation Profit, Rent from Electric Property, and Miscellaneous Electric Revenues.

**Rate Revenue:** Test year rate revenues consist solely of the revenues derived from KCPL's charges for providing electric service to its Missouri retail customers. KCPL's charges are determined by each customer's usage and the (per unit) rates that are applied to that usage. In Missouri different rates apply to different times of the year (summer vs. winter); different types of charges (demand, energy); and to customers in different rate classes.

### **3. The Development of Rate Revenue in this Case**

To determine the level of KCPL rate revenue, the Staff has applied standard ratemaking adjustments to test year (historical) sales (kWh) and revenue data. The intent of these adjustments to test year Missouri rate revenues is to determine the level of revenue that the Company would have collected on an annual basis, under normal-weather or climatic conditions, based on information "known and measurable" by the end of the update period. In this particular case, the test year is calendar year 2006 and the update period ends March 31, 2007.

Rate revenue has been developed and summarized in two different ways: one way is by type of regulatory adjustment; and a second way is total rate revenue by rate class. The table attached to this report summarizes rate revenue by both ways, i.e., by type of adjustment and by rate class. The rate classes shown are Residential (RES), Small General Service (SGS), Medium General Service (MGS), Large General Service (LGS), Large Power Service (LPS), and Lighting. Staff workpapers provide the source numbers and analysis and present a much more detailed version of the summary table.

This report briefly describes seven regulatory adjustments the Staff made to test year billed rate revenues:

- a. weather normalization
- b. annualization for the rate change on January 1, 2007
- c. 365-day adjustment
- d. customer growth
- e. large customer annualization
- f. rate switching by large customers
- g. special contracts and other customer discounts

Not all adjustments affect both sales and rate revenue. Not all rate classes are subject to all seven adjustments.

#### **4. Regulatory Adjustments to Test Year Sales and Rate Revenue**

##### **a. Weather Normalization**

##### **i. The Purpose of (Need for) Weather Normalization**

One important determinant of the level of the Company's sales of electricity is the weather that occurred during the test year. Very hot summers and very cold winters result in higher sales than do mild summers and mild winters. Conversely, mild summers and mild winters result in lower sales than do normal summers and normal winters. The pattern of daily temperatures experienced during the test year is unique and is unlikely to be repeated in the year(s) when the new rates from this case are in effect. Weather normalization is a process that adjusts test year sales to the level of sales that would be expected under "normal" weather. . Staff used daily temperatures from Kansas City International Airport (MCI) to develop "normal" or average temperatures with which to compare test year temperatures.

The historical period selected to determine normal temperatures is the 30-year period from 1971-2000, which the National Oceanic and Atmospheric Association (NOAA) has defined as its most recent climate normal.

Because NOAA adjustments are applied to *monthly* temperatures over the period, they don't contain sufficient detail for weather-normalizing electricity use. The Staff needs *daily* temperature normals, because electricity usage varies differently at extreme daily temperatures than it does at mild ones. Consequently, Staff was required to adjust its daily data to correspond with the NOAA monthly average.

Staff uses normal weather in both the normalization of class usage and hourly net system loads. It calculated this normalization using its ranking method and the above daily weather values for the normal period. This ranking method estimates daily normal values, ranging from the temperature that is "normally" the hottest to the temperature that is "normally" the coldest, thus estimating normal extremes.

Staff Expert: Curt Wells

##### **ii. Weather Normalization of kWh Sales**

The Staff did not perform an independent analysis in this case of the relationship between daily weather variables and rate class loads. The Staff's review of KCPL's weather normalization process showed that the KCPL method incorporates the same essential elements as

the Staff's standard weather normalization process. These elements are the use of daily class load data to determine non-linear class responses to weather; the incorporation of different base usage parameters for different times of the year; and the use of normal weather variables calculated using the Staff's ranking method applied to "clean" billing data. From this review, the Staff determined that KCPL's weather-normalized class sales were reasonable for use in the normalization of rate revenues for those rate classes that were determined to be weather sensitive.

Weather-normalized kWh sales were calculated for the Residential, Small General Service, Medium General Service, and Large General Service rate classes. The Lighting rate class was not weather normalized because it was deemed to be insensitive to day-to-day fluctuations in temperature.

The Large Power Service (LPS) class was not weather normalized because the Staff believes that the very small increase in class load in the summer months is influenced more by the time of the year (season) than by day-to-day fluctuations in temperatures. In addition, even if specific customers in the LPS class are weather sensitive, the weather-sensitive portion of their load is such a small percentage of their total load, and their total load is such a small percentage of the class load, any adjustment resulting from applying the weather normalization process would likely be less than the statistical margin of error inherent in weather sensitivity modeling.

Staff Expert: Shawn Lange

### **iii. The Effect of the Weather Normalization of kWh Sales on Rate Revenue**

The Staff used an average realization method to calculate any additional rate revenue associated with the weather normalization of kWh sales for the Missouri retail rate groups. One underlying assumption of this method is that the weather normalization process has no effect on either the number of customers or on the fixed charges these customers currently pay. Weather normalization only affects the energy usage of each existing customer and thus only affects those charges directly related to kWh sales.

The second underlying assumption of the average realization method used by Staff in this case is that any additional sales should be priced at the same average price as all other sales in that month for that specific rate group.

Staff Experts: Janice Pyatte and David Roos

#### **b. Annualization for Rate Change**

Test year rate revenues do not reflect any of the rate changes implemented on January 1, 2007 as the outcome of Case No. ER-2006-0314. Thus, test year revenues are understated by the difference between the amount that was actually billed to customers and the revenue that would have been realized by the Company if the current rates had been in effect throughout the entire test year. The Staff computed annualized revenues on 2007 rates for each rate class by applying 2007 rates to test year annualized, normalized billing units for each class. This adjustment affected all rate classes.

Staff Experts: Janice Pyatte, David Roos and Curt Wells

#### **c. 365-Days Adjustment**

Rate revenues and kWh sales are measured by billing month (the period of time over which the staggered bill cycles result in each customer being billed precisely once) rather than by calendar month. A bill cycle is the approximately 30 day period between a customer's meter readings, e.g., June 17 to July 17 or July 18 to August 17. For example, the usage from June 17 to July 17 would be included in the billing month of July for that customer. The usage from July 18 to August 17 would be included in the billing month of August for that customer. But, only the usage from July 1 to July 31 is included in the calendar month of July. The test year is the twelve calendar months ending December 31, 2006. To the extent that a billing year contains more or less than 365 days worth of usage, an adjustment to kWh sales and rate revenues is made. The Staff calculated a days adjustment to revenues for each rate class in the same manner as it computed weather-normalized revenues. Days adjustments are also known as "unbilled" sales and "unbilled" revenues on financial statements.

Staff Experts: kWh-Shawn Lange; Revenue- Janice Pyatte, David Roos and Curt Wells

#### **d. Customer Growth**

Customer growth adjustments were made to test year kWh sales and rate revenue to reflect the additional kWh sales and rate revenue that would have occurred if the number of customers taking service at the end of the update period (March 31, 2007) had existed throughout the entire test year. Customer growth was calculated for the Residential, Small General Service, Medium General Service, and Large General Service rate classes.

**i. Additional Revenues from Customer Growth During the Update Period**

For this direct testimony filing, the Commission has ordered all elements of revenue, expense, and rate base be updated over the test year level for any known and measurable changes through March 31, 2007. A review of the pertinent facts at March 31, 2007 indicates that KCPL has experienced an increase in its revenues since the end of the test year, due to overall growth in the number of its utility customers. For Residential, and General Service (Small, Medium, and Large) retail customer groups, the Staff has employed the following method of computing the annualized level of increased revenue from customer growth at March 31, 2007: For each customer rate group, the customer level during each month of the test year is compared to the level at March 31, 2007, and the monthly change in level is computed. This growth in customers is then multiplied by the weather-normalized revenue per customer experienced for that month of the test year. The total growth in revenues is arrived at by performing this comparison and multiplication for each month of the test year, and then summing the results. In short, this approach assumes that the revenue pattern experienced in each month of the test year will recur, on a weather-normalized basis, factored up (or down) in accordance with the growth (or decrease) in customer numbers at March 31, 2007.

The only retail customer rate group for which this approach is not taken is the Large Power group. Energy consumption and revenue patterns are considered to vary sufficiently across this group of customers, making it necessary to examine the history of each customer on an individual basis, and to adjust the test year revenue level accordingly. Staff's customer growth adjustment to test year revenues for all retail customer groups combines the results of the analysis described above for Residential, General Service, and Large Power, in order to provide the annualized level at March 31, 2007. The adjustment for retail customer growth other than Large Power is S-1.6

Staff Expert: Graham A. Vesely

**e. Large Customer Annualization and Rate Switching**

The general intent of an annualization is to re-state test year kWh results as if conditions known at the end of the update period had existed throughout the entire test year. It is customary for Staff to annualize each of the very largest customers to reflect any major growth or decline in kWh sales and rate revenues due to the entrance of new customers, the exit of existing



customers, and load growth or decline of specific existing customers. A major component of the large customer annualization process consists of gathering 12 months of representative usage and revenue data for each large customer active at the end of the update period.

During this particular test year fifteen customers were in the LPS rate class for a portion of the year and in another rate class (generally LGS) for the remainder of the year. These customers are known as "rate Switchers" because they switched from one rate class to another. Billing information indicated that this rate switching was likely due to economic reasons (i.e., to lower the customer's bill) rather than load growth or decline. While the overall effect of rate switching on kWh sales nets to zero (one class' increase exactly equals the other class' decrease), the effect is to reduce overall rate revenues.

Those customers who switched into the LPS rate class were handled as part of the Large Customer Annualization. Those switching out of the LPS class were added into the LGS total. The same procedures were used in both annualizations.  
Staff Experts: Janice Pyatte and Curt Wells

#### **f. Special Contracts and Other Customer Discounts**

**Special Contracts:** There are Missouri LPS customers who pay a discounted rate for electricity because of special contracts that each has with KCPL. Pursuant to the KCPL Regulatory Plan, the Staff has "imputed" the revenue from these contracts (i.e., calculated revenue as if the discounts did not exist) to ensure that these discounts will be "paid" by shareholders and not by any of KCPL's other rate payers.

**PLCC/MPower:** Peak load curtailment credits are paid to customers that agree to curtail a portion of their peak load when requested by KCPL. These discounts are assumed to be a benefit to all ratepayers and thus are not excluded from the determination of KCPL's revenues.

**EDR:** The Economic Development Rider (EDR) provides for discounts to be "paid" to customers (in the form of credits on their electricity bill) who locate or expand operations in KCPL's service territory. EDR credits are provided to the customer over a five-year period. The value of the credits is a percentage of the customer's electric bill calculated on the appropriate general application rate schedule. Depending upon the contract year the customer is in, the discount can be as high as 30% (year 1) to as low as 10% (year 5). The Staff assumed that the annualization for the rate change would be reflected in both the level of the bill before the credit

and in the amount of the credit itself (i.e., a 10% rate change would increase both the pre-credit bill and the EDR credit by 10%). These discounts are included in the determination of KCPL's revenues because fostering economic development is assumed to be a benefit to all ratepayers.

Staff Experts: Janice Pyatte, David Roos and Curt Wells

#### **g. Results**

The results of test year adjustments to kilowatt hour sales are at Appendix 3 to this Report. Rate revenue with adjustments, and total revenue, are at Appendix 4 to this Report.

### **B. Bulk Power Sales**

Account 447 -- Bulk Power Sales includes three sources of revenue for KCPL:

1) Firm Off-System Sales. KCPL has two customers who have a capacity contract with KCPL. These customers are the City of Springfield, Mo. and City of Independence, Mo. Under their respective contracts, these customers pay both a demand charge for the MW capacity commitment from KCPL and an energy charge for the cost of fuel. KCPL makes energy sales to two other customers classified as Firm Off System Sales by KCPL:

Kansas Municipal Energy Agency (KMEA)

Missouri Joint Municipal Electric Utility Commission (MMEU)

2) Non-Firm Off System Sales. Non-Firm Off-System Sales relate to sales of electricity made at times when utilities have met all obligations to serve their native load customers and have excess energy to sell to other utilities. The off-system sale transactions occur between utilities resulting in profits (net margin) to the selling entity, in this case, KCPL. These sales are made by KCPL at market based rates.

3) Federal Energy Regulatory Commission (FERC) Wholesale Sales. FERC wholesale customers are municipalities served under a firm power tariff regulated by FERC. All plant in service, revenues, fuel and purchase power costs required to serve these customers are allocated to them using the demand and energy allocation factors developed by Staff expert Erin Maloney.

#### **1. Firm Off-System Sales**

In its updated cost of service calculation, KCPL included annualization adjustments for both the capacity and energy revenues for all customers classified under firm off-system sales by

KCPL. Staff reviewed the adjustments proposed by KCPL and found them to be reasonable. Staff adjustments S-2.1, S-3.1, S-3.2, S-3.3 and S-8.1 are the adjustments in the Staff's accounting schedule 10 related to the annualization of Firm Off-System capacity and energy revenue and kWh sales.

## **2. Non-Firm Off System Sales**

The Commission's Report and Order in KCPL's recent case, Case No. ER-2006-0314 adopted the position of KCPL regarding the level of net margin from Non-Firm Off-System Sales to be reflected in KCPL's cost of service. KCPL's proposed level of net margin was based upon the projected level in the analysis of Michael M. Schnitzer at the 25<sup>th</sup> percentile. Mr. Schnitzer has updated his analysis for this case, Case No. ER-2007-0291. Both KCPL and the Staff have reflected a net margin of \*\* \_\_\_\_\_ \*\* million, total company, representing Mr. Schnitzer's projected level of net margin at the 25<sup>th</sup> percentile in his analysis.

The Commission's Report and Order and Order Regarding Motions for Rehearing in Case No. ER-2006-0314 included a requirement to track the net margin included in cost of service with KCPL's actual net margin on an annual basis. If KCPL's actual net margin exceeds the Missouri jurisdictional level of \*\* \_\_\_\_\_ \*\* included in cost of service in Case No. ER-2006-0314, KCPL is required to reflect the difference in a regulatory liability account and flow back the excess to ratepayers as a reduction to cost of service in KCPL's next rate case.

Since rates in Case No. ER 2006-0314 became effective, January, 1, 2007, the first annual period that must be tracked in accordance with the Commission's Report and Order in Case No. ER-2006-0314 is the twelve month period ending December 31, 2007.

Consistent with reflecting Mr. Schnitzer's current projected net margin at the 25<sup>th</sup> percentile in cost of service in this case, Case No. ER-2007-0291, the Staff is recommending a continuation of the tracking mechanism ordered by the Commission in Case No. ER-2006-0314 that requires KCPL to track its actual annual results and account for an excess above \*\* \_\_\_\_\_ \*\*, Missouri jurisdictional, as a regulatory liability to be reflected as a reduction to cost of service in KCPL's next rate case.

Adjustments S-4.1, S-4.2 and S 4.3 in the Staff's accounting schedule 10 reflect the adjustments made to reflect the net margin from Non-Firm Off-System Sales at the 25<sup>th</sup> percentile projected by KCPL witness, Michael M. Schnitzer for this case, ER-2007-0291.

Staff Expert: Steve M. Traxler

### **C. Miscellaneous Revenues**

#### **1. Late Payment Revenue Gross-up**

In its Report and Order in KCPL's 2006 rate case, the Commission ordered that KCPL's bad debt expense be matched with the increase in revenues that resulted from that case. Following the Commission Order, the Staff will gross up its annualized bad debt expense level for KCPL to the revenue requirement increase ordered by the Commission in this case. To be consistent with the linkage of bad debt expense to revenue requirement increases ordered in a rate case, the Staff has grossed-up KCPL's late payment revenue booked in the test year to the rate increased ordered by the Commission in Case No. ER-2006-0314 and will propose a gross-up of this revenue to the revenue requirement ordered by the Commission in this case. If KCPL experiences a higher level of bad debt as a result of a rate increase, then it would be logical to assume that it would also experience a higher level of late payment revenue. The Staff's linkage of test year late payment revenue to KCPL's 2006 rate increase is reflected in adjustment S-5.1.

Staff Expert: Charles R. Hyneman

#### **2. Annualized Revenues from LaCygne-West Gardner 345kV Transmission Upgrade**

The Company informed Staff that as a result of its June 2006 completion of the upgrade of this portion of its transmission system, it began receiving additional revenues collected from Southwest Power Pool (SPP). Staff reviewed the Company's statement of the additional applicable revenues received through March 31, 2007 and prepared an adjustment to include the annualized level of such revenues into rates. This is adjustment S-8.2.

Staff Expert: Graham A. Vesely

## **D.. FUEL AND PURCHASED POWER**

The Staff's adjustments to annualize and normalize KCPL's fuel expense are reflected in adjustments S-10.5, S-20.2, S-31.3 on Accounting Schedule 10, Adjustments to Income Statement.

### **1. Fixed Costs**

Fuel and purchased power costs that do not vary directly with fuel burned were not included in the Staff's fuel model, but were determined separately. The non-variable fuel costs that are included in fuel expense are typically referred to as fuel adders. These costs include unit train lease payments, unit train maintenance costs, natural gas transportation charges and natural gas hedging costs. The non-variable purchase power costs are referred to as capacity charges and these costs are annualized separately from purchased power energy costs.

#### **a. Fuel Adders**

As described above, fuel adders do not vary directly with the amount of electricity produced, so these costs are not included in the Staff's fuel model. The costs of fuel adders are determined separately and are added to the level of fuel expense calculated by the model to determine overall fuel expense. A detailed discussion of the types of fuel adders is included at pages 24 through 27 of KCPL witness Wm. Edward Blunk's direct testimony in this case.

Fuel adders for natural gas include transportation charges and hedging costs. The Staff reviewed KCPL's proposed level of natural gas transportation charges and found them to be reasonable. A significant percentage of these transportation charges is fixed and under contract.

The Staff's normalized level of natural gas option premiums is based on a 3-year average (2005 through 2007) of the cost of KCPL's hedging of its summer natural gas requirements. The costs of KCPL's hedging program were provided to the Staff in response to Data Request No. 245.

Also in response to Data Request No. 245, KCPL provided historical actual costs of its rail car leases. KCPL's monthly cost of its long-term rail car lease is fairly consistent. The Staff used the lease costs incurred in the first quarter of 2007 and multiplied this amount by four to arrive at an annualized level. There is significant variability in KCPL's monthly costs of its short-term rail car lease. The Staff used the actual cost KCPL incurred in calendar year 2006 as its annualized level.

The Staff reviewed the workpapers for KCPL's proposed adjustment of its maintenance costs for its owned rail cars. Except for a minor adjustment, the Staff found KCPL's proposed annualized level to be reasonable.

The Staff accepted the level proposed by KCPL for the remainder of the fuel adders (liquidated damages, oil adjustment and freight rebate) as reasonable.

Staff Expert: Charles R. Hyneman

#### **b. Purchased Power – Capacity Charges**

Capacity charges represent fixed amounts KCPL paid to the entity that reserves the MW capacity for KCPL. KCPL contracts this power with various entities and pays a fixed component and an energy component. Generally, there is also an amount for operational and maintenance costs charged for the usage of energy. The fixed component is paid as a demand charge, generally on a monthly basis, regardless of the level of power actually purchased. This amount is for the "right" to purchase the power in much the same way that natural gas utilities purchase reservation of capacity from pipelines through reservation payments. The demand charges relate to the fixed expenses of operating a generating facility.

Staff adjustment S-34.1, found in Staff Accounting Schedule 10, annualizes purchased power demand charges. These charges represent amounts that are paid under capacity agreements related to the fixed costs of reserving capacity. The Staff reviewed each of these contracts and determined the appropriate costs per MW hour and the number of MWs purchased. The Staff included the costs reflected in KCPL's capacity agreements that will be in effect at March 31, 2007. The Staff is aware that KCPL has entered into new capacity contracts that take effect in June 2007, and that some of the terms of the existing contracts change in June 2007. The Staff will consider these updated capacity charges in its true-up revenue requirement audit for known and measurable costs as of September 30, 2007.

Staff Expert: Charles R. Hyneman

#### **2. Variable Costs**

The Staff estimates the variable fuel and purchased power expense for KCPL for the updated test year ending March 2007 to be \$197,737,180.

The Staff used the RealTime ® production cost model to perform an hour-by-hour chronological simulation of a utility's generation and power purchases. The Staff uses the model

to determine annual variable cost of fuel and net purchased power energy costs and fuel consumption necessary to economically meet a utility's load within the operating constraints of the utility's resources used to meet that load. These amounts are supplied to Auditing Staff who use this input in the annualization of fuel expense.

The model operates in a chronological fashion, meeting each hour's energy demand before moving to the next hour. It will schedule generating units to dispatch in a least cost manner based upon fuel cost and purchased power cost while taking into account generation unit operation constraints. This model closely simulates the way a utility should dispatch its generating units and purchase power to meet the net system load in a least cost manner.

Inputs calculated by the Staff are: fuel prices, spot market purchased power prices and availability, hourly net system input (NSI), and unit planned and forced outages. The Staff relied on KCPL responses to data requests for factors relating to each generating unit such as: capacity of the unit, unit heat rate curve, primary and startup fuels, ramp-up rate, startup costs, fixed operating and maintenance expense. Information from KCPL's firm wholesale loads and firm purchased power contracts such as hourly energy available and prices are also inputs to the model.

Staff Expert – Leon Bender

#### **a. Fuel Prices**

The Staff computed the fuel expense using prices and quantities incurred by KCPL through March 31, 2007. This included using fuel prices for nuclear, coal, natural gas and oil, including transportation charges in fuel accounts 501 (coal), 518 (nuclear), 547 (natural gas) and 555 (energy portion of purchase power expense).

#### **i. Coal Prices**

The Staff's determined its coal price by generation facility based on a review and analysis of KCPL's coal purchase and coal transportation contracts. The Staff's proposed coal prices reflect KCPL's actual contracted coal purchase and transportation prices (excluding sulfur premiums or discounts) in effect at March 31, 2007.

Staff Expert – Charles R. Hyneman

## **ii. Natural Gas Prices**

The natural gas prices used as an input to the Staff's fuel model were calculated using an 18-month weighted average of KCPL's actual commodity cost of natural gas. KCPL's natural gas transportation costs are annualized and normalized separately as a part of fuel adders.

Staff Expert – Charles R. Hyneman

## **iii. Nuclear Fuel Prices**

KCPL owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek. KCPL's 47% ownership interest in WCNOC entitles it to 548 megawatts (MW) of the plant's capacity. In making its nuclear fuel price proposal, the Staff relied upon KCPL's monthly Report 25, Fuel Report, for 2005 through March 2007. The Staff noted that monthly nuclear fuel costs over the last few years varied within a small range, although they have been rising in the first few months of 2007. The Staff's proposed nuclear fuel price is based on an average of the monthly fuel costs incurred in 2006 and the first quarter of 2007.

Staff Expert – Charles R. Hyneman

## **iv. Oil Prices**

The Staff used the actual cost KCPL paid for fuel oil in the last week of March 2007 of as the fuel oil cost input in the fuel model in this case. KCPL burns fuel oil mainly as a secondary fuel or, in some instances, for flame stabilization. Oil is only a primary fuel source at KCPL's Northeast units, which see very limited run time. As a result, KCPL purchases fuel oil infrequently. The limited number of purchases of fuel oil makes it difficult to employ any meaningful type of averaging method. An accurate historical analysis of fuel oil prices is also not possible because KCPL does not make purchases during the majority of the year. Thus, any trend in costs could be misleading because of the limited amount of available data. The Staff believes KCPL's most recent fuel oil purchase prices are the best available fuel oil cost to input into the fuel model for determining KCPL's variable fuel and purchased power expense on a going forward basis.

Staff Expert – Charles R. Hyneman



### **3. Spot Market Prices**

Spot market purchases are purchases of energy made on an hourly basis rather than through a longer-term contract. A utility decides to buy spot energy from one or more suppliers based on the economics and availability of its generating units and capacity purchases. Purchases of spot energy are made in order to lower costs when the spot market price is below both the marginal cost of providing that energy from the company's generating units and the utility's firm capacity purchases. Since the spot market depends on energy supply and demand in each hour, the prices tend to be much more volatile than firm capacity purchases. The Staff used a procedure developed by the Commission's Energy Department- Engineering Section in 1996 that is described in the document entitled "A Methodology to Calculate Representative Prices for Purchased Energy in the Spot Market" (March 18, 1996). The method uses a statistical calculation based on the truncated normal distribution curve to represent the hourly purchased power prices in the spot market.

KCPL's actual hourly non-contract transaction prices in the period of twelve months ending March 31, 2007, obtained from the data KCPL supplied to comply with 4 CSR 240-3.190 (3.190 data), are used as price inputs in the calculation. The calculation yields a spot energy price for each hour of the year. For spot purchased energy availability the Staff used the same availability KCPL used in its model after Staff determined it was reasonable.

Staff Expert – Leon Bender

Staff adjustment S-35.2, found in Staff Accounting Schedule 10, annualizes purchased power energy charges based on the Staff's fuel model results. These purchased power energy charges represent the energy KCPL purchases on the spot market and through contracts to meet the system load requirements of its retail electric customers.

Staff Expert – Charles R. Hyneman

### **4. Hourly Net System Input**

Hourly net system input (NSI) is the hourly electric supply necessary to meet the energy demands of the company's customers and the company's own internal needs. It is net of (i.e., does not include) station use, which is the electricity requirement of the company's generating plants. Current revenue usage is the energy usage from which the normalized, annualized revenue requirement is calculated. The development of the current revenue usage can be found

in the Revenue Section of this report. It is important that the NSI used to estimate normal fuel and purchased power prices is consistent with the current revenue usage used to calculate normalized, annualized revenues, i.e., to comport with the "matching principle" in setting rates, the expense included for fuel should match the expense for fuel necessary to supply the usage used in the calculation of revenues.. To ensure that NSI and current revenue usage are consistent, there are two distinct steps in determining the normalized NSI used in the fuel model.

Because the fuel and purchased power model requires hourly loads, the pattern of the hourly loads must be established. First, Staff removed the hourly loads of three wholesale customers no longer served by KCPL after the end of May, 2006 from KCPL's test year actual hourly NSI. Due to the high saturation of air conditioning and the presence of significant electric space heating in KCPL's service territory, both the magnitude and shape of KCPL's hourly NSI are directly related to daily temperatures. Because of this relationship, Staff weather normalized the adjusted KCPL's hourly NSI for the test year.

To reflect normal weather, daily peak and average net system loads are adjusted independently, using the same methodology that Staff has used since 1990. This is a regression analysis methodology, which estimates a base usage that fluctuates over time, along with estimates of heating and cooling usage. The process includes many checks and balances, which are included in the spreadsheets that are used. In addition, the analyst is required to examine the data at several points in the process. For more information, the process is described in greater detail in the document "Weather Normalization of Electric Loads, Part A: Hourly Net System Loads" (November 28, 1990), written by Dr. Michael Proctor, Manager of the Economic Analysis Department.

The result of this weather normalized hourly load analysis is a NSI load shape that is weather normalized. At this point however, the NSI is not consistent with current revenue usage. Staff then began the process of making this weather normalized NSI consistent with the current revenue usage. In doing this, Staff took the current revenue usage for Missouri described in the Revenue Section of this report and added its estimate of the weather normalized, annualized non-Missouri KCPL test year usage , as well as the wholesale usage that Staff had weather normalized using the same process that it used to weather normalize NSI. The three wholesale customers that left KCPL were removed from the wholesale usage prior to its weather normalization.

The annualization adjustments and growth adjustment as described in the Revenue Section of this report and Company Use were also included to calculate the total annualized, normalized metered usage. In order to determine the amount of generation necessary to meet this metered usage (or load), Staff increased this annual usage by KCPL's average annual loss factor in order. This produces an annual sum of the hourly net system loads that equals the adjusted test year usage, plus losses, and is consistent with normalized revenues.

To reconcile the weather normalized NSI with this annual usage, a factor was applied to each hour of the weather-normalized loads that resulted in an annual sum of the hourly net-system loads equaling the current revenue usage plus losses. A table showing each of these adjustments to attain the annual sum of the generation requirement is shown in Appendix 5 to this Report. A monthly summary of the adjusted NSI loads is shown on Appendix 6 to this Report.

Staff Expert – Shawn E. Lange

#### **a. Normal Weather**

Please refer to the revenue section of this report for a description of how Staff calculates normal weather.

#### **i. Losses**

Electrical system energy losses occur in a utility's system between the generating sources and the customers' meters. It is important to calculate system energy losses so that the Company can determine how much energy must be generated to compensate for those losses and ultimately how much fuel is needed to generate that energy. The system energy loss calculation is determined by subtracting the metered outputs of the system from the metered inputs. Inputs include generation, inadvertent flow, and net off system interchange. Outputs are total sales to ultimate consumers, company use, and the system energy losses.

After review of Company provided data for generation, inadvertent flow, net interchange, sales, and company use, the Staff recommends the adoption of KCPL's system annual energy loss factor of .0559 and the class load loss factors determined from the Company's latest loss study as a means of accurately depicting the actual energy losses occurring at the various voltage levels.

Staff Expert – Erin Maloney

## **5. Planned and Forced Outages**

Planned and forced outages were normalized by using the six year average of actual values taken from data supplied by KCPL.

Staff Expert – Leon Bender

### **E. DEPRECIATION**

Staff recommends the Commission order KCPL to continue to use its current depreciation rates which the Commission ordered in KCPL's recent rate case, Case No. ER-2006-0314. Those rates reflect rates for KCPL the Commission approved in Case No. EO-2005-0329, KCPL's Experimental Regulatory Plan case. Due to the amortization mechanism the Commission allowed in Case No. EO-2005-0329 for KCPL to meet credit metrics any change in KCPL's depreciation rates would have no impact on customer rates.

Staff Expert: Rosella Schad

### **F. PAYROLL AND BENEFITS**

#### **1. FAS 87 and FAS 88 Pension Cost**

The Staff and KCPL entered into a Stipulation and Agreement in Case No. ER-2006-0314 titled, "Nonunanimous Stipulation and Agreement Regarding Pension Issues," which addressed the ratemaking treatment for annual pension cost under Financial Accounting Standard (FAS) 87 and pension settlement and curtailment accounting under FAS 88. The Nonunanimous Stipulation and Agreement Regarding Pension Issues affirms the agreement regarding these matters reached and memorialized as part of the Regulatory Plan Stipulation and Agreement the Commission approved in Case No. EO-2005-0329, clarifies the accounting for pension cost allocated to KCPL's joint partners in the Iatan and LaCygne generating stations and addresses the ratemaking treatment for a curtailment or settlement recognized under FAS 88.

Unlike FAS 87, which allows for a delayed recognition in net periodic pension cost of certain unrecognized amounts, FAS 88 requires the immediate recognition of certain costs arising from settlements and curtailments of defined benefit plans. Without the deferred accounting treatment the Commission approved in Case No. ER-2006-0314, KCPL would have been required to recognize a significant FAS 88 pension cost in 2006 due to the significant number of pension settlements that it experienced during 2006. When a former employee chooses a lump sum payment for his/her pension plan benefits, a settlement occurs under

FAS 88. Pension costs under FAS 88 are legitimate pension costs which require deferred accounting treatment for ratemaking purposes.

The Nonunanimous Stipulation and Agreement Regarding Pension Issues the Commission approved in Case No. ER-2006-0314 for FAS 88 pension costs provides for recognition of a regulatory asset and amortization of the balance over five years beginning with rates established in this case, Case No. ER 2007-0291. KCPL must make contributions to the pension fund annually sufficient to equal the annual level of FAS 88 pension costs included in the cost of service upon which its rates then in effect are set. The regulatory asset is not recognized in rate base because the unamortized balance is not funded in advance by KCPL. Adjustment S-77.8 in the Staff's accounting schedules represents the 5-year amortization of FAS 88 pension costs to be deferred and amortized in accordance with the Nonunanimous Stipulation and Agreement Regarding Pension Issues the Commission approved and ordered the parties to perform in Case No. ER-2006-0314.

Pension cost under FAS 87 is reflected in the Staff's accounting schedules in this case, Case No. ER 2007-0291, consistent with the ratemaking treatment agreed to in the stipulation and agreements the Commission approved and ordered the parties to perform in KCPL's Regulatory Plan case, Case No. EO-2005-0329, and KCPL's most recent electric rate case, Case No. ER-2006-0314. KCPL's rate base determined by the Staff includes the unrecovered balance of the prior Prepaid Pension Asset and the Regulatory Asset which represents the difference between FAS 87 pension costs recovered in rates and FAS 87 pension costs recognized in the financial statements between rate cases. Adjustments S-77.6 and S-77.7 are the adjustments in Staff's accounting schedules to reflect FAS 87 pension costs based upon KCPL's 2007 actuarial valuation and amortization of the related regulatory asset over five years.

Staff Expert: Steve M. Traxler

## **2. FAS 106 – Other Post Retirement Benefit Costs (OPEB)**

Section 386.315, RSMo. 2000, requires the Commission

“not disallow or refuse to recognize the actual level of expenses the utility is required by Financial Accounting Standard 106 to record for post retirement employee benefits for all the utility's employees, including retirees, if the assumptions and estimates used by a public utility in determining the Financial Accounting Standard 106 expenses have been reviewed and approved by the

commission, and such review and approved shall be based on sound actuarial principles.”

Financial Accounting Standard 106 expenses typically include retiree medical, dental, vision and life insurance benefit costs.

Section 386.315, RSMo requires a utility “to use an independent external funding mechanism that limits restricts disbursements only for qualified retiree benefits” for the FAS 106 costs recognized in a utility’s financial statements and that all the funds be used for employee or retiree benefits. KCPL is funding its annual FAS 106 costs. Staff adjustment S-77.4 adjusts KCPL’s test year 2006 FAS 106 costs to a level equal to the amount determined by KCPL’s outside actuary for 2007.

Staff Expert: Steve M. Traxler

### **3. Supplemental Executive Retirement Plan (SERP)**

The Staff reviewed KCPL’s recurring cash SERP payments for the last five years. Since the level of recurring cash SERP payments in the test year were the same as each of the previous five years, the Staff included KCPL’s test year amount as a normalized level. This amount is reflected in adjustment S-77.10.

Staff Expert: Charles R. Hyneman

### **4. Payroll, Payroll Taxes and 401K Benefit Costs**

KCPL’s update work papers in the payroll area provided employee levels and wage rates as of March 31, 2007 and a projection for the change in employee levels and wage rates expected to occur between March 31 and the end of the true-up period, September 30, 2007. Utilizing KCPL’s payroll work papers, the Staff was able to adjust KCPL’s payroll to reflect an annualized level of payroll, payroll tax and 401K benefit cost as of March 31, 2007, the known and measurable date selected for this case and used for the Staff’s direct filing.

Base payroll was calculated by multiplying employee levels at March 31, 2007 by the appropriate salary or wage rate as of March 31, 2007 for a 12 month period to get the annualized payroll cost. Overtime payroll for KCPL and overtime payroll billed to KCPL from the Wolf Creek generating facility were calculated based upon a three-year average adjusted for annual wage increases which have occurred since 2004. The level of payroll billed by KCPL to its joint owners in the Iatan and LaCygne generating stations was also based upon a three-year average.

After allocation between expense and construction, the adjustment for payroll was distributed by FERC account based upon the actual distribution for 2006. The Staff's accounting schedules reflect approximately 60 adjustments by FERC account to reflect the adjustment required to restate the 2006 test year payroll to an annualized level as of March 31, 2007.

Payroll taxes and 401 K benefit costs were annualized by applying a ratio developed based upon 2006 results to the annualized payroll as of March 31, 2007. The adjustments for annualized payroll tax and 401 K benefit costs appear as S-89.2 and S-77.11 in the Staff's accounting schedule 10.

Staff Expert: Steve M. Traxler

#### **5. Short Term Annual Executive Incentive Compensation**

In KCPL's recent rate case, Case No. ER-2006-0314, the Staff recommended a disallowance of short-term annual incentive compensation tied to a plan goal that was based upon the earnings per share (EPS) of GPE and KCPL. Maximizing EPS benefits the shareholders of GPE, not KCPL's ratepayers. As the beneficiary of an incentive plan payout based upon EPS, GPE's shareholders should be assigned the cost of such incentive compensation paid to GPE and KCPL executive management. Approximately 67% of GPE's payroll and benefit costs are allocated to KCPL. The Staff has recommended a disallowance of short term incentive compensation tied to an EPS goal.

Approximately 20% of the short term incentive compensation paid to GPE and KCPL executive management represents discretionary bonuses unsupported by well defined goals beneficial to KCPL's ratepayers. Staff is recommending a disallowance of the cost of discretionary bonuses paid to executive management consistent with its position in KCPL's last rate case, Case No. ER-2006-0314. The Commission's Report and Order in Case No. ER-2006-0314 adopted the Staff's recommended disallowance of short-term incentive compensation tied to an EPS goal and discretionary bonuses unsupported by well defined goals beneficial to KCPL's ratepayers. This issue is addressed in the direct testimony of Staff witness Steve M. Traxler in this case, Case No. ER-2007-0291. Staff adjustment S-69.6 and S-69.7 in Accounting Schedule 10 eliminates short-term incentive compensation tied to an EPS goal and discretionary bonuses.

Staff Expert: Steve M. Traxler

## **6. Long -Term Equity Incentive Compensation**

In KCPL's last rate case, Case No. ER 2006-0314, the Staff also recommended a disallowance of long-term incentive compensation to GPE and KCPL executive management resulting in the issuance of GPE common stock for achievement of goals primarily based upon EPS and total return on capital. Achievement of these goals benefits GPE's shareholders not KCPL's ratepayers. Additionally, unlike other expense recognition in the income statement, expense recognition for equity-based incentive compensation will never result in a cash outlay by KCPL. KCPL is requesting recovery of approximately \$1.3 million (Mo. jurisdictional) for equity-based compensation which will never require a cash outlay by KCPL. This issue is addressed in the direct testimony of Staff witness Steve M. Traxler in this case, Case No. ER-2007-0291. Staff adjustment S-69.8 in Accounting Schedule 10 eliminates long-term equity compensation recognized as an expense in the 2006 test year.

Staff Expert: Steve M. Traxler

## **7. Severance Costs – Talent Assessment**

KCPL is proposing rate recovery of two distinct sets of severance costs. It refers to the first set as "Talent Assessment" or "Skill Set Realignment" costs. These costs include severance payments, outplacement services and payroll taxes totaling \$9.3 million related to the termination of 119 Company employees. After undergoing an assessment of their talent, these 119 employees were asked to decide if they wanted to make the journey with KCPL as outlined in its Comprehensive Energy Plan. If the employee decided not to "make this journey," the employee was terminated with a severance payment. If the employee decided that to make the journey, the employee was asked to demonstrate the employee's commitment to the new expectations. The employees who did not demonstrate this commitment were also terminated with severance payments.

In this rate case, KCPL is proposing to defer \$9.3 million in severance costs for this talent assessment program and to amortize this amount to expense over 5 years. This results in an increase to cost of service of \$1.9 million (total company basis). The Staff removed the cost of the talent assessment program in adjustments S-69.2, S-77.2, and 89.1 listed on Accounting Schedule 10.



In its 2006 rate case, KCPL explained that, based on its Strategic Intent Initiatives, it needed to ensure that it had the appropriate skill sets to accomplish its objectives. In response to Staff Data Request No. 240 in KCPL's 2006 rate case, KCPL stated "We need people who will lead change, look for better ways of doing things, be proactive and continually question processes while looking for ways to improve. We need people who are committed to GPE and to the Winning Culture."

The Staff is opposed to recovery of KCPL's talent assessment costs. The specific reasons are described in the direct testimony of Staff witness Charles R. Hyneman.

Staff Expert: Charles R. Hyneman

#### **8. Severance Costs – Non -Talent Assessment**

KCPL is proposing to recover a three-year average of non-talent assessment severance payments in the amount of \$520,022. This proposal is reflected in KCPL's adjustment 20c. The Staff is opposed to severance costs that do not produce any customer benefit and are likely to have already been recovered in rates through regulatory lag. In adjustments S-69.3, S-69.4 and S-77.3, the Staff removed KCPL's test year severance payments.

These severance payments made by KCPL are not recurring costs of the type that should be borne by regulated customers, are expenditures that will not result in any payroll savings costs, and there is no support that they will provide any other benefit to KCPL or its customers. In addition, by seeking rate recovery of severance payments, KCPL ignores the fact that, until rates change, payroll expenses for the severed employee continue to be recovered in rates after the employee leaves the company. It would be common for KCPL to double and even triple recover the cost of the severance by recovering the payroll costs for a severed employee until rates are changed. For example, assume KCPL made a \$100,000 severance payment to an employee whose salary was \$100,000 and whose annual benefit cost (pension, medical, etc.) was \$20,000. KCPL would recover the cost of the severance payment through continued receipt of salary and benefit costs in rates in less than one year after the severance payment.

Staff Expert: Charles R. Hyneman

## **G. Maintenance Normalization Adjustments**

In KCPL's recent rate case, ER-2006-0314, the Commission adopted KCPL's position on normalizing maintenance expense. In Case No. ER 2006-0314, KCPL proposed normalization adjustments for non-labor production maintenance and an annual level of maintenance for the new wind generating facility located at Spearville, Kansas. A six year average of historical costs for non-labor production maintenance, adjusted for inflation using the Handy Whitman index, was proposed with additional adjustments for the Hawthorn 5 unit and five combustion turbines added by KCPL in 2005. These combustion turbines were leased by KCPL prior to 2005. These additional adjustments were necessary because the historical data did not reflect the cost of a turbine overhaul for Hawthorn 5 or maintenance required for the five additional combustion turbines.

In this case, ER 2007-0291, the Staff is proposing maintenance normalization adjustments which it considers consistent with the methodology adopted by the Commission in Case No. ER 2006-0314. Non-labor production maintenance has been normalized based upon a 7-year average adjusted to reflect prior years in 2006 dollars using the Handy Whitman Index consistent with the last case. Additional adjustments were made to reflect maintenance for a Hawthorn 5 turbine overhaul, the maintenance contract for the Spearville wind farm and inspections on the five combustion turbines added in 2005 because a normal level of maintenance on these units is not reflected in the 7-year historical analysis. These incremental adjustments to the 7-year historical average are consistent with the methodology adopted by the Commission in Case No. ER-2006-0314. Projected costs should only be included in a maintenance normalization adjustment when historical data is unavailable.

In its direct filing and updated cost of service calculation, KCPL has proposed numerous adjustments for future projects in the transmission, distribution and general maintenance areas. The Staff has not reflected the projected costs for these projects but has reflected a 4-year average of actual non-labor transmission and distribution maintenance restated to 2006 dollars using the same Handy Whitman index used by KCPL in this case for its normalization of non-labor production maintenance. A 4-year average was used to avoid the cost of the ice storm which occurred in 2002. The cost of the ice storm was so abnormal it was given deferred accounting treatment and amortized in rates over 5 years. The Staff will review KCPL's actual costs in the transmission, distribution and general maintenance areas during the true-up audit as

of September 30, 2007 and decide on whether a change should be made to its proposed level of normal maintenance on KCPL's transmission, distribution and general plant. Staff adjustments S-15.2, S-16.2, S-17.2, S-18.2 and S-33.2 adjust the 2006 test year to normalize non-labor production maintenance. Staff adjustments S-38.3, S-44.2, S-45.2, S-57.2 and S-59.2 adjust the 2006 test year to normalize non-labor transmission and distribution maintenance expense.

The Staff has adjusted the 2006 test year to eliminate the amortization of the 2002 ice storm. The amortization period for the deferred ice storm costs expired in January 2007. Adjustment S-58.1 in the Staff's accounting schedules eliminates the ice storm amortization. Staff Expert: Steve M. Traxler.

## **H. Other Non-Labor Expenses**

### **1. Hawthorn No. 5 Subrogation Proceeds**

In 1999, KCPL's Hawthorn No. 5 generating unit boiler exploded. KCPL rebuilt the boiler and returned the generating unit to service. In 2001 KCPL filed a lawsuit against several parties alleging they had responsibility for damages KCPL incurred due to the boiler explosion. KCPL and National Union Fire Insurance Company of Pittsburgh, Pennsylvania (National Union) entered into a subrogation agreement under which recoveries in this suit are generally allocated 55% to National Union and 45% to KCPL. In 2006, KCPL received, after payment of attorney's fees, proceeds of \$38.9 million pursuant to the subrogation agreement.

KCPL accounted for the \$38.9 million it received by reducing purchased power expense by \$10.8 million, reducing fuel expense by \$3.7 million, increasing wholesale revenues by \$2.5 million. It then allocated \$6.1 million of the proceeds to a below-the-line non-operating interest revenue account, and recorded \$15.8 million as a recovery of capital expenditures charged to its depreciation reserve.

In its direct filing in this case, KCPL made adjustments to its 2006 income statement to remove the effects of the proceeds. The Staff made the same adjustments as KCPL to remove the proceeds; however the Staff is proposing to defer the proceeds as a regulatory liability. By not proposing to treat these proceeds as a regulatory liability, KCPL is taking the position that the \$23.1 million non-capital portion of the subrogation proceeds should be retained by shareholders.

The Staff proposal to defer the \$23.1 million as a regulatory liability and amortize this amount as a reduction to expense over five years is reflected in Staff adjustment S-98.1 listed on Accounting Schedule 10, Adjustments to Income Statement. This adjustment is based on the belief that these funds are a result of KCPL regulated activities, not its nonregulated activities. Absent substantive reasons to the contrary, revenues or expenses directly related to KCPL's regulated activities should be reflected in its cost of service. KCPL has provided no substantive reasons why these proceeds should not be reflected in its cost of service.

KCPL's position that these subrogation proceeds belong to its shareholders is not consistent with how it treated the costs it incurred to obtain the proceeds. The Staff is not aware of any prior adjustments it made to KCPL's cost of service to disallow the payroll and benefits expenses of KCPL employees who worked on the lawsuit that resulted in the proceeds. Nor is the Staff aware of any adjustment to KCPL's legal expenses for legal costs incurred in prosecuting the lawsuit that resulted in KCPL receiving proceeds.

Staff Expert: Charles R. Hyneman

## **2. Regulatory Expenses**

In KCPL's last rate case, Case No. ER-2006-0314, the Commission ordered that KCPL would be allowed to recover \$1.06 million in rate case expense over two years. In accordance with that Order, the Staff included \$533,059 in rate case expense in adjustment S-79.2 to account 928. In adjustment S-79.3, the Staff is including the \$224,444 of rate case expense incurred by KCPL as of May 31, 2007, amortized over two years.

In addition to recovery of rate case expense through a two-year amortization, KCPL is also proposing rate base treatment of its unamortized rate case expense. The Staff has never supported rate base inclusion of rate case expense and it continues that position in this case. Rate case expenses are not assets, but a recurring expense incurred by utility companies to adjust their rates consistent with their cost structure and capitalization.

This Commission has expressed its position that otherwise legitimate management expenses should not be treated as rate base assets because they do not meet the definition of an asset. In its Report and Order in KCPL's 2006 rate case on this issue of whether or not KCPL's Corporate Projects should be included in rate base, the Commission expressed its view on what types of costs should be included in rate base. In the Staff's opinion, normal recurring rate case

expense incurred by KCPL management in prosecuting rate cases do not meet the requirements to be included in rate base.

In its Report and Order in Case No. ER-2006-0314 the Commission stated:

For the rate base treatment of these expenses, the Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff. In rebuttal testimony, KCPL witness Lori Wright stated that KCPL was supportive of Staff's treatment of these costs, yet, without explaining why these projects would be an asset, maintained that these costs should be included in rate base.

As explained by Staff witness Hyneman, "In order for an item to be added to rate base, it must be an asset. Assets are defined by the Financial Accounting Standards Board (FASB) as 'probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events' (FASB Concept Statement No. 6, Elements of Financial Statements). Once an item meets the test of being an asset, it must also meet the ratemaking principle of being 'used and useful' in the provision of utility service. Used and useful means that the asset is actually being used to provide service and that it is actually needed to provide utility service. This is the standard adopted by many regulatory jurisdictions, including the Missouri Public Service Commission." [95]

The Commission finds that the competent and substantial evidence supports the position of Staff, and finds this issue in Staff's favor. While KCPL's projects appear to be prudent, KCPL produced insufficient evidence for the Commission to find that these projects rise to the level of an asset, on which the company could earn a rate of return. What is at issue is not whether a project [96] is a "probable future economic benefit", as KCPL asserts in its brief; what is at issue is the remainder of the FASB definition Mr. Hyneman quoted, which is "obtained or controlled by an particular entity as a result of past transactions or events." In other words, an asset is some sort of possession or belonging worth something. KCPL obtains or controls assets, such as generation facilities and transmission lines. To attempt to turn an otherwise legitimate management expense, such as a training expense, into an asset by dubbing it a "project" makes a mockery of what an asset really is, which is some type of property. [97] Using KCPL's argument, any expense is potentially an asset by simply calling it a "project", and thus could be included in rate base. KCPL's projects do not rise to the level of rate base.

Apparently KCPL proposed to include rate case expense in rate base in its 2006 Kansas rate case and that proposal was not received favorably by the Staff of the Kansas Corporation Commission as KCPL agreed not to include its 2006 Kansas rate case expense in rate base in future rate cases in Kansas.

In addition to rate case expense, the Staff has made an adjustment to KCPL's PSC assessment. The Staff adjusted KCPL's booked PSC assessment to the fiscal year 2007 assessment of \$815,471. KCPL's 2008 fiscal year assessment will be included in the September 2007 true up filing.

Staff Expert: Charles R. Hyneman

### **3. Relocation Expense**

In its review of KCPL's books and records, the Staff noticed that KCPL's employee relocation expense has increased significantly over the last few years. An increase in this cost is consistent with KCPL's high employee turnover rate from its talent assessment program. In adjustment S-70.2 the Staff adjusted KCPL's test year employee relocation expense to a five-year average of this expense.

Staff Expert: Charles R. Hyneman

### **4. Meals and Entertainment Expense**

In response to the Staff's Data Request No. 162 to review selected internal audit reports, KCPL provided a GPES and KCPL Officer and Director Expense Report Review dated January 17, 2007. In that report, KCPL's internal auditors noted several major problem areas with KCPL and GPES' executive expense reports. While the Staff did not perform a major review of officer expense reports in this proceeding, it did review several expense reports and found several instances of improper documentation and questionable charges made to KCPL's regulated expenses.

To address this situation in this rate case, the Staff disallowed 100 percent of KCPL's Meals and Entertainment expenses in adjustment S-73.2. Under the presumption that substantially all meal expenses by KCPL employees in the Kansas City area should be considered personal expenses; the Staff considers this adjustment to be conservative. The Staff believes that if time permitted a more in depth review, a significantly larger adjustment could be supported for other business travel expenses. The Staff is not prepared, however, to make that adjustment at this time.

Staff Expert: Charles R. Hyneman

### 5. Lobbying Expenses

In adjustment S-69.9, the Staff removed the annual payroll and estimated benefits cost of KCPL's Washington D.C. lobbyist from KCPL's cost of service. The Staff considers this expense, as well as the expenses of all KCPL employees who engage in lobbying activities, to be required to be charged to FERC Uniform System of Accounts (USOA), Account 426.4, Expenditures for Certain Civic, Political and Related Activities.

The Staff uses the definition of lobbying found in the FCC Uniform System of Accounts for Telecommunications Companies and which follows:

Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purposes of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

(Source: Federal Communications Commission (FCC) Part 32 of The Uniform System of Accounts for Telecommunications Companies, Section 32.7370)

The Staff's position on lobbying expenses is that all lobbying activities should be recorded below-the-line in account 426.4 as required by the FERC Uniform System of Accounts. These costs include dollars paid to external lobbyists (outside vendors and contractors) and internal lobbyists. FERC Account 426.4 is defined as follows:

This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation, or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with reporting utility's existing or proposed operations.

Staff Expert: Charles R. Hyneman

## **6. Miscellaneous ER-2006-0314 Deferred Expense Amortizations**

In its Report and Order in Case No. ER-2006-0314, the Commission authorized KCPL to defer and amortize to expense certain expenses that it incurred in the 2005 test year. The Staff included these amortizations in this case in the following adjustments:

S-10.2 Amortize deferred Surface Transportation Board (STB) expenses  
as of 9/30/06

S-10.3 Amortize deferred STB expenses from 10/1/06 – 12/31/06

S-73.4 Amortize Project LED-LDI deferred expenses over five years

S-73.6 Amortize Project CORP DP KCPL expenses over five years

Staff Expert: Charles R. Hyneman

## **7. Capitalization of Sierra Club Collaboration Agreement**

In March 2007, KCPL, the Sierra Club and the Concerned Citizens of Platte County entered into a Collaboration Agreement that resolved disputes among the parties concerning KCPL's Comprehensive Energy Plan. KCPL agreed to pursue a set of initiatives including energy efficiency, additional wind generation, lower emission permit levels at its Iatan and LaCygne generating stations and other initiatives designed to offset carbon dioxide emissions.

In response to Staff Data Request No. 240, KCPL provided a list of all outside legal, consulting and other incremental costs charged to the 2006 general ledger associated with the Collaboration Agreement. While KCPL did appropriately capitalize significantly all of these costs, some costs were charged to expense in the test year. The Staff, in adjustments S-78.3 and S-78.8 removed these expenses that should have been capitalized to construction accounts.

Staff Expert: Charles R. Hyneman

## **8. Nuclear Decommissioning**

In its Report and Order in Case No. ER-2006-0314, the Commission ordered that KCPL's annual Missouri retail jurisdictional decommissioning cost accrual shall be \$1,281,264, commencing January 2007 and KCPL's decommissioning trust fund payments shall be at that annual level. Staff's adjustment S-24.1 adjusts KCPL's test year decommissioning expense to the level ordered by the Commission.

Staff Expert: Charles R. Hyneman



## **9. DOE Refund of Nuclear Fuel Overcharges**

A group of utilities, including KCPL, filed a lawsuit against the DOE claiming they were overcharged by the government for uranium enrichment services they purchased during fiscal years 1986-1993. The lawsuit settled and, in December 2006, KCPL accrued \$427,150 for the settlement. In this rate case, KCPL made an adjustment to remove the \$427,150 through adjustment 11b. The Staff made the same adjustment (S-20.1) as listed under the Miscellaneous Adjustments section to remove the settlement proceeds from test year expense. The Staff also deferred the amount of these proceeds as a regulatory liability to be flowed back over five years as a reduction to KCPL's cost of service. This adjustment is included with the Hawthorn V subrogation proceeds in adjustment S- 98.1

Staff Expert: Charles R. Hyneman

## **10. Property Tax Expense**

Every year, KCPL receives a property tax bill from each of the taxing authorities that have jurisdiction over the Company's property. Tax bills for the year are based on the property KCPL owns on the first day of that calendar year. For the direct testimony filing in the current rate case, the Commission has ordered a test year ended December 31, 2006, updated through March 31, 2007, based upon the KCPL Regulatory Plan and a request of the Staff that the update period be changed. Therefore, the appropriate property tax expense to be used for setting rates is KCPL's 2007 tax bill, based on property the Company owned on January 1, 2007. However, as is standard each year, KCPL will not receive all of its 2007 property tax bills until later in the year (KCPL is subject to taxation by the many county and local jurisdictions in which it owns property); thus it is necessary at this point in time to make an estimate of what the total 2007 property tax expense will be. Both the Staff and the Company have typically accomplished this by looking to the tax rate paid for the previous year, and then applying it to the property owned at the start of the current year. For the current rate case, the Staff has obtained from KCPL the total amount of taxable property owned on January 1, 2007, and then applied to it the tax rate the Company paid in 2006. The property tax rate paid in 2006 is simply the total amount of property tax paid divided by the total cost of the taxable property owned on January 1, 2006. First, wind generation and non-taxable environmental property were removed from the total January 1, 2007 property balance. Any required payments in lieu of taxes (PILOTs) applicable to this non-

taxable property were added to the total estimated tax for 2007. The Staff believes that the property tax expense arrived at in this manner is the best estimate available, since it relies on the actual January 1, 2007 balance of KCPL's property, and uses the most recent, known tax rate (2006), without attempting to estimate any change in the rate of taxation for 2007 that is not known at this time. The Staff adjusted test year property tax expense in order to include in rates the annualized level of 2007 property taxes. Staff's approach is consistent with that taken previously and received a favorable ruling from the Commission in the Report and Ordered issued in Case No. ER-2006-0314. This is adjustment S-89.3 in the current rate case.

Staff Expert: Graham A. Vesely

#### **11. Bad Debt Expense**

Bad debt expense is the portion of retail revenues that KCPL is unable to collect from retail customers by reason of bill non-payment. After a certain amount of time has passed, delinquent customer accounts are written off and turned over for collection; KCPL is subsequently successful in collecting some portion of the delinquent amounts owed. Staff calculated the bad debt rate by examining the actual 12-month history of billed revenues that were never collected (net write-offs). From this information a bad debt rate was derived, which was then applied to Staff's annualized level of retail revenues to obtain the annualized level of bad debt expense. Staff's adjustment for bad debt expense adjusts the test year results to reflect a level of bad debt expense that is consistent with Staff's annualized level of retail revenue. This is adjustment S-65.1.

Staff Expert: Graham A. Vesely

#### **12. Advertising Expense**

In forming its recommendation of the allowable level of advertising expense, Staff relied on the principles the Commission followed as a result of the 1986 Kansas City Power & Light rate case (the last KCPL litigated rate case before last year's Case No. ER-2006-0314). In Re: Kansas City Power and Light Company, 28 MO P.S.C. (N.S.) 228 (1986) (KCPL), the Commission adopted an approach that classifies advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission therein were as follows:

1. General: advertising that is useful in the provision of adequate service;
2. Safety: advertising which conveys the ways to safely use electricity and to avoid accidents;
3. Promotional: advertising used to encourage or promote the use of electricity;
4. Institutional: advertising used to improve the company's public image;
5. Political: advertising associated with political issues.

The Commission adopted these categories of advertisements because it believed that a utility's revenue requirement should: 1) always include the reasonable and necessary cost of general and safety advertisements; 2) never include the cost of institutional or political advertisements; and 3) include the cost of promotional advertisements only to the extent that the utility can provide cost-justification for the advertisement (Report and Order in KCPL Case No. EO-85-185, 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986)).

Accordingly, in the current rate case Staff has made an adjustment to exclude the costs of institutional advertising from recovery in rates and found no political advertising. Costs for safety advertising and general advertising directed towards benefiting existing customers were left un-adjusted. Advertising costs that informed KCPL's customers of the new investments in plant assets required by the Regulatory Plan the Commission approved in its Case No. EO-2005-0329, were adjusted so as to be amortized over a two-year period as the Commission specified for rate case expense previously in its Report and Order of Case No. ER-2006-0314. The adjustments are S-67.3, S-68.2, and S-80.2.

Staff Expert: Graham A. Vesely

### **13. Dues and Donations Expense**

Staff reviewed the list of membership dues paid, and donations made, to various organizations that KCPL charged to its utility accounts during the test year. Staff's adjustment represents the recommended disallowance of all but immaterial donations, without judgment as to the intended recipient. Staff's adjustment also reflects a recommendation to limit membership payments made to organizations that represent specific business and other community interests. This is adjustment S-81.2.

Staff Expert: Graham A. Vesely

#### **14. Remove Gross Receipts Taxes from Test Year Revenues**

The amounts received from customer payments and recorded as revenues include gross receipt taxes (GRTs) that KCPL must charge customers on their utility bills; KCPL must turn in to the taxing authorities all GRTs received from customers. In order to correctly define the Company's actual test year retail revenues, it is necessary to remove GRTs from any amounts recorded as 2006 revenues. Staff's adjustment removes GRTs from test year revenues. The adjustments are S-1.1, S-5.2, and S-90.1.

Staff Expert: Graham A. Vesely

#### **15. KC Receivables Bank Fees**

In adjustment S-64.3, the Staff includes the annualized level of bank fees paid by KCPL to KC Receivables in the sale of KCPL's accounts receivable.

Staff Expert: Charles R. Hyneman

#### **16. Annualize Southwest Power Pool (SPP) Fees**

The Company received an increase in the fees it is required to pay to this regional transmission operator. With this adjustment, Staff has included the annualized level of this expense in rates. This is adjustment S-38.4.

Staff Expert: Graham A. Vesely

#### **17. Miscellaneous Adjustments**

There were several adjustments that were required to be made to certain of KCPL's 2006 income statement accounts to remove the effects of credits that were made to record expenses as regulatory assets, remove nonrecurring revenue and expenses and for other reasons. Both KCPL and the Staff made these adjustments. These adjustments include

- S-4.3 – eliminate Hawthorn V subrogation proceeds booked as revenues
- S-10.4 – add back deferred Surface Transportation Board (STB) costs to account 501
- S-20.1 – add back DOE Refund of nuclear fuel overcharges to account 518
- S-31.2 – add back Hawthorn V Subrogation Proceeds to account 547
- S-35.1 – add back Hawthorn V Subrogation Proceeds to account 555
- S-73.3 – add back Project LED-LDI costs deferred in 2006
- S-73.5 – add back Project CORP DP-KCPL costs deferred in 2006
- S-73.7 – add back Project MSC 0140 costs deferred in 2006
- S-78.4 – add back impact of favorable FERC ruling

Staff Expert: Charles R. Hyneman

#### **18. Non-Operating Costs in Account 923.1**

In discussions with KCPL regulatory personnel it was discovered that account 923.1 included some non-operating costs, such as interest expense, charged to KCPL from GPES. Adjustment S-74.1 removes these costs.

Staff Expert: Charles R. Hyneman

#### **19. Amortization of Demand-Side Management Costs – Regulatory Asset**

The Demand-Side Management (DSM) Account 182440 contains costs for fourteen DSM programs that are in various stages of development and implementation along with some costs not directly assignable to any individual program and DSM market research costs. The DSM costs for 2006 were \$3,422,680 and the costs for the update period of January through March 2007 were \$851,149. Based on Staff's participation in the Customer Program Advisory Group established to advise KCPL in the development of DSM programs and Staff's review of the costs in Account 182440, Staff has treated the previously mentioned amounts according to the amortization process agreed to in the KCPL Regulatory Plan Stipulation and Agreement.

The Stipulation and Agreement provides for construction accounting which allows KCPL to capitalize an interest cost on the project costs in the regulatory asset which cannot exceed the AFUDC rate used for capitalizing an interest (return) cost on other capital projects during construction.

The DSM costs include the payments to KCPL's customers that participate in the MPower program. The MPower Program is a commercial and industrial load curtailment program. This program allows KCPL to call for curtailment for economic reasons. These economic reasons could include reducing the retail customer's demand on KCPL's generation resources so that KCPL could sell more energy at times of high market prices. While ordinarily Staff would not include curtailment payments for these circumstances, Staff is allowing these costs to be included in the DSM amount because the revenues from such sales on the wholesale market will be returned to the retail customers through the tracker mechanism established by the Commission in the last rate case (Case No. ER-2006-0314).

Staff witness Steve M. Traxler calculated the 10-year amortization amount for cost recovery in this case. Adjustment S-67.4 reflects the amortization amount included in cost of service in this case.

Staff Expert – Lena M. Mantle

## **I. Current and Deferred Income Tax**

### **1. Current Income Tax**

Current income tax has been calculated consistent with the methodology used in KCPL's recent rate case, Case No. ER-2006-0314. A new tax credit is reflected for research and development costs. A tax timing difference occurs when the timing used in reflecting a cost (or revenue) for financial reporting purposes is different than the timing required by the Internal Revenue Service (IRS) in determining taxable income. Current income tax reflects timing differences consistent with the timing required by the IRS. The tax timing differences used in calculating taxable income for computing current income tax are as follows:

#### **Add Back to Operating Income Before Taxes:**

- Book Depreciation Expense
- 50% Meals & Entertainment Disallowance
- Book Nuclear Fuel Amortization
- Book Amortization Expense

#### **Subtractions from Operating Income:**

- Interest Expense – Weighted Cost of Debt X Rate Base
- IRS Accelerated Tax Depreciation
- Deduction for Electric Utility Production Income
- IRS Nuclear Fuel Amortization
- IRS Other Amortization Deduction

#### **Subtractions from Current Income Tax:**

- Wind Production Tax Credit
- Research and Development Tax Credit (New)

The tax credit for research and development expenditures was not reflected in the calculation of current income tax in KCPL's recent case, Case No. ER-2006-0314. In response to U.S. Department of Energy (DOE) Data Request No. 55, KCPL indicated that it intends to file amended tax returns for years 2001-2005 for the purpose of reflecting allowable tax credits and current year tax deductions for research and experimental expenditures under Internal Revenue Code (IRC) Sections 41 and 174. It is the Staff's position that the additional cash flow from a tax reduction from an amended tax return should be deferred and amortized for ratemaking purposes. This increase in cash flow to KCPL should be used to mitigate the Regulatory Plan Amortization that KCPL's ratepayers are paying in current rates and will continue to pay until

rates become effective in 2010 to recognize the in-service date for KCPL's new coal burning generating facility, Iatan 2.

The occurrence of an extraordinary income event should be viewed in the same manner as an extraordinary cost event like KCPL's 2002 ice storm. Deferred accounting and amortization for ratemaking purposes should apply equally to both extraordinary costs and extraordinary income. KCPL's failure to take advantage of all available tax credits in prior years should not result in a cash windfall for its shareholders, but instead should be used to reduce the additional cash requirement collected from ratepayers in the Regulatory Plan Additional Amortization. The amount of additional cash flow provided by ratepayers through the Regulatory Plan Additional Amortization should be limited to funds unavailable from other sources. Staff has outstanding discovery on this issue and will address this issue in detail in the September 30, 2007 true-up agreed to and ordered for this case.

## **2. Deferred Income Tax Expense:**

When a tax timing difference is reflected for ratemaking purposes consistent with the timing used in determining taxable income for current income tax due the Internal Revenue Code (IRC), the timing difference is given "flow-through" treatment. When a current year timing difference is deferred and recognized for ratemaking purposes consistent with the timing used in calculating pre-tax operating income in the financial statements, then that timing difference is given "normalization" treatment for ratemaking purposes. Deferred income tax expense for a regulated utility reflects the tax impact of "normalizing" tax timing differences for ratemaking purposes. IRS rules for regulated utilities require normalization treatment for the timing difference related to accelerated tax depreciation.

The Stipulation and Agreement in Case No. ER 2006-0314 regarding the Regulatory Plan Additional Amortization requires that the additional amortization be included in the straight-line tax depreciation amount used in normalizing the timing difference for accelerated tax depreciation. The Staff's deferred income tax calculation treats the Regulatory Plan Additional Amortization, approved in Case No. ER 2006-0314, as an increase in the straight-line tax depreciation deduction, consistent with the Stipulation and Agreement approved in Case No. ER 2006-0314.

Any increase in the Regulatory Plan Additional Amortization resulting from the results of the Staff's true-up audit will also be reflected in the deferred income tax calculation for this case, ER-2007-0291.

Staff Expert: Steve M. Traxler

## **VII. Reliability and Customer Service**

### **A. QUALITY OF SERVICE: CALL CENTER AND RELIABILITY METRICS**

The March 28, 2005, filing of the Stipulation and Agreement in Case No. EO-2005-0329, *In the Matter of a Proposed Experimental Regulatory Plan of Kansas City Power & Light Company*, contained provisions for KCPL to report a variety of customer service standards to both the Staff and the Office of the Public Counsel. Reporting of such data has been consistently requested of large regulated utilities to permit the Staff and OPC to monitor certain key performance indicators to help ensure that customers are receiving an acceptable level of service in the areas being measured. While not all aspects of service quality lend themselves to measurement, such measurements can serve as useful tools to determine certain aspects of service quality. Similar service quality data presently being reported by KCPL is also being reported by other Missouri-regulated utilities including all of the large electric and gas companies and the largest water company.

Specifically, KCPL is reporting monthly call center data on a quarterly basis. Call centers perform a critical function in that they often serve as the primary means for customers to contact their utilities. KCPL has been reporting the following indicators:

1. Total Calls Offered to the Call Center
2. Call Center Staffing including Call Center Management Personnel
3. Average Speed of Answer (ASA)
4. Abandoned Call Rate (ACR)

Average Speed of Answer is defined as the number of seconds it takes for a customer to reach a customer advocate and Abandoned Call Rate is the percentage of customers who abandoned their calls prior to the calls being answered by a customer advocate. These call center metrics provide limited, but useful information as to how well the Company's call center is performing. The Company has been consistently providing call center data to the Staff and the



Staff's monitoring has not resulted in any matter known to date that it believes warrants action or concern on the part of the Commission.

Staff Expert – Lisa Kremer

### **B. Reliability**

Reliability indices reflect overall system performance and can help in assessing the performance of a utility in its delivery of electric service by providing quantitative measures of the quality of service. Staff has reviewed five years of data containing the following four most common reliability indices, and has not identified any long-term trends in this data that should be cause for concern to the Commission:

**SAIFI** - system average interruption frequency index; this is the total number of customer interruptions divided by the total number of customers served.

**SAIDI** - system average interruption duration index; this is the total of all customer interruption durations divided by the total number of customers served.

**CAIDI** - customer average interruption duration index; this is the sum of customer interruption durations divided by the total number of customer interruptions.

**MAIFI** - momentary average interruption frequency index; this is the total number of customer momentary interruptions.

Staff Expert – Erin Maloney

### **Appendices:**

Appendix 1: Staff Credentials

Appendix 2: In-Service Criteria (HC)

Appendix 3: Curt Wells' Schedule CW-2

Appendix 4: Curt Wells' Schedule CW-3

Appendix 5: Shawn Lange's Schedule SL-2

Appendix 6: Shawn Lange's Schedule SL-3

# APPENDIX 1

## STAFF CREDENTIALS

Leon Bender.....	1
Lisa A. Kremer.....	2
Shawn E. Lange .....	4
Erin Maloney .....	5
Lena M. Mantle, P.E. ....	6
Janice Pyatte.....	9
David C. Roos.....	11
Rosella L. Schad .....	12
Michael E. Taylor .....	15
Graham A. Vesely.....	16

## **Leon Bender**

### **Educational Background and Work Experience:**

I received a Bachelor of Science degree in Mechanical Engineering in August 1978 from Texas Tech University. I became employed by Southwestern Public Service Company (SPS) as a power generation plant design engineer in September 1978. While employed by SPS, I was lead engineer on many projects involving design and construction of new power generating stations and the upgrading of their older plants. In 1983, I became a registered Professional Engineer in the state of Texas. In 1986, I transferred to SPS's newly formed subsidiary company, Utility Engineering Corporation, and was responsible for various projects at various other clients' power generation plants. In June 1990, I accepted employment as a systems engineer with Entergy Operations, Inc. at the nuclear powered generating station, Arkansas Nuclear One. In December 1995, I joined the Missouri Public Service Commission (Commission). While employed by the Commission I have been responsible for determining variable fuel and purchased power cost using the production cost fuel model in numerous cases.

### **List of Previously Filed Testimony of Leon Bender:**

- |                 |                                       |
|-----------------|---------------------------------------|
| 1. ER-2007-0004 | Aquila, Inc.                          |
| 2. ER-2007-0002 | Union Electric Company d/b/a AmerenUE |
| 3. EA-2006-0309 | Aquila, Inc.                          |
| 4. ER-2005-0436 | Aquila, Inc.                          |
| 5. ER-2004-0570 | The Empire District Electric Company  |
| 6. ER-2004-0034 | Aquila, Inc.                          |
| 7. EC-2002-0001 | Union Electric Company d/b/a AmerenUE |
| 8. ER-2001-0299 | The Empire District Electric Company  |
| 9. EM-97-0515   | Kansas City Power & Light Company     |
| 10. ER-97-0394  | Utilicorp United, Inc.                |
| 11. EC-97-0362  | Utilicorp United, Inc.                |

## **Lisa A. Kremer**

### **Education**

Master's Degree in Business Administration  
Lincoln University, Jefferson City, MO – May 1989

Bachelor of Science Degree in Public Administration  
Lincoln University, Jefferson City, MO – July 1983

### **Professional Certifications**

Certified Internal Auditor (CIA) February 1997

### **Professional Experience**

**Missouri Public Service Commission, Jefferson City, MO**  
February 1998 – Present  
November 1986 – October 1997  
Manager, Engineering and Management Services Department, February 2000  
Prior to 2000, Utility Management Analyst III, II, and I

**Missouri Highway Department, Jefferson City, MO**  
October 1997 – January 1998  
Audit Manager

**Lincoln University, Jefferson City, MO**  
April 1983- October 1986  
Institutional Researcher

**Columbia College, Jefferson City, MO**  
Fall 1990  
Instructor – Management Principles

# **CASE PROCEEDING PARTICIPATION OF**

**LISA A. KREMER**

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Atmos Energy Company	GR-2006-0387	Direct - Quality of Service Report - Staff Response to Commission Order
Aquila, Inc.	GR-2004-0072	Direct - Quality of Service
Aquila, Inc.	ER-2004-0034 & HR-2004-0024	Direct - Quality of Service Rebuttal - Quality of Service
Laclede Gas Company	GR-2002-356	Rebuttal - Expense Decommissioning
Missouri Gas Energy	GR-2001-292	Rebuttal - Customer Service
UtiliCorp United Inc. / Empire District Electric Company	EM-2000-369	Rebuttal - Customer Service
Atmos Energy Company / Associated Natural Gas Company	GM-2000-312	Rebuttal - Customer Service
Raytown Water Company	WR-94-211	Rebuttal - Management Audit

## **Shawn E. Lange**

### **Present Position:**

I am a Utility Engineering Specialist II in the Engineering Analysis Section, Energy Department, Utility Operations Division.

### **Educational Background and Work Experience:**

In December 2002, I received a Bachelor of Science Degree in Mechanical Engineering from the University of Missouri, at Rolla. Since then, I have pursued dual Masters Degrees in Mechanical Engineering at the University of Missouri, at Columbia and Business Administration at William Woods University. I joined the Commission Staff in January 2005. I am a registered Engineer-in-Training in the State of Missouri.

## **Testimony of Shawn E. Lange**

### **Direct Testimony**

ER-2005-0436	(Aquila Inc.)
ER-2006-0315	(Empire District Electric Company)
ER-2006-0314	(Kansas City Power & Light Company)
ER-2007-0002	(Union Electric Company d/b/a AmerenUE)
ER-2007-0004	(Aquila Inc.)

### **Rebuttal Testimony**

ER-2005-0436	(Aquila Inc.)
ER-2006-0315	(Empire District Electric Company)

### **Surrebuttal Testimony**

ER-2005-0436	(Aquila Inc.)
ER-2006-0314	(Kansas City Power & Light Company)

## **Erin Maloney**

### **Education**

Bachelor of Science Mechanical Engineering  
University of Las Vegas Nevada, May 1992

### **Professional Experience**

**Missouri Public Service Commission, Jefferson City, MO**  
January 2005 – Present  
*Utility Engineering Specialist II*

**Electronic Data Systems, Kansas City, Missouri**  
August 1995 – November 2002  
*System Engineer*

### **Previous Testimony Before the Commission**

<b>Case Number</b>	<b>Type of Testimony</b>	<b>Issues</b>
ER-2005-0436	Direct	Reliability
ER-2006-0315	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2006-0314	Direct, Rebuttal, Surrebuttal, True-up Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0002	Direct	System Losses and Jurisdictional Energy Allocation
ER-2007-0004	Direct	System Losses and Jurisdictional Energy Allocation

**Lena M. Mantle, P.E.**

Energy Department Manager  
Utility Operations Division

Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

I received a Bachelor of Science Degree in Industrial Engineering from the University of Missouri, at Columbia, in May 1983. I joined the Commission Staff in August 1983. I became the Supervisor of the Engineering Section of the Energy Department in August, 2001. In July 2005, I was named the Manager of the Energy Department. I am a registered Professional Engineer in the State of Missouri.

My work at the Commission has included the review of resource plans of investor-owned electric utilities since 1984. I was actively involved in the writing of the Commission's Chapter 22, Electric Resource Planning rules in the early 1990's. I participated in the review of all of the utility filings under those rules. Since the Commission issued a waiver to the electric utilities from filing under those rules in 1999, I have been present at all but one of the electric utilities' semi-annual resource plan update meetings with Staff and the Office of Public Counsel. I have also been the Staff coordinator for the review of Union Electric Company's, d/b/a AmerenUE, Kansas City Power & Light Company's (KCPL) and Aquila, Inc.'s Chapter 22, resource plan filings since the waiver of the rule ended in December 2005.

I participated in the development of the Regulatory Plan Stipulation and Agreements for KCPL and The Empire District Electric Company, in Case Nos. EO-2005-0329 and EO-2005-0263, respectively (Regulatory Plans). I also participate as a representative of the Staff in KCPL's Customer Program Advisory Group, the Empire District Electric Company's Customer Program Collaborative, the Aquila's demand-side management program advisory group and AmerenUE's Residential and Commercial Energy Efficiency Collaborative.



# **CASE PROCEEDING PARTICIPATION OF LENA M. MANTLE**

<b><u>CASE NUMBER</u></b>	<b><u>TYPE OF FILING</u></b>	<b><u>ISSUE</u></b>
ER-84-105	Direct	Demand-Side Update
ER-85-128, et. al	Direct	Demand-Side Update
EO-90-101	Direct, Rebuttal & Surrebuttal	Weather Normalization of Sales; Normalization of Net System
ER-90-138	Direct	Normalization of Net System
EO-90-251	Rebuttal	Promotional Practice Variance
EO-91-74, et. al.	Direct	Weather Normalization of Class Sales; Normalization of Net System
ER-93-37	Direct	Weather Normalization of Class Sales; Normalization of Net System
ER-94-163	Direct	Normalization of Net System
ER-94-174	Direct	Weather Normalization of Class Sales; Normalization of Net System
EO-94-199	Direct	Normalization of Net System
ET-95-209	Rebuttal & Surrebuttal	New Construction Pilot
ER-95-279	Direct	Normalization of Net System
ER-97-81	Direct	Weather Normalization of Class Sales; Normalization of Net System; TES Tariff
EO-97-144	Direct	Weather Normalization of Class Sales; Normalization of Net System
ER-97-394, et. al.	Direct, Rebuttal & Surrebuttal	Weather Normalization of Class Sales; Normalization of Net System; Energy Audit Tariff
EM-97-575	Direct	Normalization of Net System
EM-2000-292	Direct	Normalization of Net System; Load Research
ER-2001-299	Direct	Weather Normalization of Class Sales; Normalization of Net System

<u>CASE NUMBER</u>	<u>TYPE OF FILING</u>	<u>ISSUE</u>
EM-2000-369	Direct	Load Research
ER-2001-672	Direct & Rebuttal	Weather Normalization of Class Sales; Normalization of Net System
ER-2002-1	Direct & Rebuttal	Weather Normalization of Class Sales; Normalization of Net System
ER-2002-424	Direct	Derivation of Normal Weather
EF-2003-465	Rebuttal	Resource Planning
ER-2004-0570	Direct	Reliability Indices
ER-2004-0570	Rebuttal & Surrebuttal	Energy Efficiency Programs and Wind Research Program
EO-2005-0263	Oral	DSM Programs and Integrated Resource Planning
EO-2005-0329	Oral	DSM Programs and Integrated Resource Planning
ER-2005-0436	Direct	Resource Planning
ER-2005-0436	Rebuttal	Low-Income Weatherization and Energy Efficiency Programs
ER-2005-0436	Surrebuttal	Low-Income Weatherization and Energy Efficiency Programs; Resource Planning
EA-2006-0309	Rebuttal & Surrebuttal	Resource Planning
EA-2006-0314	Rebuttal	Jurisdictional Allocation Factor
ER-2006-0315	Supplemental Direct	Energy Forecast
ER-2006-0315	Rebuttal	DSM and Low-Income Programs
ER-2007-0002	Direct	DSM Cost Recovery
GR-2007-0003	Direct	DSM Cost Recovery
ER-2007-0004	Direct	Resource Planning

## **Janice Pyatte**

### **Present Position:**

Regulatory Economist III, Economic Analysis Section, Energy Department,  
Operations Division, Missouri Public Service Commission Staff

### **Educational Background:**

Bachelor of Arts degree in Economics, Western Washington State College,  
Bellingham, Washington

Masters of Arts (A.M.) degree in Economics, Washington University, St. Louis,  
Missouri

### **Work Experience:**

Employed by the Missouri Public Service Commission since June 1, 1977. Primary role  
has been to perform analysis in the areas of rate design, class cost-of-service, rate  
revenue, and billing units for the regulated electric utilities in Missouri.

### **Participation in MOPSC Cases**

<b>Company</b>	<b>Case Number</b>
Union Electric Company d/b/a AmerenUE	ER-2007-0002
Kansas City Power & Light Company	ER-2006-0314
The Empire District Electric Company	ER-2006-0315
Aquila, Inc. d/b/a Aquila Networks-L&P	HR-2005-0450
Aquila, Inc. d/b/a Aquila Networks-MPS and L&P	ER-2005-0436
Aquila, Inc. d/b/a Aquila Networks-MPS and L&P	EO-2002-384
The Empire District Electric Company	ER-2004-0570
Aquila, Inc. d/b/a Aquila Networks-MPS and L&P	ER-2004-0034 & HR-2004-0024
The Empire District Electric Company	ER-2002-424
Union Electric Company d/b/a AmerenUE	EC-2002-1
UtiliCorp United, Inc. d/b/a Missouri Public Service	ER-2001-672
The Empire District Electric Company	ER-2001-299
UtiliCorp United and The Empire District Electric Co.	EM-2000-369
UtiliCorp United and St. Joseph Light & Power Co.	EM-2000-292
St. Joseph Light & Power Company	ER-99-247 & EC-98-573
Union Electric Company	EO-96-15

#### **Participation in MOPSC Cases**

St. Joseph Light & Power Company	EC-98-573
Missouri Public Service	ER-97-394 & ET-98-103
The Empire District Electric Company	ER-97-81
The Empire District Electric Company	ER-95-279
Kansas City Power & Light Company	EO-94-199
The Empire District Electric Company	ER-94-174 & EO-91-74
St. Joseph Light & Power Company	ER-93-41
Missouri Public Service	ER-93-37
Union Electric Company	EM-92-225 & EM-92-253
Union Electric Company	EO-87-175
Arkansas Power & Light Company	ER-85-265
Kansas City Power & Light Company	ER-85-128 & EO-85-185
Union Electric Company	EO-85-17 & ER-85-160
Union Electric Company	ER-84-168
Laclede Gas Company	GR-84-161
Union Electric Company	ER-84-168
Arkansas Power & Light Company	ER-83-206
Kansas City Power & Light Company	ER-83-49
The Empire District Electric Company	EO-82-40
The Empire District Electric Company	ER-81-209
Kansas City Power & Light Company	EO-78-161
Laclede Gas Company	GO-78-38
Union Electric Company	EO-78-163
St. Joseph Light & Power Company	EO-77-56

## **David C. Roos**

### **Present Position:**

I am a Regulatory Economist III in the Economic Analysis Section, Energy Department, Operations Division of the Missouri Public Service Commission.

### **Educational Background and Work Experience:**

In May 1983, I graduated from the University of Notre Dame, Notre Dame, Indiana, with a Bachelor of Science Degree in Chemical Engineering. I also graduated from the University of Missouri in December 2005, with a Master of Arts in Economics. I have been employed at the Missouri Public Service Commission as a Regulatory Economist III since March 2006. Prior to joining the Public Service Commission I taught introductory economics and conducted research as a graduate teaching assistant and graduate research assistant at the University of Missouri. Prior to the University of Missouri, I was employed by several private firms where I provided consulting, design, and construction oversight of environmental projects for private and public sector clients.

### **Previous Cases**

Empire District Electric Company  
AmerenUE  
Aquila Inc.

MoPSC Case No. ER-2006-0315  
MoPSC Case No. ER-2007-0002  
MoPSC Case No. ER-2007-0004

## **Rosella L. Schad**

**Education:**    **University of Missouri-Columbia**  
**The Gordon E. Crosby, Jr., MBA Program**  
Emphasis: Finance  
Candidate for Master's of Business Administration, May 2008

**Columbia College**  
27-hours Accounting

**University of Missouri-Columbia**  
**The Truman School of Public Affairs**  
Masters of Public Administration, May 2004  
Emphasis: Public Management

**University of Missouri-Columbia**  
Bachelor of Science in Mechanical Engineering, Honors Scholar, May, 1978

### **Professional Experience**

3/99 to Present **Engineer, Missouri Public Service Commission, Jefferson City, Missouri**

- Perform depreciation reserve studies using statistical analysis techniques, engineering judgment, familiarity of the regulated industries, and knowledge of company specific operations and maintenance resulting in equitable utility rates for the Missouri consumers
- Prepare recommendations and provide written and oral testimony supporting staff regulated utility depreciation rates
- Facilitate engineering "quality of service" inspections and audits
- Review other staff depreciation analyses, including auditing documentation
- Develop a telecommunications industry seminar to address technical issues for legislators, regulators, businesses, educators, and other state agencies

6/78 to 11/80 **Engineer, Union Electric, Callaway Nuclear Plant, Fulton,**

**Missouri**

- Evaluated procurement contracts with construction contractors and equipment and material suppliers resulting in substantial savings for the construction project.
- Audited construction projects for adherence to applicable standards and codes
- Surveyed equipment and materials specifications for manufacturing, distribution, and installation requirements and criteria

### **Certification**

Missouri Professional Engineer (P.E.)  
Missouri Certified Public Accountant (C.P.A.)

### **Professional Membership**

National/Missouri Society of Professional Engineers  
Missouri Society of Certified Public Accountants  
Society of Depreciation Professionals

# CASE PROCEEDING PARTICIPATION

ROSELLA L. SCHAD, PE, CPA

COMPANY	CASE NO/ FILING	ISSUES
Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Depreciation
Algonquin Water Resources of Missouri, LLC	WR-2006-0425 & SR-2006-0426 (Consolidated) Direct, Rebuttal, Surrebuttal	Depreciation
Kansas City Power & Light Co.	ER-2006-0314 Direct and Surrebuttal	Depreciation
Silverleaf Resorts, Inc. and Algonquin Water Resources of Missouri, LLC	WO-2005-0206 Rebuttal	Depreciation
Laclede Gas Company	GR-99-315 Supplemental Rebuttal	Depreciation, Cost of Removal, and Net Salvage
Laclede Gas Company	GR-99-315 Supplemental Direct	Depreciation, Cost of Removal, and Net Salvage
AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric) AND AQUILA NETWORKS - L&P (Electric and Steam)	ER-2004-0034 and HR-2004-0024 (Consolidated) Surrebuttal	Production Plant Retirement Dates; Accumulated Depreciation; Cost of Removal and Depreciation
AQUILA, INC. d/b/a AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P	GR-2004-0072 Rebuttal	Depreciation; Accumulated Depreciation; Cost of Removal and Production Plant Retirement Dates
AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric) AND AQUILA NETWORKS - L&P (Electric and Steam)	ER-2004-0034 and HR-2004-0024 (Consolidated) Rebuttal	Production Plant Retirement Dates; Accumulated Depreciation Reserve Balances; Cost of Removal and Depreciation
AQUILA, INC. d/b/a AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P	GR-2004-0072 Direct	Depreciation and Accumulated Depreciation Reserve
AQUILA, INC. d/b/a AQUILA NETWORKS-MPS (Electric) AND AQUILA NETWORKS - L&P (Electric and Steam)	ER-2004-0034 and HR-2004-0024 (Consolidated) Direct	Depreciation and Accumulated Depreciation Reserve
Laclede Gas Company	GR-2002-356 Rebuttal	Decommissioning

COMPANY	CASE NO. FILING	ISSUES
Laclede Gas Company	GR-2002-356 Direct	Depreciation
Union Electric Company d/b/a AmerenUE	EC-2002-1 Surrebuttal	Depreciation; Steam Production Plant Retirement Dates; Decommissioning Costs; Callaway Interim Additions
Laclede Gas Company	GR-2001-629 Direct	Depreciation
Ozark Telephone Company	TC-2001-402 Direct	Depreciation Rates
Northeast Missouri Rural Telephone Company	TR-2001-344 Direct, Surrebuttal	Depreciation Rates
Oregon Farmers Mutual Telephone Company	TT-2001-328 Rebuttal	Depreciation Rates
KLM Telephone Company	TT-2001-120 Rebuttal	Depreciation Rates
Holway Telephone Company	TT-2001-119 Rebuttal	Depreciation Rates
Peace Valley Telephone Company	TT-2001-118 Rebuttal	Depreciation Rates
Iamo Telephone Company	TT-2001-116 Rebuttal	Depreciation Rates
Osage Water Company	WR-2000-557 Direct	Depreciation
Osage Water Company	SR-2000-556 Direct	Depreciation



## **Michael E. Taylor**

- Bachelor of Science degree in Mechanical Engineering, University of Missouri-Rolla, 1972
- Master of Science degree in Engineering Management, University of Missouri-Rolla, 1987
- United States Navy (Submarine Service), 1972 to 1979
- Union Electric Company (AmerenUE), 1979 to 2003  
Experience included Callaway Plant operations, work control, engineering, quality assurance, quality control, instrumentation and controls, fire protection, industrial safety, outage scheduling, daily scheduling and work planning  
Licensed as a Senior Reactor Operator
- Missouri Public Service Commission Staff, 2003 to present  
Utility Engineering Specialist II, Safety/Engineering, Energy Department  
Utility Engineering Specialist III, Engineering Analysis, Energy Department

### **PREVIOUS TESTIMONY OF MICHAEL E. TAYLOR**

<b>Case Number</b>	<b>Company</b>	<b>Type of Filing</b>	<b>Issue</b>
ER-2006-0314	Kansas City Power & Light	Direct	Plant in Service
ER-2006-0314	Kansas City Power & Light	True-Up Direct	Plant in Service
ER-2007-0002	AmerenUE	Direct	Plant in Service
ER-2007-0002	AmerenUE	Supplemental Direct	Plant in Service
ER-2007-0004	Aquila	Rebuttal	Fuel Adjustment Clause

## **Graham A. Vesely**

### **Experience and Background:**

- May of 1985, received a Bachelor's degree in Civil Engineering from Saint Martins College, Olympia, Washington. May of 1998 completed an MBA degree with a focus in Accounting from Central Missouri State University, Warrensburg, Missouri. Currently enrolled as a Certified Public Accountant with a permit to practice in Missouri.
- May of 1985 was employed as a Facilities Maintenance Engineer by the United States Air Force. From March 1988 until May 1995, was employed by the United States Army Corps of Engineers as a member of a construction management group. Subsequently, began working with the engineering firm of Malsy & Associates, Lincoln, Missouri, as a Civil Engineer. On February 26, 1999, began current employment with the Commission.
- Responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.
- Previously filed testimony in the following cases before the Missouri PSC in the following subject areas:
  1. ER-99-247, St. Joseph Power & Light (Customer Growth, Maintenance Expense)
  2. GM-2000-312, ATMOS Energy Co. (Pension Asset Transfer)
  3. GR-2001-292, Missouri Gas Energy (Payroll, Bonuses, Cash Working Capital)
  4. ER-2001-672, Missouri Public Service (Payroll, Incentive Comp, Fuel Inventory)
  5. ER-2002-424, Empire District Electric (Fuel and Purchased Power Expense)
  6. ER-2004-0034, Aquila Inc. (Fuel and Purchased Power Expense)
  7. ER-2005-0436, Aquila Inc. (Coal Prices, Purchased Power, Inventories, SO2 Emission Allowances )
  8. WR-2006-0426, Algonquin Water Resources (Plant In Service, Payroll)
  9. ER-2006-0314, KCPL (SO2 Emission Allowances, Advertising, Injuries/Damages)
  10. ER-2007-0004, Aquila Inc. (SO2 Emission Allowances, Transmission Expense)

## La Cygne Unit 1

- \*\*\*

NP

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ \*\*

5. The equipment shall also demonstrate its ability to operate at a NO<sub>x</sub> reduction efficiency equal to or greater than 81% (based on design inlet NO<sub>x</sub> concentration of 1.0 lb/MMBtu) over a continuous 120-hour period while the generating unit is operating at or above 80% of its design load.

\*\* \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ \*\*

6. Continuous emission monitoring systems (CEMS) are operational and demonstrate the capability of monitoring the NO<sub>x</sub> emissions to satisfy the parameters in items (4) and (5) above.

\*\* \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ \*\*

**The Kansas City Power & Light Company - Case No. ER-2007-0291**  
**Summary of Missouri Retail Sales**

	<b>Actual Sales (KWH)</b>	<b>Weather Adjustment</b>	<b>Normalized Sales (KWH)</b>	<b>Days Adjustment</b>	<b>Rate Switchers</b>	<b>Growth/ Annualization Adjustment</b>	<b>Total KWH Sales Including Growth/ Annualization</b>
<b>TOTAL RESIDENTIAL</b>	2,605,643,598	(47,365,913)	2,558,277,685	(5,136,252)	-	20,822,155	<b>2,573,963,588</b>
<b>TOTAL SMALL GENERAL SERVICE</b>	477,163,932	(4,300,102)	472,863,830	841,077	-	(2,067,271)	<b>471,637,636</b>
<b>TOTAL MEDIUM GENERAL SERVICE</b>	1,007,548,935	(13,529,988)	994,018,947	1,078,884	-	25,562,302	<b>1,020,660,132</b>
<b>TOTAL LARGE GENERAL SERVICE</b>	2,268,718,960	-57,034	2,268,775,994	5,185,136	(20,825,317)	8,103,673	<b>2,261,439,486</b>
<b>TOTAL LARGE POWER</b>	2,281,439,023	-	2,281,439,023	6,280,885		19,211,094	<b>2,306,931,002</b>
<b>TOTAL LIGHTING</b>	79,377,386	-	79,377,386	26,224	-	-	<b>79,403,610</b>
<b>TOTAL COMMERCIAL CONTRACT</b>	5,236,400	(4,815)	5,231,585	83,550	-	(5,315,135)	<b>-</b>
<b>MISSOURI RETAIL SALES (KWH)</b>	<b>8,725,128,234</b>	<b>(85,143,783)</b>	<b>8,659,984,451</b>	<b>8,359,503</b>	<b>(20,825,317)</b>	<b>66,316,818</b>	<b>8,714,035,454</b>
<b>Billing Adjustment</b>	<b>(35,676,234)</b>						<b>(35,676,234)</b>
<b>MO TOTAL RETAIL SALES (KWH)</b>	<b>8,689,452,000</b>						<b>8,678,359,220</b>

**The Kansas City Power & Light Company - Case No. ER-2007-0291**  
**Summary of Missouri Revenue**

	<b>Firm Rate Revenue</b>	<b>Weather Adjustment</b>	<b>Normalized Revenue</b>	<b>Annualization for Rate Change</b>	<b>Days Adjustment</b>	<b>Growth/ Annualization/ Rate Switching Adjustment</b>	<b>Total Revenue Including Growth/ Annualization</b>
<b>TOTAL RESIDENTIAL</b>	\$178,371,376	(\$4,835,815)	\$173,535,560	\$21,946,857	(\$357,509)	\$1,171,527	\$196,296,435
<b>TOTAL SMALL GENERAL SERVICE</b>	\$37,917,232	(\$444,065)	\$37,473,167	\$3,670,660	\$64,439	(\$213,718)	\$40,994,547
<b>TOTAL MEDIUM GENERAL SERVICE</b>	\$63,559,143	(\$717,171)	\$62,841,972	\$6,112,024	\$57,023	\$1,719,820	\$70,730,839
<b>TOTAL LARGE GENERAL SERVICE</b>	\$113,732,274	(\$242,628)	\$113,489,646	\$10,873,620	\$198,004	(\$508,653)	\$124,050,617
<b>TOTAL LARGE POWER</b>	\$94,172,746	\$0	\$94,172,746	\$7,294,613	\$203,486	\$1,150,254	\$102,821,098
<b>TOTAL LIGHTING</b>	\$5,873,817	\$0	\$5,873,817	\$614,401	\$3,978	\$0	\$6,492,196
<b>SPECIAL CONTRACT</b>	\$232,385	(\$347)	\$232,038	(\$232,038)			\$0
<b>MISSOURI FIRM RATE REVENUE</b>	<b>\$493,858,973</b>	<b>(\$6,240,027)</b>	<b>\$487,618,946</b>	<b>\$50,280,137</b>	<b>\$167,420</b>	<b>\$3,319,230</b>	<b>\$541,385,732</b>
Special Discounts \$	(222,329)			(\$539)			\$ (222,868)
Billing Adjustment	(\$1,667,160)						(\$1,667,160)
<b>MO TOTAL RATE REVENUE</b>	<b>\$491,969,483</b>	<b>\$ (6,240,027)</b>	<b>\$485,729,457</b>	<b>\$50,279,598</b>	<b>\$167,420</b>	<b>\$3,319,230</b>	<b>\$539,495,704</b>

**KANSAS CITY POWER & LIGHT COMPANY  
COMPONENTS OF ANNUAL NET SYSTEM INPUT  
ER-2007-0291**

	Energy (kWh)	Normalization for Weather	Additional kWh from Days Adj	Additional kWh from Cust Growth/Annualizations/Rate Switchers	Total KCP&L Normalized kWh
Mo Retail*	9,193,766,757	(69,131,327)	8,693,718	47,912,132	9,181,241,279
Non-Mo Retail*	6,768,601,320	(71,525,360)	9,978,274	98,198,721	6,805,252,955
Wholesale*	121,331,882	635,646	-	(20,367,704)	101,599,625
Sub-total	16,083,699,759	(140,021,041)	18,671,991	125,743,150	16,088,093,859
Company Use	22,599,335	-	-	-	22,599,335
Losses					5.59%
Company Use*	23,863,215	-	-	-	23,863,215
NSI*	16,107,562,974	(140,021,041)	18,671,991	125,743,150	16,111,957,074

\* Includes Losses

# KANSAS CITY POWER & LIGHT COMPANY

ER-2007-0291

## Net System Load Normalized for 2006\*

Month	Monthly Usage (MWh)				Monthly Peaks (MW)				Load Factor	
	Actual	Normal	Adj	% Adj	Actual	Normal	Adj	% Adj	Actual	Normal
Jan-06	1,238,730	1,421,980	183,250	14.79%	2,131	2,540	409	19.21%	0.78	0.75
Feb-06	1,170,179	1,207,590	37,412	3.20%	2,273	2,386	113	4.99%	0.77	0.75
Mar-06	1,189,302	1,223,679	34,377	2.89%	2,071	2,198	127	6.15%	0.77	0.75
Apr-06	1,112,819	1,101,736	(11,082)	-1.00%	2,414	2,118	(296)	-12.25%	0.64	0.72
May-06	1,279,429	1,208,275	(71,154)	-5.56%	2,869	2,517	(352)	-12.25%	0.60	0.65
Jun-06	1,533,293	1,485,098	(48,195)	-3.14%	3,182	3,161	(21)	-0.67%	0.67	0.65
Jul-06	1,801,025	1,720,002	(81,023)	-4.50%	3,721	3,604	(117)	-3.14%	0.65	0.64
Aug-06	1,778,507	1,681,149	(97,358)	-5.47%	3,690	3,517	(173)	-4.69%	0.65	0.64
Sep-06	1,202,998	1,290,840	87,842	7.30%	2,633	2,981	348	13.21%	0.63	0.60
Oct-06	1,206,994	1,173,950	(33,043)	-2.74%	2,942	2,217	(725)	-24.65%	0.55	0.71
Nov-06	1,163,223	1,205,239	42,016	3.61%	2,467	2,473	6	0.24%	0.65	0.68
Dec-06	1,301,718	1,392,418	90,700	6.97%	2,385	2,572	187	7.83%	0.73	0.73
Annual	15,978,215	16,111,957	133,742	0.84%	3,721	3,604	(117)	-3.14%	0.49	0.51

\* Normalized for weather, growth, large customers, and including losses