

Exhibit No.:
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Witness: William P. Herdegen
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Operations Company
Case No.: ER-2009-0090
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0090

REBUTTAL TESTIMONY

OF

WILLIAM P. HERDEGEN, III

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
March 2009**

REBUTTAL TESTIMONY

OF

WILLIAM P. HERDEGEN, III

Case No. ER-2009-0090

1 **Q: Are you the same William P. Herdegen, III, who submitted Direct Testimony in this**
2 **case on behalf of KCP&L Greater Missouri Operations Company (“GMO” or the**
3 **“Company”) on or about September 5, 2008?**

4 A: Yes, I am.

5 **Q: What is the purpose of your Rebuttal Testimony?**

6 A: The purpose of my Rebuttal Testimony is to rebut issues raised by the Staff of the
7 Missouri Public Service Commission (“Staff”) in its *Cost of Service Report* in this case
8 concerning maintenance normalization adjustments.

9 **Q: What specific adjustments are you rebutting?**

10 A: I am rebutting Staff witness Karen Herrington’s proposed treatment of maintenance
11 normalization adjustments to GMO’s request for transmission and distribution
12 maintenance expense;.specifically, the use of the 2007 test year for distribution and
13 transmission maintenance expense.

14 **Q: Do you take exception to Ms. Herrington’s testimony regarding maintenance**
15 **normalization adjustments?**

16 A: Yes. Ms. Herrington’s proposal uses “In-Year dollars” which does not consider any
17 impact from yearly market inflation/escalation or volatility in the market. In other words,
18 she takes 2007 dollars with no consideration for changes in commodity or contract labor

1 pricing. In contrast, I proposed using a multiyear indexed average wherein all historical
2 dollars are indexed to 2009 dollars – thereby putting all dollars on a “Same-Year dollars”
3 basis – for the year when rates will go into effect. The index I proposed using is the
4 Handy-Whitman Index (“HW Index”).

5 **Q: What is the Handy-Whitman Index?**

6 A: The HW Index is a highly recognized, independent source of historical escalation factors.
7 The HW Index is a widely used method and standard practice within the utility industry,
8 as well as government agencies, for evaluating cost trends. The index numbers are
9 prepared especially for electric, gas and water utilities and the data is under continuous
10 review to assure the indices reflect current construction and commodity information.
11 Separate index numbers are developed for each type of utility whether electric, gas or
12 water.

13 **Q: Is there consideration for regional or geographic impact on developing the HW**
14 **Index?**

15 A: Yes. The HW Index is divided into six geographic regions based on similar
16 characteristics to reflect cost trends among the different types of utilities as well as
17 capturing differences among regions. GMO uses the HW Index prepared for Electric
18 Utility Construction for the North Central Region to obtain a regional index for electric
19 utilities.

20 **Q: What is the advantage of using the HW Index over the method set forth in Staff’s**
21 **testimony?**

22 A: In addition to the integrity and the general acceptance of the methodology of the HW
23 Index by industry and government, to accurately compare historic costs to current costs,

1 the costs must take into account escalation and expenditures in “Same-Year dollars.” In
2 the direct testimony of GMO’s witness, Ronald Klote, he addresses the methodology for
3 adjustments to GMO’s transmission and distribution expense (Klote Direct, p. 46, l. 19-p.
4 47, l. 4). Staff’s use of 2007 transmission and distribution expense method does not
5 adjust for “Same-Year dollars” or consider volatility in the commodity markets, which
6 greatly impacts the cost of transmission and distribution maintenance expense.

7 **Q: Why did GMO choose to index historical costs through 2009 rather than indexing**
8 **all historical dollars forward to the test year of 2007?**

9 A: The rates that GMO is currently requesting will be effective August 5, 2009. Given the
10 significant material and labor cost increases that the Company is experiencing in the area
11 of transmission and distribution maintenance, indexing forward only to 2007 would still
12 be expected to fall well short of what GMO will incur over the time period these rates are
13 in effect.

14 **Q: Has the Company validated the HW Index against actual local experience?**

15 A: Not formally. Although GMO has not performed formal trend comparisons, transmission
16 and distribution operations have certainly experienced volatility in the price of
17 commodities—which the HW Index helps to normalize. Ms. Herrington’s testimony
18 does not challenge my proposition that the Company has faced extreme volatility in the
19 commodity market.

20 **Q: How does commodity price volatility impact GMO’s O&M expense?**

21 A: Many suppliers require monthly and quarterly price adjustments to our contracts to
22 address commodity price volatility. As offered in my Direct Testimony (Section II, Price
23 Sensitivity, pp. 10-12), GMO negotiates with its suppliers to help mitigate the commodity

1 price volatility, but even after developing strong alliance supplier relationships, many
2 suppliers continue to require monthly and quarterly price adjustments to address
3 commodity price volatility. Sometimes this is to the benefit of the Company and many
4 times it is not. The HW Index is a useful tool that addresses volatility in the commodity
5 markets.

6 **Q: Given your testimony above on the HW Index and the differing positions of Staff,**
7 **what does GMO recommend the Commission use for normalized transmission and**
8 **distribution maintenance expense in this case?**

9 A: The Company recommends the use of 2008 actual dollars for transmission and
10 distribution maintenance expense.

11 GMO believes it has reached an agreement with Staff to include 2008 actual
12 maintenance expense in this rate proceeding, inclusive of vegetation management costs.

13 **Q. Does that conclude your testimony?**

14 A. Yes, it does.

