

Staff-13 NP

Exhibit No.:

Issue: Interchange Sales Margin
Regulatory Plan Amortization

Witness: Steve M. Traxler

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: ER-2007-0291

Date Testimony Prepared: August 30, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri
August 2007

****Denotes Highly Confidential Information****

Exhibit No. 413 NP
Case No(s). ER-2007-0291
Date 10/1/07 Rptr NW

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STEVE M. TRAXLER
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2006-0314

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1 A. The Staff is recommending a continuation of the methodology approved by the
2 Commission in KCPL's last rate case, Case No. ER-2006-0314. In its Report and Order, the
3 Commission adopted the margin from Non-Firm Off-System Sales at the 25th percentile, as
4 determined by KCPL witness Michael Schnitzer and proposed by KCPL witness
5 Chris B. Giles, for cost of service recognition in KCPL's last rate case, Case
6 No ER-2006-0314. In addition the Commission ordered a tracking mechanism for the purpose
7 of establishing a regulated liability for the difference between KCPL's actual margin in 2007
8 and the 25th percentile used for setting rates in Case No. ER-2006-0314. The Commission
9 stated that this regulatory liability is to be flowed back to ratepayers in the next rate case:

10 The Commission finds that the competent and substantial
11 evidence supports KCPL's position, and finds this in favor of
12 the alternative KCPL sponsored in which it would agree to book
13 any amount over the 25th percentile as a regulatory liability, and
14 would flow that money back to ratepayers in the next rate
15 case...(Commission Report and Order in Case No. ER-2006-
16 0314, page 33)

17 It is clear from the language in the Commission's Report and Order in Case
18 No ER-2006-0314 that the Commission's decision on this issue is based upon a concern
19 regarding KCPL's available cash flow and earnings during the construction period covered by
20 the Regulatory Plan approved in Case No. EO-2005-0329:

21 ...In contrast, the potential importance of not achieving that
22 level during a time when KCPL will be issuing equity and
23 investing hundreds of millions of dollars in infrastructure
24 construction and upgrades could be disastrous to KCPL. In
25 short, in balancing the interests of shareholders and ratepayers,
26 straying from KCPL's recommended 25th percentile might
27 benefit ratepayers some, but might also damage KCPL much,
28 much more than any benefit that might accrue to ratepayers.
29 (Commission Report and Order in Case No. ER-2006-0314,
30 page 36)

1 KCPL's significant construction activity will continue until the expected completion
2 of the Iatan 2 unit by 2010. Therefore, Staff's position on this issue in this case, Case
3 No. ER-2007- 0291, is to follow the Commission's decision in Case No. ER-2006-0314. For
4 purposes of KCPL's current case, Case No. ER-2007-0291, the Staff is recommending that
5 cost of service reflect a margin from Non-Firm Off-System Sales at a level equal to the 25th
6 percentile in KCPL witness Mr. Schnitzer's projected margin from Non-Firm Off-System
7 Sales levels for 2008. Any actual margin in 2008 which exceeds the projected 25th percentile
8 at which rates are set would be deferred as a regulatory liability to be flowed back to
9 ratepayers in a future rate case.

10 Q. On page 12, lines 16-20, of his direct testimony, OPC witness Ted Robertson
11 lists various methods for tracking the level of margin from Non-Firm Off-System Sales as
12 required by the Commission's Report and Order in Case No. ER-2006-0314. Does the Staff
13 propose adoption of any of the methods recommended by OPC witness Robertson?

14 A. The Staff recommends adoption of Mr. Robertson's last listed tracking
15 method, "Cumulative until and after baseline is met". KCPL has historically calculated the
16 margin from Non-Firm Off-System Sales monthly for internal accounting purposes. The
17 accumulated balance of the margin from Non-Firm Off-System Sales in 2007 should be
18 recorded in the income statement as pre-tax earnings until it reaches a level equal to the
19 Missouri Jurisdictional level at the 25th percentile adopted in the Commission's Report and
20 Order in Case No. ER-2006-0314. All additional margin earned should be deferred and
21 recorded as a regulatory liability consistent with the Report and Order in Case
22 No. ER-2006-0314.

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Steve M. Traxler

1 Q. Did the Staff issue discovery to KCPL in an attempt to obtain KCPL's tracking
2 of the accumulated level of margin from Non-Firm Off-System Sales in 2007 as required by
3 the Commission's Report and Order in Case No. ER-2006-0314?

4 A. Yes. Staff issued Data Request No. 206 on June 7, 2007 requesting the margin
5 from Non-Firm Off System Sales by month for 2007. To date no 2007 monthly margin data
6 has been provided by KCPL to Staff. KCPL's response to Staff Data Request No. 206 states
7 that "The determination of actual margins for 2007, on a monthly basis is not yet complete."
8 A copy of KCPL's complete response to Staff Data Request No. 206 is attached as
9 Schedule SMT 1 to this rebuttal testimony.

10 Q. Did Staff contact KCPL subsequently regarding its failure to provide any 2007
11 monthly data for the margin from Non-Firm Off System Sales?

12 A. Yes. The Staff's Division Director for the Utility Services Division,
13 Robert E. Schallenberg, and I met with KCPL representative Tim Rush on Thursday,
14 August 23rd, during the settlement conference at the Commission's offices in Jefferson City,
15 regarding KCPL's failure to provide the requested margin results by month for any part of
16 2007. Mr. Rush indicated that KCPL would provide the requested 2007 data within a matter
17 of days. As of the filing of this Rebuttal Testimony, KCPL has not provided the Non-Firm
18 Off-System Sales margin results for any of 2007.

19 Q. Are you aware of any good or appropriate reason why by this stage of KCPL's
20 rate case KCPL has not provided the 2007 margin data requested in Staff Data Request
21 No. 206 on June 7, 2007?

22 A. No. Staff Data Request No. 206 requested monthly data for the margin from
23 Non-Firm Off-System Sales in 2007 in the same format as margin data supplied in response to

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1 Staff Data Request No 99.1R in Case No. ER-2006-0314. Data for 2006 and prior years was
2 provided on a timely basis in Case No. ER-2006-0314. The margin from Non-Firm
3 Off-System Sales represents a significant level of KCPL's net income which has historically
4 been determined by KCPL on a monthly basis. I have not been made aware of any good or
5 appropriate reason by KCPL for it not having provided by now 2007 monthly margin data in
6 response to Staff Data Request No. 206. The Staff and other parties are unable to track
7 KCPL's margin from Non-Firm Off-System Sales as required by the Commission's Report
8 and Order in Case No. ER-2006-0314 until the monthly margin results are provided by
9 KCPL.

10 Q. Is it possible for KCPL's 2007 margin from Non-Firm Off-System Sales to
11 exceed the 25th percentile level, reflected in rates set in Case No. ER-2006-0314, by the
12 September 30, 2007 true-up established for this case, Case No. ER-2007-0291?

13 A. Yes, it is possible, but Mr. Rush indicated on August 23 that KCPL does not expect
14 the margin from Non-Firm Off-System Sales to exceed, by the September 30, 2007 true-up
15 period end date, the 25th percentile base level adopted by the Commission in Case
16 No. ER-2006-0314.

17 Q. If in fact KCPL's year-to-date September 30, 2007 level of margin from
18 Non-Firm Off-System Sales does exceed the 25th percentile level adopted by the Commission
19 in Case No. ER-2006-0314, how should the excess be addressed in this current case, Case
20 No. ER-2007-0291?

21 A. Any margin level, as of September 30, 2007, which exceeds the 25th percentile
22 margin level adopted in the last case must be flowed back to customers in order to be in
23 compliance with the Commission's Report and Order in Case No. ER-2006-0314. Page 2 of

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1 this Rebuttal Testimony provides the language from the Commission's Report and Order in
2 Case No. ER-2006-0314 which requires any excess margin in 2007 above the 25th percentile
3 adopted for ratemaking purposes in Case No. ER-2006-0314 to be flowed back to customers
4 in rates established in this case, Case No. ER-2007-0291. Staff will reflect any Non-Firm
5 Off System Sales margin excess, as of September 30, 2007, as a reduction to cost of service in
6 the September 30, 2007 true up established for this case.

7 Q. On pages 16-20 of his direct testimony, Mr. Robertson recommends that any
8 regulatory liability occurring after the September 30, 2007 true-up, between October 1 and
9 December 31, 2007 be 1) increased for interest accrual using the prime rate +1 and 2) that this
10 adjusted level be flowed back to customers as soon as possible in 2008. What is the Staff's
11 position on this recommendation?

12 A. As stated previously, the Staff's position on the margin from Non-Firm Off-
13 System Sales is to follow the Commission's decision in Case No. ER-2006-0314 as best as
14 that can be effectuated. The Commission's decision in Case No. ER-2006-314 does not
15 provide for an interest adder to the accumulated balance of the regulatory liability. Staff is
16 therefore not recommending that interest be added to the regulatory liability balance. Not
17 reflecting interest on the regulatory liability balance assumes the same regulatory lag for the
18 regulatory liability that applies to plant in service additions which occur between rate cases.
19 KCPL is not allowed to continue construction accounting by capitalizing additional AFUDC
20 on plant placed in service between rate cases. It is therefore consistent to treat the regulatory
21 liability for the excess margin from Non-Firm Off-System Sales in a similar fashion
22 especially given the fact that the Commission's Report And Order in Case No. ER 2006-0314
23 makes no provision for interest.

1 Q. Does the Commission's Report and Order in Case No. ER 2006-0314
2 specifically provide for an immediate flow back of any regulatory liability for 2007 to
3 customers prior to KCPL's next rate case which has been indicated will be filed in April or
4 May of 2008?

5 A. No. An immediate flow back to customers of any 2007 regulatory liability was
6 not specifically addressed by the Commission's Report and Order in Case No. ER-2006-0314
7 by language respecting the issuance of credits to customers. The language in the Report and
8 Order states that the regulatory liability for any excess margin in 2007 will be flowed back in
9 KCPL's "next rate case." No provision for a credit on the customer's bill was provided for in
10 the language in the Commission's Report and Order in Case No. ER-2006-0314. Therefore,
11 the Staff is not recommending this method, in lieu of KCPL's next rate case, for the purpose
12 of a more immediate flow back of any regulatory liability to customers. Staff's position on the
13 margin from Non-Firm Off-System Sales is to follow the Staff's reading of the Commission's
14 Report and Order in Case No. ER 2006-0314.

15 **REGULATORY PLAN ADDITIONAL AMORTIZATION**

16 Q. Have you read the direct testimony of OPC witness Michael Gorman related to
17 the Regulatory Plan Additional Amortization?

18 A. Yes I have. On page 31 of his direct testimony, Mr. Gorman criticizes the
19 calculation of the Regulatory Plan Additional Amortization calculated by KCPL witness
20 Michael Cline for the failure to reflect a change by Standard & Poor's in the treatment of
21 operating leases.

22 Q. What change by Standard & Poor's in the treatment of operating leases in
23 calculating credit metrics is identified in Mr. Gorman's direct testimony?

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1 A. On page 31 of his direct testimony Mr. Gorman indicates that
2 Standard & Poor's is now imputing an amortization expense related to the off-balance sheet
3 (OBS) debt equivalent for operating leases.

4 Q. What is the impact on the Regulatory Plan Additional Amortization resulting
5 from the recognition of an imputation of amortization amount related to an off-balance sheet
6 debt equivalent for operating leases by Standard & Poor's?

7 A. The recognition of an imputation of amortization from an off-balance sheet
8 debt equivalent for operating leases by Standard & Poor's in effect increases the level of cash
9 flow from KCPL's internal sources. Increasing the level of internally generated funds reduces
10 the amount of any Regulatory Plan Additional Amortization that would be needed to meet the
11 credit metrics required to maintain KCPL's BBB credit rating. KCPL indicated during the
12 settlement conference on August 20 that this change by Standard & Poor's reduces its
13 projected level of the Regulatory Plan Additional Amortization for this case, Case
14 No ER-2007-0291, by approximately \$7.5 million.

15 Q. When will the actual impact of the Standard & Poor's change in treatment for
16 operating leases be known?

17 A. A true-up audit through September 30, 2007 has been established for this case,
18 Case No. ER 2007-0291. The rate base and income statement from Staff's true-up cost of
19 service calculation will be used to calculate the need for Regulatory Plan Additional
20 Amortization in excess of the \$21.7 million approved by the Commission in Case
21 No ER-2006-0314. In its true-up calculation of the Regulatory Plan Additional Amortization,
22 the Staff will reflect Standard & Poor's change to reflect the imputed amortization for an off-
23 balance sheet debt equivalent for operating leases.

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1 Q. Does this conclude your rebuttal testimony?

2 A. Yes it does.

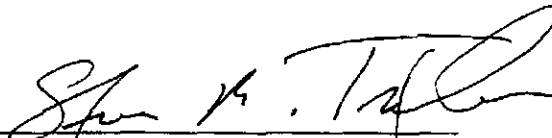
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF STEVE M. TRAXLER

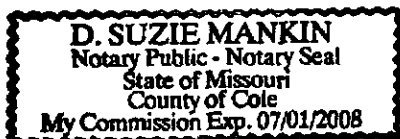
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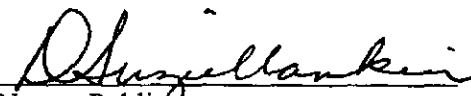
Steve M. Traxler, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Steve M. Traxler

Subscribed and sworn to before me this 29th day of August, 2007.





Notary Public

SCHEDULE SMT 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY