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*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****

**NP**

Exhibit No. 213-NP
Case No(s). ER-2007-0291
Date 10/1/07 Rptr MW

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## REBUTTAL TESTIMONY OF

## STEVE M. TRAXLER

## KANSAS CITY POWER & LIGHT COMPANY

## CASE NO. ER-2006-0314

**REBUTTAL TESTIMONY**

**OF**

**STEVE M. TRAXLER**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER 2007-0291**

Q. Please state your name and business address.

A. Steve M. Traxler, Fletcher Daniels State Office Building, Room G 8, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Have you prefiled direct testimony in this proceeding?

A. Yes, I have.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony will address the direct testimony of the Office of the Public Counsel (OPC) witnesses Ted Robertson and Michael Gorman on the issues of margin from Non-Firm Off System Sales and Regulatory Plan Additional Amortization, respectively. The margin from Non-Firm Off-System Sales represents revenues received from utilities which are buying power from Kansas City Power & Light Company (KCPL) less the fuel and purchase power cost required to produce the MWH's sold by KCPL to those utilities.

**MARGIN FROM NON-FIRM OFF-SYSTEM SALES**

Q. On page 12 of Mr. Robertson's direct testimony he recommends the use of the margin from Non-Firm Off-System Sales at the 40$^{th}$ percentile, as determined by KCPL witness Michael Schnitzer, for cost of service recognition in this case, Case No. ER-2007-0291. What level of margin from Non-Firm Off-System Sales is Staff recommending for cost of service recognition in this case, Case No. ER-2007-0291?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Any margin level, as of September 30, 2007, which exceeds the $25^{th}$ percentile margin level adopted in the last case must be flowed back to customers in order to be in compliance with the Commission's Report and Order in Case No. ER-2006-0314. Page 2 of this Rebuttal Testimony provides the language from the Commission's Report and Order in Case No. ER-2006-0314 which requires any excess margin in 2007 above the 25$^{th}$ percentile adopted for ratemaking purposes in Case No. ER-2006-0314 to be flowed back to customers in rates established in this case, Case No. ER-2007-0291. Staff will reflect any Non-Firm Off System Sales margin excess, as of September 30, 2007, as a reduction to cost of service in the September 30, 2007 true up established for this case.

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

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

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

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

## REGULATORY PLAN ADDITIONAL AMORTIZATION

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

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

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

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

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

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

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

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

Q. Does this conclude your rebuttal testimony?

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

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

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.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin
Notary Public

SCHEDULE SMT 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY