Exhibit No.: ________________
Issue(s): Regulatory Plan Amortization
Witness/Type of Exhibit: Trippensee/ True-Up Rebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2007-0291

TRUE-UP REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

November 6, 2007

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my true-up rebuttal testimony consisting of 7 pages.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Russell W. Trippensee

Subscribed and sworn to me this 6th day of November 2007.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KENDELLE R. STRATTON
My Commission Expires
February 4, 2011
Cole County
Commission #07004782

Kendelle R. Stratton
Notary Public

My Commission expires February 4, 2011.

TRUE-UP REBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public Counsel).

Q. ARE YOU THE SAME RUSSELL W. TRIPPENSEE WHO HAS FILED DIRECT AND REBUTTAL TESTIMONY IN THIS CASE INVOLVING KANSAS CITY POWER & LIGHT COMPANY (KCPL)?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP REBUTTAL TESTIMONY?

A. To address the proposed change in the calculation of the Regulatory Plan Amortization (RPA) by KCPL witness Michael W. Cline and contained in the workpapers of Staff witness Steve Traxler. Specifically, KCPL and Staff are advocating a unilateral change to the RPA calculation contained in the Stipulation and Agreement (Regulatory Plan) in Case No. EO-2005-0329 as agreed to by the signatory parties and subsequently approved by the Commission. This change is in direct conflict with specific language of the Regulatory Plan and is premised on the concept of removing regulatory oversight of RPA from this Commission and transferring such oversight and process to bond rating agencies, specifically Standard & Poors, Inc (S&P).

Q. WHAT IS MR. CLINE'S JUSTIFICATION FOR HIS PROPOSED MODIFICATION TO THE CALCULATION OF REGULATORY PLAN AMORTIZATION?

A. Mr. Clines states that S&P includes both short-term and long-term interest costs in S&P's calculation of Funds from Operations and thus the calculation for the Regulatory Plan Amortization must reflect short-term debt interest in a like manner (Cline True-up Direct, page 4, lines 2 – 6).

Q. DOES PUBLIC COUNSEL AGREE WITH MR. CLINE'S POSITION?

A. No.

Q. ARE THE PARTIES TO THIS CASE OR THIS COMMISSION OBLIGATED TO DEFER TO STANDARD & POOR'S IN THE CALCULATION OF THE REGULATORY PLAN AMORTIZATION?

A. No. The Regulatory Plan Amortization is premised on providing adequate cash flows to KCPL during the period of time covered by the Regulatory Plan approved by the Commission in Case No. EO-2005-0329. The parties to that case crafted a measurement of cash flow that gave consideration to methods and criteria used by S&P at that point in time in measuring cash flow and determining credit ratings based in part on the results of their cash flow calculations. The consideration given however was not to blindly follow whatever S&P did or would do during the term of the Regulatory Plan. The Stipulation and Agreement and the Commission's Report & Order in case No. EO-2005-0329 clearly does not anticipate that this Commission defer its regulatory authority to S&P to set just and reasonable rates.

Q. PLEASE EXPLAIN WHAT KCPL IS PROPOSING BY ADDING LINE 27B TO SCHEDULE MWC-9 ATTACHED TO MR. CLINE'S TRUE-UP DIRECT TESTIMONY.

A. KCPL is reducing the Funds from Operations (FFO) generated by the Missouri jurisdictional revenue requirement in this case by an amount of $4,783,218 which is equal to the interest on short-term debt that is not included in the capital structure used to determine the jurisdictional revenue requirement. The impact is to increase the Regulatory Plan Amortization and thus the amount to be collected from ratepayers by $7,811,886.

Q. IS THIS PROPOSAL CONSISTENT WITH THE REGULATORY PLAN?

A. No. Appendix F-3 to the Regulatory Plan does not include any adjustment to the FFO generated by the jurisdictional revenue requirement. A review of lines 17 through 35 will reveal that all the components of the calculation of FFO as set out in Appendix F-3 are revenue or cost items that are included in the jurisdictional revenue requirement. There are not any revenues or costs related to non-jurisdictional revenue requirement events.

Q. DOES THE LANGUAGE CONTAINED IN THE REGULATORY PLAN ITSELF ALSO REFER TO THE MISSOURI JURISDICTIONAL REVENUE REQUIREMENT?

A. Yes. The following sentences can be found in paragraph III.B.1.i., Additional Amortizations to Maintain Financial Ratios on page 19 and 20 of the Regulatory Plan.

> The "Additional Amortization to Maintain Financial Ratios" will only be an element in any KCPL rate case when the **Missouri jurisdictional revenue requirement in that case fails to satisfy the financial ratios** shown in Appendix E through the application process illustrated in Appendix F.

> The Signatory Parties agree to support an additional amortization amount added to KCPL's cost of service in a rate case when the **projected cash flows resulting from KCPL's Missouri jurisdictional operations, as determined by the Commission**, fail to meet or exceed the Missouri jurisdictional portion of the lower end of the top third of the BBB range shown in Appendix E, for the Funds from Operations Interest Coverage ratio and the Funds from Operations as a Percentage of Average Total Debt ratio.
>
> (emphasis added by OPC)

This concisely set out that it is Missouri jurisdictional revenue requirement that provides the FFO to compare to the various measures when calculating the credit metrics.

Q. WHY DOES PUBLIC COUNSEL BELIEVE THE REGULATORY PLAN STATED THAT MISSOURI JURISDICTIONAL REVENUE REQUIREMENT WAS TO BE USED?

A. The Regulatory Plan Amortization is necessary only when funds from jurisdictional revenue were not sufficient to meet credit metrics agreed to by the parties. The calculation of FFO and the credit metrics targets were the result of negotiations between the parties after consideration of a multitude of factors including Standard & Poors criteria. The Regulatory Plan does not provide any language that would support a proposal that because Standard & Poors performs a calculation in a specific way, that the parties agree to change the Regulatory plan or that this Commission must do likewise. In fact, the Regulatory Plan Amortization is not calculated on a total company basis whereas S&P calculations reported to the general public are. Such total company data would include not only other regulated jurisdictions such as Kansas but also non-regulated operations of Great Plains Energy.

This Commission has the responsibility to set just and reasonable rates for serving Missouri retail customers. Appropriately, the Regulatory Plan's calculation of FFO recognizes that responsibility.

Q. WAS KCPL A SIGNATORY TO THE REGULATORY PLAN?

A. Yes.

Q. MR. CLINE STATES THAT THIS CHANGE IN METHODOLOGY WOULD NOT HAVE CHANGED THE INITIAL REQUEST IN THIS CASE FOR A REGULATORY PLAN AMORTIZATION SINCE THERE WAS NO PROJECTED SHORT-TERM DEBT BALANCE (CLINE TRUE-UP DIRECT, PAGE 4, LINES 10 – 15). DOES THIS HAVE ANY RELEVANCE TO THE APPROPRIATENESS OF MR. CLINE'S PROPOSED REVISION TO THE REGUALTORY PLAN?

A. No.

Q. IS THAT BECAUSE DURING THE DEVELOPMENT OF THE REGULATORY PLAN DID PUBLIC COUNSEL ANTICIPATED THAT KCPL WOULD USE SHORT-TERM DEBT AS METHOD OF FINANCING DURING THE PERIOD COVERED BY THE REGULATORY PLAN?

A. Yes, most definitely. The use of short-term debt to finance CWIP is a fundamental concept in utility financing practices and in regulatory treatment. The primary reason that short-term debt is not normally included in the capital structure used in the determination of revenue requirement is based on the principle that short-term debt is used to support CWIP and the related interest cost is capitalized and subsequently built into rates via the process referred to in the Uniform System of Accounts as Allowance for Funds Used During Construction. Based on my thirty years of regulatory experience, I can state that it is unusual to have a utility finance its rate base with short-term debt, or stated another way, to have more short-term debt than it has CWIP. When this situation occurs, it is usually short-term in nature and driven by unusual market conditions or construction schedules.

I should also point out that I am not aware of any presentation made during the various workshops that lead to the development of the Regulatory Plan that KCPL at any time indicated that short-term debt would not be used to finance the construction activities set out in the Regulatory Plan. To not anticipate short-term debt on a $1.5 B construction program lasting approximately five years would have been a very unique situation and thus I believe it would have had to be addressed in the Regulatory Plan.

Q. WHEN WAS PUBLIC COUNSEL FIRST MADE AWARE OF THIS PROPOSED CHANGE IN METHODOLOGY?

A. On Thursday, November 1, one day prior to the filing of true-up direct testimony. I believe the first notice I received was a telephone call from Steve Traxler of the Staff who indicated that KCPL has advised him of this concern. I do not recall if he indicated when KCPL had communicated its concern to him regarding this issue.

Q. DOES KCPL HAVE SHORT-TERM DEBT AS OF SEPTEMBER 30, 2007?

A. Yes. According to Mr. Cline's testimony and schedules, KCPL has approximately $259 M. of short-term debt. It my understanding that the balance of CWIP as of September 30, 2007 is in excess of $380 M. Thus all short-term debt is needed to support CWIP and will be included in the calculation of AFUDC. Therefore it is not appropriate to include any short-term debt in the capital structure used to determine the revenue requirement in this case.

Q. DO UTILTIES NORMALLY USE LONG-TERM DEBT OR EQUITY CAPITAL TO FINANCE CWIP?

A. No, not as a general proposition. Over the term of a long-term construction project, a utility may take advantage of market conditions to secure favorable long-term debt or make equity issuances that replace short-term debt issues supporting CWIP and these possibilities are addressed in the AFUDC rules. However, the very nature of construction projects with their on-going monthly need for new monies require the ready access to funds provided by the short-term debt market whereas the long-term debt market or equity markets are designed for infrequent one time accesses to funds.

Q. WHY ISN'T THE INTEREST EXPENSE ASSOCIATED WITH SHORT-TERM DEBT INCLUDED IN THE JURISDICTIONAL REVENUE REQUIREMENT?

A. Interest on short-term debt is normally associated with debt that supports Construction Work in Progress (CWIP). As this Commission is well aware, the statutes of this state do not allow CWIP to be used in the determination of the jurisdictional revenue requirement. In this case, it is Public Counsel's understanding the amount of short-term debt currently held by KCPL is less than the level of CWIP on the balance sheet. Thus the entire balance of short-term debt is being used to support the CWIP investment. Therefore it is inappropriate to include short-term debt in the jurisdictional revenue requirement or to include it in the determination of FFO available from those jurisdictional revenues.

Q. DOES THIS CONCLUDE YOUR TRUE-UP REBUTTAL TESTIMONY?

A. Yes.