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Witness: John P. Weisensee
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Case No.: ER-2007-____
Date Testimony Prepared: January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-____

DIRECT TESTIMONY

OF

JOHN P. WEISENSEE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2007

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed.**
Certain Schedules Attached To This Testimony Designated ("HC") Have Been removed Pursuant To 4 CSR 240-2.135.

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JOHN P. WEISENSEE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-_____

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DIRECT TESTIMONY

OF

JOHN P. WEISENSEE

Case No. ER-2007-____

Q: Please state your name and business address.

A: My name is John P. Weisensee. My business address is 1201 Walnut, Kansas City, Missouri 64141-9679.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as Regulatory Accounting Manager.

Q: What are your responsibilities?

A: As Regulatory Accounting Manager, I have primary responsibility for preparing the financial information contained in various regulatory filings in Missouri, Kansas and at the Federal Energy Regulatory Commission ("FERC").

Q: Please describe your education, experience and employment history.

A: I graduated from The University of Texas at Austin in 1977 with a Masters in Professional Accounting. I had previously received my Bachelors of Business Administration degree in Accounting from the same university. I have been a Certified Public Accountant since 1977. I began my career with KCPL in January 2007. From 1986 to 2001, I was the Manager, Finance and Accounting for St. Joseph Light & Power Company ("SJLP"). In the years between leaving that utility and beginning at KCPL I was self-employed as a business consultant, in the utility industry and for many other industries.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC") or before any other utility regulatory agency?

A: Yes, I testified in proceedings at the MPSC on many occasions while employed at SJLP.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to: (1) describe the schedules that were used to support the rate increase that KCPL is requesting in this proceeding, attached as Schedule JPW-1 ("Revenue Requirement Schedules"); (2) support various accounting adjustments listed on the summary of adjustments attached as Schedule JPW-2 ("Summary of Adjustments"); and (3) address the income tax component of KCPL's cost of service and the accumulated deferred income tax rate base offset.

REVENUE REQUIREMENT SCHEDULES

Purpose and Scope

Q: What is the purpose of these schedules?

A: The Revenue Requirement Schedules are derived from the Company's Revenue Requirement Model ("Revenue Requirement Model") and were used to support the rate increase that KCPL is requesting in this proceeding

Q: Were the Revenue Requirement Schedules prepared either by you or under your direction?

A: Yes, they were.

Q: Please describe the process the Company used to determine the requested rate increase.

A: We utilized a standard ratemaking process to determine the rate increase request. We used historical test year data from the financial books and records of the Company as the basis for the operating revenues, operating expenses, and rate base. We then adjusted the historical test year data to reflect: (1) the Company's financial data on a 100% Missouri basis; (2) "normal" levels of revenue and expenses that would have occurred during a year with normal weather, etc.; (3) annualizations of certain revenue and expense amounts; and (4) known and measurable changes that have been identified since the end of the historical test year. We then allocated the adjusted test year data to arrive at operating revenues, operating expenses, and rate base applicable to the Missouri jurisdiction. We subtracted operating expenses from operating revenues to arrive at operating income. We then divided operating income by rate base to calculate the rate of return prior to the requested rate increase. The requested rate increase is the amount necessary for the post-increase calculated rate of return to equal the rate of return supported by KCPL witness Samuel C. Hadaway.

Test Year

Q: What historical test year did KCPL use in determining rate base and operating income?

A: The schedules included in this filing are based upon an historical test year ending December 31, 2006, with a combination of actual and budgeted data. The test year data will be updated with actual data for the 12 months ending December 31, 2006 in the update and true-up process of this case, as agreed to in the Regulatory Plan Stipulation and Agreement ("Regulatory Plan S&A"), which the MPSC approved in Case No. EO-2005-0329.

Adjustments

Q: Is there a listing of the adjustments to the test year data attached to your testimony?

A: Yes, there is a listing of the adjustments along with the dollar amount of those adjustments in the Summary of Adjustments, which is attached hereto as Schedule JPW-2.

Q: Please explain the adjustments to reflect the Company's financial data on a 100% Missouri basis?

A: KCPL has an integrated operating system that serves retail customers in Missouri and Kansas, as well as full-requirements, or firm, wholesale customers. The rates for the Missouri retail customers fall under the jurisdiction of the MPSC, the rates for the Kansas retail customers fall under the jurisdiction of the Kansas Corporation Commission ("KCC"), and the rates for the firm wholesale customers fall under the jurisdiction of FERC. Each of these commissions authorizes, among other things, the rates used to record book depreciation. The Company's financial books show a blended amount for the book depreciation authorized by the various commissions. An adjustment is thus necessary to reflect the historical MPSC-authorized depreciation rates. In addition, adjustments are necessary to reflect differences in the statutory tax rates in Missouri and Kansas and other differences in accounting treatments authorized by the various commissions. The result, after these adjustments are made, is financial information for the total Company that looks as if it operates solely in Missouri and is regulated only by the MPSC.

Q: Please explain the adjustments to reflect "normal" levels of revenue and expenses?

A: These include adjustments to revenue, fuel expense, and purchased power to reflect levels that would have occurred if the weather had been "normal" during the test year. Also included are adjustments to reflect a "normal" level of maintenance expense. This is necessary because, for example, turbine maintenance does not occur every year. Thus, an individual generating unit may have large variations in maintenance from year to year. The adjustments to normalize generation maintenance reflect the entire cycle of non-annual maintenance levels. Similar adjustments are necessary for Transmission & Distribution and Information Technology maintenance.

Q: Please explain the adjustments to annualize certain revenues and expenses.

A: These adjustments, such as the annualization of revenue and depreciation expense, have been made to reflect an annual level of revenues and expense in cost of service. Unadjusted test year revenues and expenses do not reflect such factors as customer growth and increased plant balances during the year.

Q: Please explain the adjustments to reflect known and measurable changes that have been identified since the end of the historical test year?

A: These adjustments are for changes in the level of revenues, expenses and rate base that either have occurred or are expected to occur by the time of the September 30, 2007 true-up described in the Regulatory Plan S&A.

<u>**Allocations**</u>

Q: Why is it necessary to allocate revenues, expenses and rate base to the jurisdictions?

A: Because, as previously discussed, KCPL does not have separate operating systems for its Missouri, Kansas, and firm wholesale jurisdictions. It operates a single production and transmission system that is used to provide service to the retail customers in Missouri and Kansas as well as the full-requirements firm wholesale customers.

Q: Please explain how revenues, expenses, and rate base items were allocated.

A: The allocators that were utilized can be classified as "input" allocators or "calculated" allocators. The input allocators are based on the weather-normalized demand, energy, and customer information that is described in the testimony of KCPL witness George M. McCollister. The calculation of these input allocators is attached to my testimony as Schedule JPW-3. The calculated allocators are, at their root, based on the Demand, Energy, and Customer allocators. The calculated allocators are, however, calculated within the Revenue Requirement Model. They are often calculated as combinations of amounts that have previously been allocated using one or more of the input allocators.

Q: Please describe the Demand allocator.

A: The Demand allocator is a 4-month average of the coincident peak demands for the Missouri and Kansas retail jurisdictional customers and wholesale jurisdiction. This is consistent with the Order of the Missouri Public Service Commission in KCPL's last rate case.

Q: Please describe the Energy allocator.

A: The Energy allocator is based on the total annual kilowatt-hour usage by the Missouri and Kansas retail customers and wholesale jurisdiction.

Q: Please describe the Customer allocator.

A: The Customer allocator is based on the number of customers in Missouri, Kansas, and wholesale jurisdiction.

Q: Please explain how retail revenues were allocated.

A: Retail revenues are the revenues received from the retail customers in Missouri and Kansas. Retail revenues are not allocated; rather, they are recorded by jurisdiction.

Q: Please explain how miscellaneous revenues were allocated.

A: Miscellaneous revenues include forfeited discounts, miscellaneous services, rent from electric property, transmission service for others, and other electric revenues. These miscellaneous revenues were subdivided and, where possible, assigned directly to the jurisdiction where they were recorded. The miscellaneous revenues that were not directly assignable to a jurisdiction were grouped by functional categories and allocated on a basis appropriate for that functional category. Production and transmission-related miscellaneous revenues were allocated using the Demand allocator. Distribution-related miscellaneous revenues were allocated based on the distribution plant in each jurisdiction.

Q: Please explain how the off-system sales margin was allocated.

A: KCPL allocated off-system sales margins between jurisdictions based on the Energy allocator. This is consistent with the Order from the Commission in our last case.

Q: Please explain how sales for resale revenues were allocated.

A: The sales for resale revenues are the revenues from the full-requirements firm wholesale customers under FERC jurisdiction. These revenues were allocated totally to the FERC jurisdiction with the exception of the transmission revenues associated with and included in these revenues. The transmission component was allocated using the Demand allocator.

Q: Please explain how fuel costs were allocated.

A: Fuel costs were allocated based on the Energy allocator.

Q: Please explain how purchased power costs were allocated.

A: The demand (capacity) component was allocated based on the Demand allocator, while the energy component was allocated based on the Energy allocator.

Q: Please explain how other production operating and maintenance ("O&M") costs were allocated.

A: Variable production O&M costs were allocated using the Energy allocator. Variable production O&M costs are primarily those non-fuel costs that are related to fuel. The rest of the production O&M costs are considered to be fixed and were allocated using the Demand allocator.

Q: Please explain how transmission O&M costs were allocated.

A: Transmission O&M costs were allocated based on the allocation of the transmission plant. As I will describe later, transmission plant was primarily allocated using the Demand allocator.

Q: Please explain how distribution O&M costs were allocated.

A: Distribution O&M costs were allocated based on the allocation of the distribution plant. As I will describe later, distribution plant was primarily allocated based on its physical location.

Q: Please explain how customer accounts expenses were allocated.

A: Customer accounts expenses were primarily allocated using the Customer allocator. The exception is that the uncollectible accounts expenses were directly assigned to the jurisdiction of their origin.

Q: Please explain how customer services and information expenses were allocated.

A: Customer services and information expenses were primarily allocated using the Customer allocator. The exception is that the amortizations of deferred demand-side management ("DSM") programs were directly assigned to the jurisdiction of their origin.

Q: Please explain how sales expenses were allocated.

A: Sales expenses related to firm wholesale sales were directly assigned to the FERC jurisdiction. The rest of the sales expenses were allocated using the Customer allocator.

Q: Please explain how administrative and general ("A&G") expenses were allocated.

A: A&G expenses were allocated using a number of methods depending on the cause of the cost. Salaries, employee benefit, and injuries and damages expenses were allocated based on the ratio of the allocated sum of the labor portion of the production, transmission, distribution, customer, and sales expenses described previously. Regulatory expenses were directly assigned to the jurisdiction of their origin. Property insurance expenses were allocated based on the allocation of total plant. General plant maintenance and fleet expenses were allocated based on the allocation of the plant with which they are associated. General advertising expenses were allocated using the Customer allocator, and the remainder of A&G expenses was allocated using the Energy allocator.

Q: Please explain how depreciation and amortization expenses were allocated.

A: Depreciation and amortization expenses were adjusted to reflect the appropriate jurisdictionally approved depreciation rates. Adjusted depreciation and amortization expenses were then allocated based on the allocation of the plant with which they are associated. Additional amortization expenses to maintain credit ratios were directly assigned to the jurisdiction of their origin.

Q: Please explain how interest on customer deposits was allocated.

A: Interest on customer deposits was directly assigned to the jurisdiction of its origin.

Q: Please explain how taxes other than income were allocated.

A: Property taxes related to Wolf Creek were allocated based on the allocation of Wolf Creek plant. Property taxes not related to Wolf Creek were allocated based on the allocation of total plant excluding Wolf Creek. Payroll taxes related to Wolf Creek payroll were allocated using the Demand allocator. Payroll taxes related to non-Wolf Creek payroll were allocated based on the allocation of the non-Wolf Creek payroll. Gross receipts taxes were assigned directly to the jurisdiction of their origin and then eliminated through an adjustment. Capital stock taxes were allocated based on the allocation of total plant. Kansas City, Missouri earnings taxes were first calculated based on the earnings in the Revenue Requirement Model and then allocated 100% to Missouri.

Q: Please explain how income taxes were allocated.

A: Currently payable income taxes were not allocated. Instead, currently payable income taxes were calculated in the Revenue Requirement Model using the statutory tax rates for the appropriate jurisdiction and applying them to jurisdictional taxable income calculated in the Revenue Requirement Model. Deferred tax expenses related to depreciation were calculated using the statutory tax rate for the appropriate jurisdiction and applying it to the jurisdictional difference between tax return depreciation and tax basis straight line depreciation reflected in the Revenue Requirement Model. Other deferred income tax expenses were primarily allocated based on the allocation of the plant with which they are associated

Q: Please explain how production plant-in-service costs were allocated.

A: Production plant costs were primarily allocated using the Demand allocator. The exception is for plant items that have been afforded different jurisdictional accounting treatment through past commission orders. An example is the Missouri gross-up accounting treatment of allowance for funds used during construction ("Missouri Gross AFDC"). These items were directly assigned to the jurisdiction of their origin.

Q: Please explain how transmission plant-in-service costs were allocated.

A: Transmission plant costs were primarily allocated using the Demand allocator. Missouri Gross AFDC amounts in the transmission plant amounts were allocated directly to Missouri.

Q: Please explain how distribution plant-in-service costs were allocated.

A: Distribution plant costs were primarily allocated based on their physical location.

Q: Please explain how general plant-in-service costs were allocated.

A: General plant costs were allocated based on their relationship to other production, transmission, and distribution plant costs.

Q: Please explain how intangible plant-in-service costs were allocated.

A: Intangible plant is primarily capitalized software. These capitalized software costs were allocated based on the allocation factor considered most appropriate for the function of the software. For example, the customer information system is allocated based on the Customer allocation factor, whereas transmission-related software is allocated based on the Demand allocation factor.

Q: Please explain how the reserves for accumulated depreciation and amortization were allocated.

A: The reserves for accumulated depreciation and amortization were first adjusted to reflect the appropriate jurisdictionally approved historical depreciation and amortization rates. Then the adjusted amounts were allocated based on the allocation of the plant with which they are associated.

Q: Please explain how working capital was allocated.

A: Cash working capital ("CWC") was not allocated. Instead, the CWC amounts were calculated in the Revenue Requirement Model by taking the CWC factors developed in the lead/lag study described in the direct testimony of KCPL witness Christine M. Davidson and applying them to other allocated amounts in the Revenue Requirement Model. Fuel inventory was allocated using the Energy allocator except for the Missouri Gross AFDC amounts in fuel inventory that were assigned directly to Missouri. Materials and supplies ("M&S") and prepayments were grouped by function and allocated based on allocations appropriate for the function of the M&S and prepayments.

Q: Please explain how the regulatory assets were allocated.

A: Regulatory assets were assigned directly to the jurisdiction of their origin.

Q: Please explain how the accumulated reserve for deferred taxes was allocated.

A: The accumulated reserve for deferred taxes was first adjusted to reflect the appropriate jurisdictionally approved historical depreciation rates and the appropriate statutory tax rates. The accumulated reserve for deferred taxes was then primarily allocated based on the allocation of plant with which it was associated. However, deferred tax reserve amounts that are associated with regulatory assets and liabilities were assigned directly to their jurisdiction of origin.

Q: Please explain how the customer advances for construction and the customer deposits were allocated.

A: The customer advances for construction and the customer deposits were assigned directly to the jurisdiction of their origin.

Q: Why is the method by which the allocations are made critical?

A: The method of allocation is critical first to ensure that the rates charged to each jurisdiction of customers reflect the full cost of serving those customers but not the cost of serving customers in other jurisdictions. Secondly, the method of allocation must allow the Company the opportunity to recover fully its prudent costs of serving those customers. If the sum of the allocation factors allowed in each jurisdiction does not equal 100%, then the Company is unable to recover its prudent cost of service and return on rate base.

Q: Has the Company applied the allocations, which you have described, consistently to the Missouri, Kansas, and FERC jurisdictions?

A: Yes, it has.

<u>Description and Purpose of the Schedules in the Revenue Requirement Model</u>

Q: Please describe the Revenue Requirement Model.

A: The Revenue Requirement Model consists of multiple Excel-based spreadsheets which reflect a consistent format of unadjusted and adjusted system financial information and which result in allocated Missouri jurisdictional rate base, operating income and rate of return. I will discuss both the schedules and format later in my testimony. Collectively, we refer to this model and its underlying schedules as the Revenue Requirement Model.

Q: What schedules are included in the Revenue Requirement Model?

A: The following schedules, which are attached hereto as Schedule JPW-1, are included in the Revenue Requirement Model:

- REV REQ SUMMARY
- SCHEDULE 1 – SUMMARY OF OPERATING INCOME & RATE BASE;
- SCHEDULE 2 – ALLOCATION OF REVENUES;
- SCHEDULE 4 – ALLOCATION OF OPERATIONS & MAINTENANCE EXPENSE;
- SCHEDULE 5 – ALLOCATION OF DEPRECIATION EXPENSES & AMORTIZATIONS;
- SCHEDULE 6 – ALLOCATION OF TAXES OTHER THAN INCOME TAXES;
- SCHEDULE 7 – ALLOCATION OF CURRENT AND DEFERRED INCOME TAXES;
- SCHEDULE 8 – ALLOCATION OF ACCUMULATED DEFERRED TAXES;
- SCHEDULE 11 – ALLOCATION OF ELECTRIC PLANT-IN-SERVICE;
- SCHEDULE 12 – ALLOCATION OF ACCUMULATED DEPRECIATION;
- SCHEDULE 15 – ALLOCATION OF WORKING CAPITAL;
- SCHEDULE 16 – CASH WORKING CAPITAL;
- SCHEDULE 18 – ALLOCATION OF SALARIES AND WAGES;
- ALLOCATORS;
- MISC % - MISCELLANEOUS PERCENTS;

- CWC% - CASH WORKING CAPITAL PERCENTS; and
- DEPR % - JURISDICTIONAL DEPRECIATION RATES

Q: Please describe the purpose of REV REQ SUMMARY

A: This schedule presents a summary of the traditional revenue requirement and the additional amortization to maintain credit ratios.

Q: Please describe the purpose of SCHEDULE 1 - SUMMARY OF OPERATING INCOME & RATE BASE.

A: SCHEDULE 1 presents the overall summary of Net Electric Operating Income, including the major components of operating revenue and operating expenses. It also shows Rate Base, including a summary of the major components of net plant and line item detail for other positive and negative rate base items. Finally, it shows the calculated Rate of Return and Return on Equity for the SYSTEM TOTAL, ADJUSTED TOTAL, MISSOURI JURIDICTION and PROFORMA JURISDICTION columns.

Q: What is the purpose of SCHEDULE 2 – ALLOCATION OF REVENUES?

A: SCHEDULE 2 presents the detail of Electric Operating Income, subtotaled by the major components shown on SCHEDULE 1.

Q: What is the purpose of SCHEDULE 4 – ALLOCATION OF OPERATIONS & MAINTENANCE EXPENSE?

A: SCHEDULE 4 presents the detail of other O&M expense by FERC sub-account, and certain additional detail required for allocation purposes, subtotaled by functional category.

Q: What is the purpose of SCHEDULE 5 – ALLOCATION OF DEPRECIATION EXPENSES & AMORTIZATIONS?

A: SCHEDULE 5 presents annualized depreciation and amortization expense by plant sub-account. The annualized depreciation expense amounts, and most amortization expense amounts, were calculated by applying jurisdictional depreciation/amortization rates to adjusted plant in service balances shown on SCHEDULE 11. The jurisdictional rates were approved in the rate order approving the Regulatory Plan S&A and are shown on Schedule DEPR %. The SYSTEM TOTAL column reflects depreciation expense calculated for financial reporting purposes using blended jurisdictional rates from Missouri, Kansas and FERC. The adjustments shown on SCHEDULE 5 include those necessary to adjust from the financial blended depreciation/amortization expense to annualized depreciation/amortization expense based on the September 30, 2007 plant in service balances and the jurisdictional depreciation/amortization rates. SCHEDULE 5 also reflects the annualized additional amortization expense to maintain credit ratios approved in Case No. ER-2006-0314 ("the 2006 Case").

Q: What is the purpose of SCHEDULE 6 – ALLOCATION OF TAXES OTHER THAN INCOME TAXES?

A: SCHEDULE 6 presents the detail of property taxes, payroll taxes and other miscellaneous taxes other than income taxes.

Q: What is the purpose of SCHEDULE 7 – ALLOCATION OF CURRENT AND DEFERRED INCOME TAXES?

A: SCHEDULE 7 presents both the calculation of currently payable income taxes and the deferred income tax and investment tax credit amortization included in cost of service. This schedule is further discussed later in this testimony.

Q: What is the purpose of SCHEDULE 8 – ALLOCATION OF ACCUMULATED DEFERRED TAXES?

A: SCHEDULE 8 presents the detail of Deferred Income Tax Reserve assets and liabilities related to rate base items, calculated on a jurisdictional basis. This schedule is further discussed later in this testimony.

Q: What is the purpose of SCHEDULE 11 – ALLOCATION OF ELECTRIC PLANT-IN-SERVICE?

A: SCHEDULE 11 presents the detail of Electric Plant-in-Service after adjusting the amounts reflected in the financial statements for jurisdictional differences. Although some of the detail is provided only at the FERC plant account level, most of the accounts are further subdivided to allow for the application of different allocation factors to portions of the account balance. The accounts are also subdivided when necessary to facilitate use of different depreciation rates for different portions of the account as required to annualize depreciation expense.

Q: What is the purpose of SCHEDULE 12 – ALLOCATION OF ACCUMULATED DEPRECIATION?

A: SCHEDULE 12 presents the detail of Accumulated Reserve for Depreciation by FERC plant account as if jurisdictional depreciation/amortization rates had been applied throughout time to total company Plant-in-Service expressed on a jurisdictional basis. Where necessary, the FERC plant accounts are further subdivided to allow for the application of different allocation factors to portions of the account balance.

Q: What is the purpose of SCHEDULE 15 – ALLOCATION OF WORKING CAPITAL?

A: SCHEDULE 15 presents the detail of each major component of Working Capital. Each component is subdivided as necessary to allow for the application of different allocation factors to portions of the account balance.

Q: What is the purpose of SCHEDULE 16 – CASH WORKING CAPITAL?

A: SCHEDULE 16 presents the calculation of the cash working capital amount shown on SCHEDULE 15. Lead/lag factors, as shown on schedule CWC%, are applied to applicable amounts of O&M expense, interest & taxes and revenues not related to retail kWh sales. The amounts to which the factors are applied have all been transferred from other supporting schedules.

Q: What is the purpose of SCHEDULE 18 – ALLOCATION OF SALARIES AND WAGES?

A: SCHEDULE 18 presents labor costs by functional category for labor included in SCHEDULE 4, ALLOCATION OF OPERATIONS & MAINTENANCE EXPENSE. These amounts are used to derive the allocation factor identified as "Sal & Wages" reflected in the schedule titled ALLOCATORS and applied elsewhere in the schedules.

Q: What is the purpose of ALLOCATORS?

A: The schedule identified as ALLOCATORS presents both the "input" allocators and "calculated" allocators that are necessary to accomplish the allocation process that I discussed previously in my testimony.

Q: What is the purpose of MISCELLANEOUS PERCENTS?

A: The MISCELLANEOUS PERCENTS schedule presents the development of various percents used elsewhere in the schedules for calculation of income taxes, revenue related taxes, capital structure, capital cost and the weighted cost of capital.

Q: What is the purpose of CWC% - CASH WORKING CAPITAL PERCENTS?

A: CWC% presents the calculation of lead/lag factors resulting from revenue lead/lags and expense lead/lags for various payment and revenue categories. These factors are used on SCHEDULE 16 for the calculation of Cash Working Capital. KCPL witness Christine M. Davidson discusses the development of the revenue and expense lags in her direct testimony.

Q: What is the purpose of DEPR % - JURISDICTIONAL DEPRECIATION RATES?

A: The DEPR% schedule reflects the jurisdictional depreciation/amortization rates approved in the Company's last rate case. These rates are applied to Plant in Service balances shown on SCHEDULE 11 to derive the annualized depreciation/amortization expense shown on SCHEDULE 5.

<u>Format of Schedules</u>

Q: Please explain the format of the schedules in the Revenue Requirement Model.

A: The following columns are reflected on each schedule (excl. REV REQ SUMMARY):

- LINE NO;

- ACCT NO;
- DESCRIPTION;
- ALLOCATION BASIS;
- SYSTEM TOTAL, COL 601;
- ADJUSTMENTS, COL 602;
- ADJUSTED TOTAL, COL 603;
- MISSOURI JURISDICTION, COL 604;
- PROFORMA ADJUSTMENTS, COL 605; and
- PROFORMA JURISDICTION, COL 606

Q: Please describe the purpose of LINE NO.

A: LINE NO is the line identifier used for cross-reference purposes.

Q: Please describe the purpose of ACCT NO.

A: ACCT NO is the FERC prime or sub-account number, as appropriate.

Q: Please describe the purpose of DESCRIPTION.

A: DESCRIPTION is the description of the line.

Q: Please describe the purpose of ALLOCATION BASIS.

A: For amounts carried forward from another schedule, as indicated by a "TSFR" cross-reference, this column reflects the schedule/line number from which the amount was transferred. For input amounts, this column reflects the allocation factor by which the "ADJUSTED TOTAL, COL. 603" amount is allocated between jurisdictions. The allocation factors are presented on the schedule titled "ALLOCATORS."

Q: Please describe the purpose of SYSTEM TOTAL, COL 601.

A: SYSTEM TOTAL, COL 601 reflects the amounts recorded on the financial books for the period January through September 2006 and the amounts projected to be recorded for the period October through December 2006. Many of the fourth quarter projected amounts are based on actual activity during that period.

Q: Please describe the purpose of ADJUSTMENTS, COL 602.

A: ADJUSTMENTS, COL 602 reflects the sum of the net adjustments made to each line required to: (1) adjust the amount shown in SYSTEM TOTAL, COL 601 to a 100% jurisdictional basis; (2) reflect "normal" levels of revenue and expenses that would have occurred during a year; (3) reflect "annualized" revenues and expenses; or (4) reflect known and measurable changes through September 2007.

Q: Please describe the purpose of ADJUSTED TOTAL, COL 603.

A: ADJUSTED TOTAL, COL 603 reflects the sum of columns COL 601 and COL 602.

Q: Please describe the purpose of MISSOURI JURISDICTION, COL 604.

A: MISSOURI JURISDICTION, COL 604 reflects the Missouri jurisdictional amount after the appropriate allocation factors have been applied to the amounts shown in ADJUSTED TOTAL, COL. 603.

Q: Please describe the purpose of PROFORMA ADJUSTMENTS, COL 605.

A: PROFORMA ADJUSTMENTS, COL 605 reflects the proforma jurisdictional revenue increase requested along with the associated jurisdictional adjustments for bad debt expense, income and other taxes, and the impact on cash working capital. COL 605 also reflects required changes to the amount of additional amortization to maintain credit ratios.

Q: Please describe the purpose of PROFORMA JURISDICTION, COL 606.

A: PROFORMA JURISDICTION, COL. 606 reflects the sum of COL 604 and COL 605.

Q: To what extent is there a detailed breakdown of amounts shown in any of the columns?

A: Wherever the "ALLOCATON BASIS" column shows a "TSFR" (or "transferred") indication, a detailed breakdown of that amount is reflected on the supporting schedule noted. The line number included in the cross-reference reflects the line number on the supporting schedule that agrees with the amount on the "transferred to" schedule.

Q: Is there further detailed breakdown of the amounts reflected in the "ADJUSTMENTS, COL 602" column?

A: Yes, the individual adjustments are listed on attached Schedule JPW-2. Each adjustment has a unique adjustment number. The individual adjustments are grouped and subtotaled consistent with the line number and line description shown on SCHEDULE 1, SUMMARY OF OPERATING INCOME & RATE BASE, to which they apply.

Q: Does that conclude this portion of your testimony?

A: Yes, this concludes my discussion of the Revenue Requirement Schedules.

ACCOUNTING ADJUSTMENTS

Purpose and Scope

Q: What is the purpose of this portion of your testimony?

A: The purpose of this portion of my testimony is to support various accounting adjustments included in Summary of Adjustments, which as I have previously noted is attached hereto as Schedule JPW-2.

Q: What is the purpose of Summary of Adjustments?

A: It presents a listing of all adjustments to the 2006 test year. The adjustments are organized and subtotaled by the lines reflected on SCHEDULE 1, SUMMARY OF OPERATING INCOME & RATE BASE. Various KCPL witnesses will support, in their direct testimony, the need for each of the adjustments.

Q: Which adjustments listed in Summary of Adjustments are you supporting?

A: The adjustments I am supporting are included in the Table of Contents to this direct testimony ("Accounting Adjustments section"), along with the page number where the related testimony begins. The dollar amounts discussed in this testimony related to these adjustments refer to total Company effects, not Missouri jurisdictional effects (unless otherwise noted). Missouri effects are determined by allocation factors discussed previously in this testimony.

Adjustments to reflect the Company's financial data on a 100% Missouri basis

Q: Please describe Adjustments 1-19.

A: As discussed earlier in this testimony, KCPL has an integrated operating system that serves retail customers in Missouri and Kansas, as well as full-requirements, or firm, wholesale customers. Adjustments are thus necessary to reflect Missouri jurisdictional cost of service and rate base. The result, after these adjustments are made, is financial information for the total Company that looks like it operates solely in Missouri and is regulated only by the MPSC. The purpose of each of these adjustments is described below as well as in Schedule JPW-2.

- Adj-1, Remove Missouri gross receipts tax from revenues and from other tax expense.

- Adj-3, Adjust disallowed Wolf Creek plant to 100% Missouri jurisdictional basis.
- Adj-4, Transfer KCREC bad debt expense to KCPL.
- Adj-5, Adjust FAS 87 and FAS 88 pension regulatory assets from financial book amounts to total company Missouri jurisdictional basis rate base amounts.
- Adj-9, Adjust for current period bank fees paid by KCREC related to sale of receivables.
- Adj-10, Transfer Interest on Customer Deposits above the line.
- Adj-11, Adjust 2006 expenses for amounts recorded in 2006 related to prior years.
- Adj-12, Adjust book depreciation and amortization expense to Missouri basis depreciation/amortization using Missouri jurisdictional depreciation rates.
- Adj-13, Adjust book accumulated reserve for depreciation/ amortization to Missouri basis.
- Adj-14, Adjust deferred income tax reserves to Missouri basis.
- Adj-18, Remove effects of 2006 Hawthorn 5 subrogation settlement.
- Adj-19, Adjust deductions used to calculate book current and deferred income tax expense (provision and amortization) from a financial basis to a Missouri jurisdictional basis.

Normalization & annualization adjustments and adjustments to reflect known and measurable changes

ADJ-20, PAYROLL AND RELATED COSTS

Q: What are the various components of Adj-20?

A: Adj-20 consists of the following parts:

20 annualize fuel-related payroll costs: $5,953,135;

20 annualize non-fuel operations & maintenance ("O&M") payroll costs: $150,810,220;

20a reverse fuel-related test year payroll costs: ($5,372,668);

20a reverse O&M test year payroll costs: ($139,467,098);

20b adjust severance payroll costs to normalized amount: $252,159;

20c adjust talent assessment severance payroll costs to annualized amount: ($6,957,387), and related FICA payroll tax effect ($520,230);

20d adjust incentive compensation- Power Marketing to normalized amount: ($48,077);

20e adjust incentive compensation- Value Link to normalized amount: ($1,449,827);

20g adjust FICA payroll taxes for Adj-20/Adj-20a effects: $720,684;

Q: How was payroll annualized (Adj-20)?

A: Payroll was annualized based on the complement of employees and pay rates expected to be in effect as of September 30, 2007, the true-up date specified in this case.

Q: How were pay rates determined?

A: Pay rates for bargaining (union) employees were based on contractual agreements. Pay rates for non-bargaining employees were based on annual salary adjustments expected to be in effect March 2007.

Q: Were amounts over and above base pay, such as overtime, premium pay, etc. included in the payroll annualization?

A: Yes, overtime was annualized at an amount equal to the average of the amounts incurred for the three-year period December 2003 through November 2006. Amounts were included for other categories at levels comparable to those incurred in the test period.

Q: Was payroll expense associated with the Company's interest in the Wolf Creek Nuclear Operating Corporation ("WCNOC") annualized in a similar manner?

A: Yes, it was.

Q: Do the payroll annualization adjustments take into consideration payroll billed to joint venture partners and payroll charged to capital?

A: Yes, they do.

Q: How was the severance payroll cost adjustment (20(b)) determined?

A: We compared average severance costs, excluding the talent assessment severance costs discussed below, over the three-year period 2004 through 2006 to severance costs included in the test period.

Q: What are the talent assessment severance costs (Adj-20(c))?

A: The Company undertook a comprehensive talent assessment in 2005 and 2006. As a result of this effort various management employees were severed from the Company in 2006 and severance payments were made. Additionally, outplacement costs were incurred.

Q: Why is an adjustment necessary?

A: The talent assessment resulted in the identification of management employees the Company believes can best lead it forward in coming years. However, the severance payments for employees not retained as a result of this assessment, and related outplacement costs, are not representative of a "normal" severance cost level. As a result, test period costs need to be adjusted.

Q: How was the severance talent assessment payroll cost adjustment determined?

A: We amortized these costs over a five-year period, and the resulting adjustment is the difference between this amortization and actual costs incurred in the test period. The related FICA tax expense effect was also considered.

Q: Why are Power Marketing and the Value Link incentive compensation adjustments (20(d) and 20(e)) necessary?

A: Prior to July 1, 2006 the Company had charged the entire amount of incentive expense to O&M expense, with none of it being capitalized to construction and retirement. Beginning July 1 the Company began capitalizing a portion of incentive expense, similar to the capitalization done for payroll, pension, etc. As a result, an adjustment was necessary to reflect this procedure on an annualized basis.

Q: How were the incentive compensation adjustments determined?

A: We compared 2006 incentive compensation expense as if the capitalization procedure was in effect the entire year to actual 2006 incentive expense, for both Power Marketing and Value Link.

Q: How was the FICA payroll tax adjustment determined?

A: The portion of this adjustment related to the talent assessment adjustment was discussed above. The payroll annualization effect was calculated as the difference between annualized FICA payroll tax expense and FICA payroll tax expense recorded in the test period.

Q: How was FICA payroll tax expense annualized?

A: We annualized FICA payroll tax expense by applying the average 2006 FICA percent (FICA expense/payroll expense) to the payroll annualization adjustment.

Q: Does the FICA payroll tax expense adjustment take into consideration payroll tax expense billed to joint venture partners and payroll tax expense charged to capital?

A: Yes, because the payroll annualization adjustment is the Company's O&M piece only (excluding allocation to joint venture partners and capital), the resulting FICA adjustment likewise properly includes the Company's O&M piece only.

<u>Adj-21, 53a & 53b, PLANT IN SERVICE AND RESERVE FOR DEPRECIATION</u>

Q: What are the various plant-related adjustments?

A: The various plant-related adjustments include:

Adj-21, Plant in service	$ 174,405,410
Adj-53a, Depreciation	$ 109,231,972
Adj-53b, Retirements and net salvage	($ 47,283,983)

Q: How was Adj-21 determined?

A: This adjustment was calculated as the difference between projected December 31, 2006 plant balances and estimated plant balances as of September 30, 2007.

Q: How were the September 30, 2007 plant balances estimated?

A: We rolled projected December 31, 2006 plant balances forward by using the Company's 2007 capital budget, which has been approved by management and the Company's Board of Directors. We also included anticipated retirements during this period.

Q: Why were plant balances rolled forward to September 30, 2007?

A: This is the true-up date specified in this case.

Q: What is the purpose of adjustments 53a and 53b?

A: In combination, these adjustments roll forward the reserve, expressed on a total company Missouri basis, for depreciation balances from projected December 31, 2006 to

September 30, 2007. The former addresses the depreciation provision component of the reserve, while the latter addresses the retirement and net salvage components.

Q: How were these two adjustments determined?

A: The depreciation provision component was calculated by multiplying the October 2006 provision times nine to approximate the provision that would be charged to the Reserve for Depreciation from January through September 2006 (nine months). The retirement component was based on estimated retirement activity during this period using the Company's 2007 capital budget. The net salvage component was based on projected activity.

Q: Is Accumulated Depreciation and Amortization adjusted for any other items?

A: Yes. Accumulated Depreciation and Amortization is increased by $19,259,296 ($16,259,296 Missouri jurisdictional and $3,000,000 Kansas jurisdictional) for the roll-forward of the additional amortization to maintain credit ratios from December 31, 2006 to September 30, 2007, the true-up date specified in this case. These amortizations relate to the 2006 Case and Kansas Docket No. 06-KCPE-828-RTS, respectively, and are further discussed in the Depreciation and Amortization Expense section below and in the direct testimony of KCPL witness Michael W. Cline.

<u>Adj-26b, INFORMATION TECHNOLOGY MAINTENANCE COSTS</u>

Q: What is the purpose of Adj-26b?

A: This adjustment for $1,118,982 is necessary to properly state Information Technology ("IT") hardware maintenance and software support expense ("IT maintenance expense"). The Company continuously reviews its hardware/software requirements, installs new systems or retires/modifies old systems, and as a result must adjust the related maintenance/support necessary for those assets. The test period does not include a full-year's expense for IT maintenance agreements entered into in 2006, or expected to be entered into in 2007 prior to September 30, 2007, the true-up period specified in this case. Also, the test period includes expense for agreements not expected to continue in 2007. As a result, IT maintenance expense recorded in the test period must be adjusted to reflect expected expense.

Q: How was the IT maintenance expense adjustment calculated?

A: An annualized level of IT maintenance expense was determined. Then IT maintenance expense recorded during the test year was deducted from the annualized amount.

Q: How was the annualized level of IT maintenance expense determined?

A: A listing was prepared of all hardware/software maintenance agreements in effect at December 31, 2006, with the associated annual expense. We added to that listing all new hardware/software maintenance agreements expected to be in effect prior to September 30, 2007, with the associated annual expense. We then combined these annual expense amounts to arrive at annualized IT maintenance expense.

Q: Does the Company have support for each of these IT maintenance agreements?

A: The Company has support for each of the agreements in place at December 31, 2006. It also has support for many of the new 2007 hardware/software support agreements, and expects to have support for all of the new 2007 agreements prior to September 30, 2007.

<u>Adj-27, PENSIONS</u>

Q: What are the various components of Adj-27?

A: This adjustment consists of five parts:

(a) Adjust Financial Accounting Standard No. 87 "Employers' Accounting for Pensions" ("FAS 87") pension expense for ratemaking purposes to an annualized level: $14,642,943;

(b) roll forward the FAS 87 regulatory asset, expressed on a total company Missouri basis, to the September 30, 2007 balance: ($834,939);

(c) reflect amortization of the FAS 87 regulatory asset as of September 30, 2007: $5,009,739;

(d) roll forward the net prepaid pension asset to the September 30, 2007 balance: ($3,713,517); consisting of ($2,023,867) Missouri, ($1,645,088) Kansas and ($44,562) wholesale; and

(e) reflect amortization of the Financial Accounting Standard No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("FAS 88") regulatory asset as of September 30, 2007: $3,693,283

Parts (a), (c) & (e) adjust operating income, and are shown as a combined $23,345,965 on the Summary of Adjustments. Parts (b) and (d) adjust rate base.

Q: Do these various adjustments include the effects of the Company's interest in WCNOC's pension plans?

A: Yes, they do.

Q: How was part (a) determined?

A: An annualized level of FAS 87 pension expense for ratemaking purposes was determined. Then FAS 87 pension expense recorded during the test year was deducted from the annualized amount.

Q: How was annualized FAS 87 pension expense determined?

A: The annualized FAS 87 expense was based on information provided by the Company's actuarial firms.

Q: Was annualized FAS 87 pension expense determined in accordance with established regulatory practice?

A: Yes, the calculation was made in accordance with the methodology documented in the Regulatory Plan S&A, and is consistent with the calculation used by both the Company and MPSC Staff in the 2006 Case.

Q: Did this adjustment take into consideration the Company's Supplemental Executive Retirement Plan ("SERP")?

A: Yes, both the test period expense and the annualized pension expense included the SERP expense of $645,307.

Q: What is the purpose of part (b)?

A: This adjustment was made to roll forward the FAS 87 regulatory asset, expressed on a total company Missouri basis, to September 30, 2007, the true-up date specified in this case.

Q: What is the nature of this regulatory asset?

A: This regulatory asset represents the cumulative unamortized difference in FAS 87 pension expense for ratemaking purposes (as discussed in part (a) above) and pension expense built into rates during the corresponding periods.

Q: When is the beginning point for accumulating this difference in FAS 87 pension expense for ratemaking purposes and FAS 87 pension expense currently built into rates?

A: The Regulatory Plan S&A specifies the accumulation was to begin January 1, 2005.

Q: How was the FAS 87 regulatory asset rolled forward to September 30, 2007?

A: As indicated earlier in my testimony, the FAS 87 and FAS 88 pension regulatory assets at December 31, 2006 were first adjusted from financial book amounts to total company Missouri jurisdictional basis rate base amounts in Adj-5. The difference between FAS 87 expense for Missouri jurisdictional ratemaking purposes per part (a) and FAS 87 expense currently built into rates for the nine-month period January 1, 2007 to September 30, 2007 was added to the projected Missouri basis regulatory asset balance at December 31, 2006 using Adj-27.

Q: What is the amount of FAS 87 expense currently built into rates?

A: For 2006 the amount built into rates was $22 million, before reductions for capital and joint partner amounts, as specified in the Regulatory Plan S&A. For 2007 the comparable amount is $40.7 million, before inclusion of allowable pension costs for SERP, as determined in the 2006 Case. The amount built into rates as of January 1, 2007 after reductions of $2.2 million and $8.4 million for capital and joint partner amounts, respectively, is $30.1 million.

Q: What is the purpose of part (c)?

A: This adjustment is an amortization of the FAS 87 regulatory asset mentioned in the discussion on part (b). The amount is comprised of the $4,423,445 amortization of the regulated asset at September 30, 2006, identified in the Nonunanimous Stipulation and

Agreement Regarding Pension Issues in the 2006 Case and an amortization amount related to expected increases in the regulated asset from October 1, 2006 through September 30, 2007.

Q: Over what period is the FAS 87 regulatory asset amortized?

A: The FAS 87 regulatory asset is amortized over a 5-year period, as specified in the Regulatory Plan S&A and the 2006 Case.

Q: What is the purpose of part (d)?

A: This adjustment was made to roll forward the net prepaid pension asset to September 30, 2007, the true-up date specified in this case.

Q: What is the nature of this asset?

A: This asset represents the initial net prepaid pension asset outlined in the Regulatory Plan S&A ($63,658,444 total company excluding joint partner shares, consisting of $34,694,918 Missouri, $28,199,282 Kansas and $764,244 Wholesale) reduced by the difference between pension expense computed under FAS 87 (per part (a) above) and contributions made to the pension trusts from January 1, 2005 through September 30, 2007.

Q: How was the net prepaid pension asset rolled forward to September 30, 2007?

A: The difference between FAS 87 expense for ratemaking purposes per part (a) and projected contributions for the nine-month period January 1, 2007 to September 30, 2007 was subtracted from the projected December 31, 2006 net prepaid pension asset balance to determine the September 30, 2007 net prepaid pension asset. The projected December 31, 2006 amount was based on the $29,707,323 total company amount at September 30, 2006, excluding joint partner shares, identified in the Nonunanimous Stipulation and

Agreement Regarding Pension Issues in the 2006 Case, less the actual excess of FAS 87 expense for ratemaking purposes per part (a) over contributions for the period October 1, 2006 through December 31, 2006.

Q: How were the January 1, 2007 to September 30, 2007 FAS 87 contribution amounts determined?

A: The contributions were based on the minimum contributions as determined by the Company's actuarial firms.

Q: Is the net prepaid pension asset properly includable in rate base?

A: Yes, inclusion of this asset in rate base is authorized in the Regulatory Plan S&A and the 2006 Case.

Q: What is the purpose of part (e)?

A: This adjustment was made to annualize FAS 88 expense.

Q: What is FAS 88?

A: FAS 88 is a financial accounting standard that addresses, among other issues, accounting for settlement of defined benefit plan obligations and curtailments of defined benefit plans.

Q: How was the FAS 88 adjustment determined?

A: The adjustment was calculated by taking the difference between annualized FAS 88 expense and FAS 88 expense recorded in the test year.

Q: How was annualized FAS 88 expense determined?

A: The annualized FAS 88 expense is based on information provided by the Company's actuarial firms.

Q: Was the entire amount of FAS 88 expense as calculated by the Company's actuarial firms included in the annualized amount?

A: No, only one-fifth of the calculated amount was considered in the annualized amount, with the remainder deferred in a non-rate base regulatory asset, as stipulated in the MPSC-approved Nonunanimous Stipulation and Agreement Regarding Pension Issues in the 2006 Case.

<u>Adj-29, UNAMORTIZED STORM COSTS</u>

Q: What storm do these costs relate to?

A: These costs relate to a January 2002 ice storm.

Q: What is the purpose of Adj-29?

A: This adjustment for ($380,167) rolls forward the deferred costs to September 30, 2007, the true-up date specified in this case.

Q: Did the MPSC authorize the Company to defer these costs?

A: Yes, the MPSC authorized deferral in Case No. EU-2002-1048.

Q: Over what period are these costs being amortized?

A: We are amortizing these costs over approximately five years, in accordance with the order granted in Case No. EU-2002-1048. Adj-29 reduces the deferred costs to $0, as the costs become fully amortized in early 2007.

<u>Adj-31, DEMAND RESPONSE, EFFICIENCY AND AFFORDABILITY PROGRAMS</u>

Q: What are these programs?

A: These programs are described in detail in Appendix C to the Regulatory Plan S&A and are to be implemented during the period 2005-2009. KCPL witness Susan K. Nathan further describes these programs in her direct testimony.

Q: Why are these costs being deferred?

A: In accordance with the Regulatory Plan S&A, the Company established a regulatory asset to accumulate these costs as they are incurred during this five-year period.

Q: What is the purpose of Adj-31?

A: This adjustment has two components, one affecting rate base and the other affecting operating income.

Q: Why is there an adjustment to rate base?

A: In accordance with the Regulatory Plan S&A these program costs are includable in rate base. The adjustments of $2,232,921 (Missouri programs) and $2,424,789 (Kansas programs) roll forward the deferred costs to September 30, 2007, the true-up date specified in this case.

Q: Why is there an adjustment to operating income?

A: The operating income adjustment of $1,078,417 ($606,663 Missouri Programs and $471,754 Kansas Programs) provides a full-year amortization of the estimated September 30, 2007 deferred cost balances.

Q: Was amortization addressed in the Regulatory Plan S&A?

A: Yes, the Regulatory Plan S&A specifically states that these deferred costs are to be amortized in rates over a ten-year period for each vintage.

<u>Adj-32, REGULATORY EXPENSE</u>

Q: What are Regulatory expenses?

A: While the term typically refers to various federal, state and local costs this adjustment addresses incremental rate case expenses in this case and those during the 2006 Case.

Q: What is the purpose of Adj-32?

A: This adjustment has two components, one affecting rate base and the other affecting operating income.

Q: Why is there an adjustment to rate base?

A: Regulatory expense costs are included in rate base, and Adj-32a and Adj-32b, for the 2007 filing and the 2006 filing, respectively, for $346,636 (Missouri) and for $467,417 (Kansas) roll forward the incremental deferred costs to September 30, 2007, the true-up date specified in this case. These incremental increases include deferral of costs relating to the 2007 filing, less amortization of costs relating to the 2006 filing, from January 1, 2007 through September 30, 2007.

Q: Why are these costs being deferred?

A: Rate case expenses are included as a component of revenue requirements and the inclusion in rate base of deferred rate case costs was authorized in the 2006 Case.

Q: Why is there an adjustment to operating income?

A: Adj-32a for $779,510 (2007 filing) and Adj-32b for $993,289 (2006 filing) provide a full-year amortization of the estimated September 30, 2007 deferred cost balances.

Q: What was the amortization period used in the adjustment?

A: The Missouri costs are being amortized over a two-year period, consistent with the Rate and Order in the 2006 Case.

<u>Adj- 33b- PROPERTY TAX EXPENSE</u>

Q: Please explain the property tax adjustment.

A: Adjustment 33b annualizes the real estate and personal property tax expense and payments-in-lieu-of-taxes ("PILOTs") for *pro forma* end-of-period plant in service. The amount of the adjustment relating to real estate and personal property tax expense is $1,925,399 and the portion relating to the PILOTs is $330,000, for a total adjustment of $2,255,399 (before jurisdictional allocations).

Q: Please describe how the adjustment relating to the real estate and personal property taxes was calculated.

A: The adjustment is calculated as the difference between property tax expense recorded in the test year and annualized property tax expense.

Q: How was annualized property tax expense determined?

A: This calculation involves three components: (a) 2007 property tax expense based on 2007 assessed values and 2006 tax levies, (b) the application of 2007 tax levies in place of the 2006 tax levies, and (c) estimated property taxes on January 1- September 30, 2007 estimated taxable plant additions. The three components are progressive, with each component resulting in an incremental adjustment to property tax expense.

Q: Please explain component (a) of the annualization.

A: For component (a), the Company determined 2007 property tax expense based on the 2007 assessed values, using plant in service as of December 31, 2006 and 2006 tax levy rates. For purposes of this filing, the Company estimated the 2007 assessment, but will true up the expense later in the process when the actual assessments are received. The actual 2007 assessments should be finalized well before the September 30, 2007 true-up in this case, and therefore this adjustment will be known and measurable.

Q: Please explain component (b) of the annualization process.

A: In component (b) the Company revised the tax levy rates. The calculation of property taxes for utility property located in Missouri and Kansas is determined by applying the tax levy rates as imposed by the applicable local taxing jurisdictions such as the state, county, school district, etc. to the assessed value of the taxable property of KCPL as of the beginning of the calendar year. The 2007 property taxes will be based on actual 2007 tax levy rates, not the 2006 rates used in component (a) above, and therefore an adjustment is necessary. This approach provides a better matching process, with the assessment and the tax levy rates synchronized, and results in the best methodology for determining the 2007 property tax expense.

Q: How was component (b) determined?

A: The Company first projected the Company's 2007 overall tax levy rate increase based on a three-year average (2004-2006) of the Company's actual experience. This resulted in a projected 2007 overall Company increase in the tax levy rates of 1.67%. This increase was then applied to the annualized property tax expense determined in component (a) discussed above.

Q: When will 2007 tax levy rates be known?

A: The Company expects to receive tax levy rates from taxing jurisdictions representing a significant portion of the Company's tax expense prior to the September 30, 2007 true-up in this case, and as such the adjustment will be known and measurable. The Company will update its adjustment at that time.

Q: Is it likely that the 2007 average tax levy rate will decrease from the 2006 average rate?

A: No, the Company's overall tax levy rate has not decreased in at least the last six years.

Q: Did the Company include a tax rate levy adjustment in its 2006 case?

A: Yes, a similar adjustment was included in its 2006 case, including the September 30, 2006 true-up.

Q: Was the Company's estimate of its 2006 real and personal property tax expense in the September 30, 2006 true-up reasonably close to actual 2006 property tax expense incurred?

A: Yes, the expense shown in the Company's September 30, 2006 update, including the effects of the tax levy increases, was $57,102,406, whereas actual 2006 property tax expense was $57,032,364, a difference of about $70,000 (0.1%). This demonstrates that the Company is able to estimate with a high degree of accuracy its current year property tax expense at the time of a September true-up.

Q: Please explain component (c) of the annualization process.

A: In component (c), we included net taxable plant additions from January 1, 2007 to September 30, 2007. We developed a ratio of property taxes to plant-in-service as of December 31, 2006, after giving effect to the revised tax levy rates included in component (b). This ratio was then applied to 2007 plant additions as of September 30, 2007. This use of an acceptable tax to plant ratio is consistent with the approach used by Staff in the 2006 Case, and the resulting property tax increases coincide with the implementation of new rates in this case.

Q: Do the various components of the real estate and personal property tax adjustment discussed above take into effect tax amounts allocated to capital, vehicles, fuel inventory, and non-utility plant?

A: Yes, the amounts included in Adj-33b include only the operations and maintenance allocation. The fuel inventory component is included in the fuel inventory adjustment sponsored by KCPL witness Edward Blunk and the impact of property tax expense for coal trains is included in the annualized fuel cost adjustment sponsored by Company witness Burton L. Crawford.

Q: Did the Regulatory Plan S&A specifically list property taxes as an item to be included in the September 30, 2007 true-up process in the rate filing schedule for the 2007 rate filing?

A: Yes, this expense category was specifically listed as an item to be included in the September 30, 2007 true-up.

Q: Please explain the PILOT adjustment.

A: The Company placed in service in 2006 a wind generating facility located in Ford County, Kansas. Pursuant to K.S.A. 79-201 *Eleventh,* such property is exempt from real and personal property taxes.

Q: Does Kansas law provide for PILOTs on property that is exempt from property taxes?

A: Yes, pursuant to K.S.A. 12-147, taxing subdivisions of the state of Kansas are authorized and empowered to enter into contracts for PILOTs with the owners of property that is exempt from *ad valorem* taxes.

Q: Please explain the PILOT agreements relating to the wind generating facility located in Ford County, Kansas.

A: Separate agreements have been finalized with Ford County and USD #381 that provide for 30 annual payments commencing in 2007. These payments were necessary to secure agreements with landowners and community leaders to site the wind facility. The aggregate of the payments in the initial year is $330,000 and such payments escalate between 2.5% and 3% per year.

Adj-41 &49, BAD DEBT EXPENSE

Q: What is the purpose of these adjustments?

A: Adj-41 for ($123,459) is an annualization of bad debt expense based on the test year. Adj-49 provides bad debt expense in the following amounts for the associated revenue adjustments:

Adj-49a	Weather normalization	($80,407)
Adj-49b	Customer growth and other	$94,898
Adj-49c	Rate adjustment in the 2006 Case	$423,822

The *pro forma* bad debt expense adjustment of $229,878 shown in Schedule JPW-1 (Sch 1, Col 605, line 1-019) reflects the bad debt expense effect of the requested revenue adjustment in this case

Q: Please explain Adj-41 in more detail.

A: This adjustment represents the difference between annualized bad debt expense and bad debt expense recorded in the test period.

Q: How was annualized bad debt expense determined?

A: Annualized bad debt expense was calculated by applying a bad debt write-off factor to test period revenue.

Q: What bad debt write-off factor was used, and how was the factor determined?

A: We used a bad debt percentage of 0.47%, determined by examining recent net bad-debt write-off experience on a total company basis.

Q: The term "net" write-offs is used. What does it mean?

A: "Net" write-offs refer to the net of accounts written off and recoveries received on accounts previously written off.

Q: Was the bad debt factor used in Adj-41 also used for Adj-49?

A: No, a factor specific to net bad debt write-offs experienced in Missouri (0.64%) was used. Missouri's net bad debt experience is higher than net bad debts experienced in Kansas.

Q: How was the *pro forma* bad debt expense adjustment determined?

A: This adjustment was calculated as the requested rate adjustment times the 0.64% bad debt factor.

Q: Why is such an adjustment necessary?

A: It is reasonable to assume that increased revenue resulting from this rate request will result in increased bad debt expense.

ADJ- 42, WOLF CREEK REFUELING OUTAGE

Q: What is the Wolf Creek refueling outage?

A: The Wolf Creek Nuclear Operating Corporation's ("WCNOC's") refueling cycle is normally about 18 months. The Company defers the operations and maintenance outage costs and amortizes the costs over the 18 months leading up to the next refueling.

Q: Has the Company always accounted for these costs in this manner?

A: No. Prior to 2006, the Company expensed these costs in advance of the refueling.

Q: Why did the Company begin deferring refueling costs in 2006?

A: On September 8, 2006 the Financial Accounting Standards Board issued a new FASB Staff Position, FSP AUG AIR-1 ("FSP"), Accounting for Planned Major Maintenance Activities. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities, such as the WCNOC refueling. KCPL adopted this FSP in the fourth quarter of 2006.

Q: What is the purpose of Adj-42?

A: This adjustment for $757,217 annualizes the Wolf Creek refueling expense by adjusting the test year amortization to an annualized amount.

Q: Why is a refueling adjustment necessary in this case?

A: The test period includes expenses related to the Spring 2005 refueling outage and the Fall 2006 refueling outage. Annualized expense should reflect only the level of amortization expense relating to the fall of 2006 refueling outage, since that will be the level of expense recognized in 2007. The annualization adjustment results in a full year's amortization expense for this refueling.

Q: Did the adoption of the FSP result in an annualized expense higher than would have been the expense under the accrue-in-advance method previously used by the Company?

A: No, the annualized expense in this case is lower than it would have been under the accrue-in-advance method because it is based on the fall of 2006 refueling. The expense under the accrue-in-advance method would have most likely been higher since it would have been based on the upcoming spring of 2008 refueling, and operations and maintenance costs will likely be higher for that refueling. For example, the operations and maintenance costs of the fall of 2006 refueling outage were about $1.4 million higher than the costs of the spring of 2005 refueling outage.

<u>Adj-44, NUCLEAR DECOMMISSIONING EXPENSE</u>

Q: What is the annualized nuclear decommissioning expense the Company seeks in this case?

A: The Company seeks an annualized amount of $1,281,264 (Missouri jurisdictional), which results in a Missouri jurisdictional adjustment to test year expense of ($1,022,592). The total Company adjustment is $1,936.

Q: Is the requested annualized amount the same as that requested in the 2006 Case?

A: Yes, the amount is identical to that requested and approved in the Report and Order to that case.

Q: Why is the amount the same?

A: The annual expense/accrual level is based on a cost study conducted every three years. The most recent study, conducted by TLG Services, Inc., was filed with the Commission on August 30, 2005. The next study will be conducted in mid-2008. Therefore, the annual expense/accrual level will remain unchanged until that study has been completed.

Q: If the most recent study was conducted in August 2005 why is the Missouri jurisdictional 2006 expense not this same $1,281,264, and therefore why is any adjustment necessary?

A: The expense recorded for 2006 was based on a previous cost study assuming a 40-year license. The results of the August 2005 study, incorporated in the expense level approved in the 2006 Case and assuming a 60-year license, will not be reflected in recorded expense until the rates approved in that case become effective (January 2007). Therefore, an adjustment to the projected 2006 test period is necessary.

Adj-45, BENEFIT EXPENSE

Q: What is the purpose of Adj-45?

A: This adjustment for $5,536,101 is necessary to state benefit expense at a current level.

Q: What types of benefits are included in this category?

A: The more significant benefits include Other Post-Employment Benefits ("OPEB"), 401(k) company match and medical costs. These three categories in total comprise over 80% of Benefit Expense.

Q: How were the adjustments calculated?

A: The adjustments were calculated as the difference between annualized benefit expense and benefit expense recorded during the test period.

Q: How was the OPEB annualized amount determined?

A: We annualized OPEB expense based on information provided by the Company's actuarial firms.

Q: How was the 401(k) annualized amount determined?

A: We annualized 401(k) expense by calculating the 401(k) expense associated with annualized payroll (Adj-20), based on the November 30, 2006 payroll's average matching percentage.

Q: How was annualized medical expense determined?

A: The annualized medical expense was set at the level expected to be in effect during the updated test period.

Q: Were benefit amounts billed to partners and charged to capital considered in these annualization adjustments?

A: Yes, these factors were taken into consideration.

Adj-50, PREPAYMENTS

Q: What accounts are included in prepayments?

A: While several types of accounts are included under this category, the more significant relate to prepaid insurance and capacity payments.

Q: What is the purpose of Adj-50?

A: This adjustment for $3,659,592 is necessary to reflect this rate base item on a 13-month average. Prepayment amounts can vary widely during the course of the year and an averaging method minimizes these fluctuations.

Q: How was the adjustment determined?

A: The 13-month average was calculated and compared to the actual prepayment balance at September 30, 2006.

Q: What period was used for the 13-month averaging?

A: September 2005 through September 2006.

Q: Did the MPSC Staff use 13-month averaging for Prepayments in the 2006 Case?

A: Yes, they did.

<u>Adj-51, NUCLEAR FUEL INVENTORY</u>

Q: Why is an adjustment necessary to Nuclear Fuel Inventory?

A: This adjustment for ($2,521,086) is necessary to reflect this rate base item on an 18-month average. Nuclear fuel inventory balances can vary widely and an averaging method minimizes these fluctuations. The portion of Adj-51 related to fossil fuels is discussed by KCPL witness Wm. Edward Blunk.

Q: How was the adjustment determined?

A: The 18-month average was calculated and compared to the projected December 31, 2006 balance.

Q: What period was used for the 18-month averaging?

A: April 2006 through September 2007, with December 2006 through September 2007 being projected.

Q: Why was an 18-month average used?

A: We used an 18-month average to coincide with the 18-month Wolf Creek refueling cycle.

<u>Adj-60, LEADERSHIP DEVELOPMENT INITIATIVE (LED-LDI) COSTS</u>

Q: What is LED-LDI?

A: Leadership Development Initiative was a corporate-wide workforce evaluation and skills assessment, done as part of an effort to reshape and align the Company to implement its Comprehensive Energy Plan ("CEP").

Q: How has the Company accounted for these costs?

A: In accordance with MPSC-approved Stipulation and Agreement in the 2006 Case, the Company has deferred all 2005 and 2006 Missouri jurisdictional non-labor costs associated with this project in a regulatory asset, and will begin amortization of these costs over a five-year period beginning January 2007.

Q: Why is an adjustment necessary in this case?

A: The operating income adjustment of $223,717 provides a full-year amortization of the deferred cost balances.

Q: Has the Company included the deferred costs in rate base?

A: No. The Report and Order in the 2006 Case disallowed rate base treatment.

<u>Adj-61, CORPORATE DEVELOPMENT/PLANNING (CORPDP-KCPL) COSTS</u>

Q: What is CORPDP-KCPL?

A: Corporate Development/Planning was a process to create the delivery system of the future, by partnering with customers to dynamically manage load shape, demand response and efficiency programs, system automation and monitoring. This process was also conducted as part of an effort to reshape and align the Company to implement its CEP.

Q: How has the Company accounted for these costs?

A: In accordance with MPSC-approved Stipulation and Agreement in the 2006 Case, the Company has deferred all 2005 and 2006 Missouri jurisdictional non-labor costs associated with this project in a regulatory asset, and will begin amortization of these costs over a five-year period beginning January 2007.

Q: Why is an adjustment necessary in this case?

A: The operating income adjustment of $176,116 provides a full-year amortization of the deferred cost balances.

Q: Has the Company included the deferred costs in rate base?

A: No. The Report and Order in the 2006 Case disallowed rate base treatment.

<u>Adj-62, SURFACE TRANSPORTATION BOARD LITIGATION COSTS</u>

Q: What is the purpose of Adj-62- "Surface Transportation Board Litigation Costs"?

A: As more fully discussed in the direct testimony of KCPL witness Wm. Edward Blunk, the Company filed a rate complaint case on October 12, 2005, with the Surface Transportation Board ("STB"). In that rate complaint, KCPL charged that Union Pacific Railroad's (UP) rates for the movement of coal from origins in the Powder River Basin of Wyoming to KCPL's Montrose Generating Station were unreasonably high. Adj-62 has two components related to this rate complaint case, one affecting rate base and the other affecting operating income. The rate base adjustment of **[redacted]** rolls forward the Missouri jurisdictional non-labor deferred costs incurred in this complaint, net of amortization of the deferred costs during this period, from December 31, 2006, to September 30, 2007, the true-up date specified in this case. The operating income adjustment of **[redacted]** amortizes the total company projected September 30, 2007, deferred costs over five years, with amortization of the December 31, 2006 balance beginning January 1, 2007 and amortization of the 2007 costs incurred through September 2007 beginning January 1, 2008. Deferral of these costs in a regulatory asset and amortization of the deferred costs over five years was authorized in the Report and Order in Case No. ER-2006-0314. Inclusion in rate base was not specifically addressed

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in the Report and Order, but because deferral in a regulatory asset was authorized KCPL believes it appropriate to include these deferred costs in rate base in this proceeding. KCPL expects to update Adj-62 during the course of this proceeding as the actual costs of the rate complaint case and its associated litigation are incurred.

<u>**Adj-72, MATERIALS AND SUPPLIES**</u>

Q: Why is an adjustment necessary to Materials and Supplies ("M&S")?

A: This adjustment for ($1,886,223) is necessary to reflect this rate base item on a 13-month average. Although M&S balances do not vary widely during the course of the year, an averaging method minimizes these fluctuations.

Q: How was the adjustment determined?

A: The 13-month average was calculated and compared to the projected December 31, 2006 balance.

Q: What period was used for the 13-month averaging?

A: December 2005 through December 2006, with December 2006 being projected.

Q: Did the MPSC Staff use 13-month averaging for M&S in the 2006 Case?

A: Yes, they did.

<u>**Adj-97 & 98, DEPRECIATION AND AMORTIZATION EXPENSE**</u>

Q: Please explain the process used to annualize depreciation expense.

A: As discussed in the section above on the Revenue Requirements Model, Schedule 5 of the Model is used to calculate depreciation and amortization expense. The annualized depreciation expense amounts, and most amortization expense amounts, were calculated by applying jurisdictional depreciation/amortization rates to adjusted plant in service balances shown on SCHEDULE 11 of the Model. The jurisdictional rates were approved in the rate order approving the Regulatory Plan S&A and are shown on Schedule DEPR % of the Model.

Q: Why are two adjustments, Adj-97 and Adj-98 necessary for both depreciation and amortization expense?

A: Adj-97 is used to reverse Adj-12 (discussed above), the adjustment necessary to adjust book depreciation and amortization expense to Missouri basis depreciation/amortization using Missouri jurisdictional depreciation rates. Adj-25, sponsored by KCPL witness Michael W. Cline to reflect the additional amortization to maintain credit ratios determined in the 2006 Case and a similar adjustment in Kansas Docket No. 06-KCPE-828-RTS ($21,679,061 and $4,000,000, respectively) is not reversed. Adj-98 (($8,986,987)and $146,683 for depreciation expense and amortization expense, respectively) is then used to reflect annualized Missouri jurisdictional depreciation and amortization expense, excluding additional amortizations to maintain credit ratios.

INCOME TAX EXPENSE AND ACCUMULATED DEFERRED INCOME TAXES

Q: What is the purpose of this part of your testimony?

A: The purpose of this portion of my testimony is to address (i) the income tax component of KCPL's cost of service; and (ii) the accumulated deferred income tax rate base adjustments.

Q: Are you sponsoring adjustments related to current and deferred income tax expense and deferred income tax reserves?

A: Yes. In addition to Adj-14 and Adj-19, which adjust financial deferred tax reserves and income tax expense, respectively, to Missouri basis amounts, I am sponsoring the Federal and State Income Taxes expense adjustment (($6,393,532)), reflecting the income tax effect of the various adjustments shown on the Summary of Adjustments, and the Accumulated Deferred Income Tax rate base adjustment (($111,226)), shown as Adj-33a on the Summary of Adjustments.

Federal and State Income Tax Expense

Q: Please explain the income tax component of KCPL's cost of service as calculated in Schedule 7 of the Revenue Requirement Model.

A: The income tax component includes current income taxes, deferred income taxes and the amortization of investment tax credits. Current income taxes represent the income taxes currently payable to the federal and state governments. Deferred taxes are taxes that are reported currently on KCPL's books but are payable to the federal and state governments at some future date. Deferred taxes are established for timing differences between when an item of income or expense is recorded for book purposes and when that same item is reported on KCPL's tax returns. The amortization of investment tax credits represents the amount of tax credits flowing through to customers over the remaining lives of the related property. Schedule 7 follows these basic concepts but calculates both the currently payable and deferred income tax components of tax expense using a simplified method that results in a shift of some level of income tax expense from the deferred income tax classification to the current income tax classification.

Q: Please explain the current income tax component in cost of service as calculated in Schedule 7.

A: Jurisdictional operations and maintenance deductions and other adjustments are applied against jurisdictional revenues to derive net jurisdictional taxable income, which is then used to compute the jurisdictional current tax expense component (current provision) for cost of service. For book purposes, these adjustments are the result of book versus tax differences and their implementation under normalization or flow-through tax methods. Each adjustment is either added to or subtracted from net income to derive net taxable income for ratemaking. For Schedule 7, however, a simplified methodology is used which eliminates the need to specifically identify all book and tax differences. Most significantly, all basis differences between the book basis and tax basis of assets are ignored in the current tax provision. The reversal of deferred income taxes resulting from prior basis differences is considered in the deferred tax section of Schedule 7, discussed below.

Accelerated tax depreciation is used in the currently payable calculation based on the tax basis of plant in service. The difference between the accelerated depreciation deduction for tax depreciation on tax basis assets and the depreciation deduction calculated on a straight-line basis generates offsetting deferred income tax expense. The resulting income tax expense reflects a level of total income taxes as if the deduction to arrive at taxable income was based solely on depreciation on tax basis assets, calculated on a straight-line basis. This modified approach normalizes depreciation relating to the method differences (*e.g.*, accelerated versus straight-line) and life differences. The MPSC Staff used this modified approach in the 2006 Case. An earlier version of this simplified approach has been used routinely in the KCPL Surveillance Report submitted annually to the MPSC Staff and modifications incorporated by the MPSC Staff in its 2006 case will be incorporated into future Surveillance Reports.

Q: Please describe the adjustments to derive net taxable income for ratemaking.

A: The following are the primary adjustments to derive net taxable income for ratemaking:

- Book depreciation and amortization expense, as calculated on Schedule 5 of KCPL's Revenue Requirement Model, has been excluded from the deductions listed on Schedule 7.
- As previously discussed, tax straight-line depreciation on both depreciable plant and on amortizable plant is subtracted to derive taxable income. Tax straight-line depreciation is computed by applying existing jurisdictional book straight-line depreciation rates to each vintage year's depreciable tax basis. The amount of accelerated depreciation over (or under) straight-line depreciation is also subtracted (or added) to arrive at taxable income. Beginning with the Staff's 2006 case, use of accelerated depreciation to compute the currently payable income tax expense amount, with offsetting deferred taxes provided for the difference between accelerated depreciation and tax straight-line depreciation, was initiated because of the need to consider the cash impact of deferred income taxes on funds from operation in the calculation of required additional amortizations. (See discussion on deferred income tax expense below.)
- The deduction for nuclear fuel amortization is treated consistently with the treatment of depreciation and amortization on plant in service.
- As required in the last case, additional amortizations to maintain credit ratios are included as another component of tax basis straight-line depreciation in an amount equal to the amounts included in current rates. This serves to decrease taxable income and to decrease currently payable income tax expense. However, because there is no associated tax amortization, the entire amount generates an offsetting negative deferred income tax expense.

- The Manufacturer's Deduction amount is deducted from net income in deriving taxable income. This special deduction is allowable under the American Jobs Creation Act and is effective for years beginning after 2004. The deduction is based upon taxable income derived from the production of electricity. For 2007, the deduction is 6% of electricity production taxable income. The percentage increases to 9% by 2010. The amount of the deduction is based upon budgeted 2007 production net income before taxes. The amount of the manufacturer's deduction is intended to be what will be deducted on KCPL's actual federal return. The deduction has not been adjusted to conform to Missouri jurisdictional taxable income as shown on Schedule 7. This deduction is not an expense for book purposes, so no deferred taxes are created. It results in a lower taxable income with ultimately a lower current tax provision for cost of service.
- Meals and Entertainment expenses are added back in deriving net taxable income, since a portion of certain meals and entertainment expenses are not tax deductible. This adjustment will increase taxable income and ultimately increase the current tax provision.
- Interest expense is subtracted to derive net taxable income. It is calculated by multiplying net rate base by the weighted average cost of debt as proposed in this proceeding. This is referred to as interest synchronization because this calculation ensures that the interest expense deducted for deriving current taxable income equals the interest expense provided for in rates.

A: Once the deductions and adjustments have been applied to net income to derive taxable income for ratemaking, the taxable income amount is multiplied by the overall tax rate of 38.39% to derive the current tax provision.

Q: How is the 38.39% income tax rate determined for calculating the current tax provision for cost of service?

A: The current provision calculation utilizes a 35% federal tax rate and a 6.25% Missouri state rate resulting in an overall tax rate of 38.39%. The overall tax rate reflects the federal benefit relating to deductible Missouri state income tax and Missouri allowing 50% of federal taxes to be deducted when computing the current Missouri tax provision.

Q: Is the current tax expense determined by multiplying current taxable income by the income tax rate further reduced by tax credits?

A: Yes, the wind production tax credit reduces current income tax due.

Q: Please explain the production tax credit for wind generation adjustment on Schedule 7?

A: IRC Section 45 allows for a federal tax credit based upon the amount of electricity produced by a qualifying wind generating facility. The credit is allowed for 10 years after the facility is placed in service. The adjustment shown on Schedule 7 as a direct reduction of federal currently payable income tax expense reflects the *pro forma* production tax credits for KPCL's wind generation facility placed in operation in 2006. This adjustment uses the presently allowable $19 per megawatt hour of generation multiplied by the annualized amount of megawatt hours of wind generation to determine the amount of credit.

Q: Please explain the deferred income tax component in cost of service as calculated in Schedule 7.

A: The deferred income tax component in cost of service is primarily made up of the deferred taxes applicable to the difference between accelerated tax depreciation and tax basis straight-line depreciation, including additional amortizations to maintain credit ratios, as discussed above. It also includes reversal of deferred income taxes on basis timing differences over the related assets' jurisdictional book lives. These basis difference adjustments serve to normalize the tax effect of items that generally are deducted for tax purposes and capitalized for book purposes. The other main deferred tax component is the average rate assumption method of deferred tax amortization. This adjustment represents the amortization of excess deferred income taxes over the remaining book lives. It reduces the income tax component of cost of service. During the 1980s, the federal tax rate was higher than today's 35% rate. Since deferred taxes were provided at the rate in effect when the originating timing differences were generated, the deferred income taxes were provided at a rate higher than the tax rate that is expected to be in existence when the timing differences reverse and the taxes are due to the federal government. This difference in rates is being amortized into the cost of service over the remaining book lives of the assets that generated the timing differences.

Q: Please explain the Investment Tax Credit ("ITC") amortization component in cost of service as calculated in Schedule 7.

A: ITC amortization reduces the income tax component of cost of service. The investment tax credit amortization is separated into two parts – Wolf Creek and non-Wolf Creek.

Q: Why is the ITC amortization separated between Wolf Creek and non-Wolf Creek?

A: In accordance with the Regulatory Plan S&A, KCPL and the MPSC Staff agreed to extend the lifespan of the Wolf Creek plant from 40 years to 60 years effective August 7, 2005. As a result, the remaining unamortized amount of Wolf Creek's ITC is being amortized over the longer life. The lengthening of the book life from 40 to 60 years decreases the annual ITC amortization specific to Wolf Creek. The non-Wolf Creek ITC continues to be amortized ratably over the remaining book lives of the underlying assets. Another reason that the ITC is separated between Wolf Creek and non-Wolf Creek is to allow for a specific allocation factor for each ITC component in deriving Missouri jurisdictional income tax cost of service.

<u>Accumulated Deferred Income Taxes</u>

Q: Please explain deferred income taxes and why they are a component of rate base.

A: Deferred income taxes represent the tax on timing differences for deductions and income reported on KCPL's tax return compared to what has been reported for book purposes. An expense deducted for tax purposes that exceeds what has been deducted for book purposes creates a deferred tax liability. A deferred tax liability is also recorded when income is recorded for book purposes sooner than when the income is reported for tax purposes.

Q: What is an example of a "book" versus "tax" expense timing difference that creates a deferred income tax liability?

A: The most significant timing difference is depreciation expense. Tax laws provide for a much quicker method of tax depreciation compared to book depreciation. This accelerated depreciation reduces KCPL's current income tax liability compared to the tax liability computed based upon book depreciation. As a result, KCPL has deferred its tax liability until a future point in time when tax depreciation is less than book depreciation. At that time, the deferred tax liability will no longer be deferred but be paid as part of the tax return.

Q: What is an example of a "book" versus "tax" income timing difference that creates a deferred income tax liability?

A: An example of a timing difference relating to an income item is unrealized gains associated with investments. The gain is recognized for book purposes but is deferred for tax purposes until the investment is sold and the gain is actually recognized. Unrealized gains result in a lower amount of income reported on KCPL's tax return compared to the amount of income reported on KCPL's books. This timing difference results in a deferred tax liability. Later when the investment is sold, the gain will be included in KCPL's tax return, and the associated tax will be paid to the government. At that time, the deferred tax liability will be reduced to $0.

Q: How do deferred income tax liabilities affect rate base?

A: Deferred tax liabilities related to items in the rate base are considered a cost-free source of financing for ratemaking purposes. Ratepayers should not be required to provide for a return on the portion of rate base that has been funded by the government in the form of reduced (albeit temporarily) taxes. As a result, deferred income tax liabilities are reflected as a rate base offset (reduction in rate base).

Q: Please explain other types of deferred income taxes.

A: Deferred taxes can also be a result of timing differences whereby book expenses exceed tax expenses, creating a deferred income tax receivable (asset). Income reported for tax purposes before being recorded for book purposes also results in a deferred tax asset.

Q: What is an example of a "book" versus "tax" expense timing difference that creates a deferred income tax asset?

A: A significant deferred tax asset is the one arising from increasing book amortization expense for additional amounts to maintain credit ratios. Because there is no associated depreciation deduction on the tax return, book expense is higher than tax expense. This results in taxable income that is higher than book income for this item and the difference results in a deferred tax asset. A more common expense that is deducted for book purposes before being deducted for tax purposes is the bad debt reserve. KCPL deducts additions to the reserve for book purposes. However, a deduction is only allowed for tax purposes when the receivables are written off. This timing difference also creates a deferred income tax asset.

Q: What is an example of a "book" versus "tax" income timing difference that creates a deferred income tax asset?

A: The most significant income item that creates a deferred tax asset specific to KCPL is the sale of SO_2 emission allowances. For tax purposes, any gains on the sales of emission allowances are taxable when the allowances are sold. However, as agreed in previous rate orders, KCPL does not record the income associated with the sale in its current period income, but defers gains in a regulated liability account. This timing difference of when income is recognized for tax and when it will be recognized for books creates a deferred tax asset, as future tax liabilities will be lower for tax purposes compared to book purposes when the deferred gains are amortized to book income in accordance with future regulatory orders.

Q: How do deferred income tax assets affect rate base?

A: Converse to deferred tax liabilities, deferred tax assets increase rate base. KCPL has paid taxes to the government in advance of the time when such taxes are included in cost of service and are collected from ratepayers. To the extent of taxes paid, KCPL must borrow money and/or use shareholder funds. The increase to rate base for deferred income tax assets allows shareholders to earn a return on shareholder provided funds until recovered from ratepayers through ratemaking.

Q: What are the deferred income tax reserve adjustments for KCPL's rate base?

A: Schedule 8 of KCPL's revenue requirement model itemizes the deferred income tax reserves and deferred income tax reserve adjustments related to items included in KCPL's rate base. Schedule 8 reflects the deferred tax liabilities relating to depreciation and other expenses deducted for the tax return in excess of book deductions resulting in a rate base decrease. Schedule 8 also reflects deferred tax assets that serve to increase rate base. Adjustments to the deferred income tax reserves shown on Schedule 8 include the changes in deferred income tax reserves related to the addition of net plant and changes to certain deferred regulatory assets and regulatory liabilities during the 2007 period ending September 2007.

Q: Does this conclude your 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 & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2007-____

AFFIDAVIT OF JOHN P. WEISENSEE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

John P. Weisensee, being first duly sworn on his oath, states:

1. My name is John P. Weisensee. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Regulatory Accounting Manager.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of sixty-three (63) pages and Schedules JPW-1 through JPW-3, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

John P. Weisensee
John P. Weisensee

Subscribed and sworn before me this 31 day of January 2007.

Carol Sivils
Notary Public

My commission expires: ______

CAROL SIVILS
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires: June 15, 2007

CAROL SIVILS NOTARY SEAL NOTARY PUBLIC STATE OF