Exhibit No.:	
Issues:	*True-up; Regulatory Plan Amortizations, Margin on Off-System Sales*
Witness:	*Steve M. Traxler*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*True-up Direct Testimony*
Case No.:	*ER-2007-0291*
Date Testimony Prepared:	*November 2, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

STEVE M. TRAXLER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri
November 2007

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

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OF

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Q. Please state your name and business address.

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

Q. Are you the same Steve M. Traxler who has previously filed direct, rebuttal and surrebuttal testimony in this proceeding for the Staff?

A. Yes, I am.

Q. What is the purpose of your true-up direct testimony?

A. The purpose of this testimony is to report the results of the Staff's true-up audit of Kansas City Power & Light Company (KCPL) in this proceeding and the calculation of the Regulatory Plan Additional Amortization based upon the results of the Staff's true-up.

EXECUTIVE SUMMARY

Q. Please briefly summarize your true-up direct testimony.

A. The Regulatory Plan approved in Case No. EO-2005-0329 established a true-up date of September 30, 2007 for KCPL's optional, second rate case relating to the Regulatory Plan:

> (i) Schedule. Rate schedules with an effective date of January 1, 2008 may be filed with the Commission on February 1, 2007. The test year will be based upon a historic test year ending December 31, 2006, (initially filed with nine (9) months actual and three (3) months budget

> data), with updates for known and measurable changes, as of June 30, 2007 and with a true-up through September 30, 2007. (Page 34)

Earlier in this case, the known and measurable period was changed to updates as of March 31, 2007, rather than updates as of June 30, 2007 provided for in the Regulatory Plan.

The Staff has completed a true-up audit of KCPL's Missouri retail electric operations through September 30, 2007. In this true-up direct testimony I discuss the results of the Staff's true-up audit, revised level of Net-Margin on Off-System Sales and the calculation of the Regulatory Plan Additional Amortization based upon these results.

RESULTS OF THE TRUE-UP AUDIT

Q. Please describe the true-up audit of KCPL's Missouri retail electric operations performed by the Staff in this proceeding.

A. Per the Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0329 establishing a true-up in this proceeding, the Staff has updated its case to reflect known and measurable events affecting significant elements of KCPL's electric cost of service through September 30, 2007. The revenue requirement areas updated by the Staff are the following:

> Rate Base: Plant in Service including the new LaCygne 1 Selective Catalytic Reduction (SCR) equipment, which was completed as of May 28, 2007 even though the update period continued through September 30, 2007, and Depreciation Reserve, Rate Base Offset for the Regulatory Plan Additional Amortization, Deferred Taxes, Fuel Inventories, Cash Working Capital, Materials and Supplies, Prepayments, Regulatory Assets and Liabilities, Customer Contributions in Aid of Construction, Customer Deposits and Cash Working Capital through September 30, 2007.

Income Statement: Revenues from Customer Growth, Net Margin on Non-Firm Off-System Sales, Bad Debts, Payroll (Employee Levels and Wage Rates), Employee Benefits, Pension Cost, Payroll Taxes, Fuel and Purchased Power Expense (Fuel and Purchased Power Prices, System Loads), Demand Costs related to Capacity Contracts, Rate Case Expense, Depreciation Expense, Production and General Maintenance Expense, Amortization of Demand Side Management Project Costs, Regulatory Plan Additional Amortization and Transmission Expense resulting from KCPL's participation in the Southwest Power Pool, Inc. (SPP) in its function as a Regional Transmission Organization (RTO) through September 30, 2007.

Rate of Return: Rate of Return Calculation (excluding update of Staff's Return on Equity recommendation), Capital Structure and Weighted Cost of Debt through September 30, 2007.

Q. How did the Staff conduct its true-up audit?

A. The Staff updated its analysis in the areas listed above using the same methods and approaches it used in its cost of service calculation reflected in the Reconcilement filed with the Commission in this case. Any method and/or assumption changes from the Staff's direct filing are addressed in the Staff's rebuttal and/or surrebuttal testimony. To the extent a method was changed from the Staff's direct case in the Staff's rebuttal and/or surrebuttal case(s), then those methods were consistently used in the true-up process. Also the items updated by the Staff maintain a proper matching of cost of capital (excluding an update of the return on equity determination), revenues, expenses and rate base.

Q. What capital structure is the Staff using as of September 30, 2007?

A. The Staff is using Great Plains Energy, Inc.'s (GPE) actual capital structure as of September 30, 2007, which consists of 57.62% common equity, 1.45% preferred stock and 40.93% long-term debt.

Q. What is the Staff's true-up rate of return recommendation in this case?

A. After updating the long-term debt rate and capital structure percentages, the Staff's rate of return recommendation at true-up is 8.09%, reflecting a mid-range return on equity recommendation of 9.72% that has not been updated.

Q. What is the overall result of the Staff's true-up audit?

A. The Staff's recommended true-up revenue requirement for KCPL Missouri retail electric operations, prior to recognition of an increase in the Regulatory Plan Additional Amortization, is a revenue requirement increase of $8.4 million. The Staff's true-up results generate an increase in the Regulatory Plan Additional Amortization of $30.9 million for a total KCPL Missouri retail electric operations revenue requirement increase of $39.3 million.

Q. What was the intended purpose of the September 30, 2007 true-up date?

A. A "known and measurable" date is established in any major rate case for the purpose of reflecting changes in cost of service as close to the Staff's direct filing date as possible. The known and measurable date agreed to for this case was March 31, 2007, rather than the June 30, 2007 date in the Regulatory Plan. The Staff filed its direct case on July 24, 2007. A "true-up date" is only recommended in special circumstances when a company has a significant cost of service increase which will not occur in time for the Staff's direct filing, but will occur on a date or dates prior to the operation-of-law date which provides the Staff sufficient time to update its cost of service calculation to reflect the significant cost of service change, as well as all other material changes, which represent a matching of rate base, cost of capital (exclusive of redetermination of the return on equity recommendation), revenues and expenses, as of the true-up date. The true-up date for this case was tied primarily to what was projected to be the in-service date for KCPL's new SCR equipment at its LaCygne 1 generating unit and additions to transmission and distribution infrastructure. This case also anticipated the issuance of a significant level of long-term debt by September 30, 2007. The intent of the September 30, 2007 true-up date was to allow KCPL, and other parties, the opportunity to determine KCPL's cost of service as close to the operation-of-law date as possible. A true-up date is a considerable benefit to the utility because of the opportunity for the new rates established to be based upon the most current "matching" possible of the utility's cost of service components – rate base, cost of capital (exclusive of redetermination of the return on equity recommendation), revenues and expenses.

Q. Have "known and measurable" and "true-up" dates been used historically in Commission cases to match all cost of service components at the same point in time?

A. Yes. A known and measurable date and a even later true-up date have been consistently used to establish a final cutoff date for measuring all of the components of cost of service – rate base, cost of capital (exclusive of redetermination of the return on equity recommendation), revenues and expenses at the same point in time. If all the cost of service components are not measured at the same point in time, a distortion is reflected in the final revenue requirement result.

Q. Are there any issues between the Staff and KCPL related specifically to the September 30, 2007 true-up audit?

A. No. The Staff and KCPL have calculated their respective true-up cost of service results based upon matching the capital structure, rate base and income statement revenues and expenses based upon known and measurable data as of September 30, 2007, as indicated above.

REGULATORY PLAN AMORTIZATION

Q. On pages 7 and 8 of your rebuttal testimony you discuss a change in the way Standard & Poor's computes the credit metrics supporting its credit ratings.

A. Yes. Standard & Poor's is now imputing an amortization expense related to the off-balance sheet (OBS) debt equivalent for operating leases. The recognition of an amortization from operating leases by Standard & Poor's in effect increases the level of cash flow from KCPL's internal sources. Increasing the level of internally generated funds reduces the need for an Additional Regulatory Plan Amortization to meet the credit metrics required to maintain KCPL's BBB credit rating, which is a facet of KCPL's Regulatory Plan.

Q. Does the Staff's true-up calculation of the Regulatory Plan Additional Amortization incorporate the change in the Standard & Poor's credit metrics described in your last answer?

A. Yes.

Q. What is the result of the true-up calculation for the Regulatory Plan Additional Amortization reflecting the Standard & Poor's change?

A. The increase in the Regulatory Plan Additional Amortization is $30.9 million based upon the results of the Staff's true-up audit and the Staff's mid-range return on equity recommendation of 9.72%.

Q. Is the $30.9 million increase in the Regulatory Plan Additional Amortization higher than anticipated?

A. Yes, definitely. KCPL had planned to issue ** ____ ** million in hybrid debt by September 30, 2007 and this was reflected in KCPL's projected capital structure for this rate case. KCPL did not make the hybrid debt issuance by September 30, 2007. This had a significant impact on the Regulatory Plan credit metric which requires Funds From Operations (FFO) to be 25% of total debt. KCPL supplied an updated calculation of the Regulatory Plan Additional Amortization with the workpapers supporting its cost of service calculation based upon the September 30, 2007 true-up date. This file failed to consider the $259 million in existing short term debt as of September 30, 2007. This oversight was identified by KCPL a few days ago. Recognizing the $259 million in short term debt in lieu of the hybrid issuance originally planned resulted in a significant increase in the Regulatory Plan Additional Amortization.

Q. Why did the nonoccurrence of the hybrid debt issuance have a significant impact on the credit metric for FFO at 25% of total debt?

A. The term "hybrid" refers to the treatment given by Standard & Poor's in determining KCPL's compliance with the credit metrics required to maintain a BBB credit rating. Standard & Poor's will consider 50% of the hybrid issuance as equity meaning that only ** ____ ** million would have been included as additional debt in the FFO as 25% of total debt credit metric. The funds from the issuance of the hybrid debt were to be used in part to replace approximately $259 million in existing short-term debt as of September 30, 2007. The $259 million in short-term debt on the balance sheet as of September 30, 2007 is treated as 100% debt in the credit metric assumptions instead of the

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50% assumption that would apply to the hybrid debt issuance. This continuation of $259 million in short-term debt results in a significant increase in the FFO required to meet the 25% coverage requirement on total debt.

Q. Does Staff have any concerns regarding KCPL's financings as a result of the Regulatory Plan and the planned hybrid debt issuance?

A. Yes. KCPL's decision as to whether it should engage in additional financing and what form of additional financing should be pursued should not be based upon the impact on the existence and operation of the Regulatory Plan Additional Amortization. Rather it should be based upon the need to finance and the lowest cost financing available. A hybrid debt issuance with a higher cost than alternative financing would likely be imprudent in the Staff's view. If KCPL ultimately decides to complete the hybrid debt issuance, the Staff will address the prudency of that decision in KCPL's next rate case.

Q. Did Staff issue additional discovery regarding the status of the hybrid debt issuance?

A. Yes. In response to Staff Data Request No. 310, GPE indicated ** ______ ____ ___________________. **

Q. Is Staff recommending consideration of the hybrid debt issuance in this case?

A. No. The hybrid debt issuance, if it occurs, will be beyond the September 30, 2007 true-up date. Consideration of a capital structure change which occurs after the September 30, 2007 true-up date violates the matching principle previously discussed.

MARGIN ON NON-FIRM OFF-SYSTEM SALES

Q. Was the Net Margin on Non-Firm Off-System Sales updated as part of the Staff's true-up audit?

A. Yes. The Staff's proposed level of Net Margin on Non-Firm Off-System Sales in its direct filing was based upon the Staff acknowledging the position accepted and being consistent with the Commission's decision in the Commission's Report And Order in last year's KCPL rate increase case, Case No. ER 2006-0314. In its Report And Order in Case No. ER 2006-0314, the Commission adopted the Net Margin level at the 25th percentile recommended by KCPL witness Michael M. Schnitzer. In this case, ER 2007-0291, the Staff has adopted the Net Margin on Non-Firm Off-System Sales at the 25th percentile level included in the analysis that Mr. Schnitzer performed for this case. In his surrebuttal testimony, Mr. Schnitzer revised his determination of the Net Margin at the 25th percentile from ** ___ ** million to ** ___ ** million. The Staff has reflected the Net Margin on Non-Firm Off-System Sales at ** ___ ** million in its true-up cost of service calculation.

Q. During cross examination in the hearing on the issue of Off System Sales you stated that the Staff had a concern regarding the actual margin on Non-Firm Off-System Sales reported by KCPL for 2007. What was the Staff's concern related to?

A. The actual margin on Non-Firm Off-System Sales through August of 2007 was provided in response to Staff Data Request No. 206. The Net Margin provided by KCPL for 2007 was significantly less than the Net Margin for the same period in 2006 even though the total gross sales were about the same. The comparison between August year-to-date results for 2007 to 2006 reflected a significant increase in KCPL's cost of providing Non-Firm Off-System Sales in 2007. The Staff's concern related to whether

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there was a valid answer as to why KCPL's cost of providing Non-Firm Off-System Sales increased so significantly in 2007.

Q. Was this concern addressed by KCPL during the true-up audit?

A. Yes. Staff issued Staff Data Request No. 309 to obtain KCPL's explanation for the increase in 2007 for the cost of providing Non-Firm Off-System Sales. I also met with the KCPL representatives responsible for providing the KCPL response to Staff Data Request No. 309. In response to Staff Data Request No. 309, KCPL provided a revised calculation of the Net Margin on Non-Firm Off-System Sales through September 30, 2007, which removed the impacts of SPP RTO transactions related to meeting KCPL's retail load. KCPL's PACE model, used for calculating the Net Margin on Non-Firm Off-System Sales, was incorrectly assigning RTO transactions related to retail load to the Net Margin calculation for Non-Firm Off-System Sales. The revised, i.e., corrected, Net Margin for 2007 reflects a cost of providing Non-Firm Off-System Sales that is more consistent with historical experience. The revised Net Margin for 2007 reflects an increase of approximately ** ____ ** million over the level previously provided in response to Staff Data Request No. 206 as a result of correcting the error described above.

Q. Does this conclude your true-up direct testimony?

A. Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-up Direct question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the following True-up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Steve M. Traxler

Subscribed and sworn to before me this 2nd day of November, 2007.

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

D Suzie Mankin
Notary Public