

Exhibit No.:
Issue(s): Off-System Non-Firm Sales
Witness: Ted Robertson
Type of Exhibit: Surrebuttal
Sponsoring Party: Public Counsel
Case Number: ER-2007-0291
Date Testimony Prepared: September 20, 2007

SURREBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2007-0219

September 20, 2007

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City)
Power & Light Company for Approval to Make)
Certain Changes in its Charges for Electric)
Service to Implement its Regulatory Plan)


Case No. ER-2007-0291

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 7.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

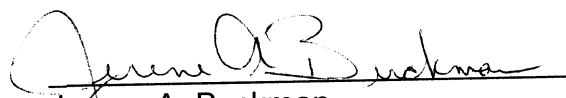


Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 20th day of September 2007.



JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036



Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2007-0291

A. Yes.

A. The purpose of my testimony is to rebut the position taken by Kansas City Power & Light Company ("KCPL" or "Company") witness, Mr. Chris Giles, regarding the issue of non-firm off-system sales margins.

Q. DID PUBLIC COUNSEL PROPOSE THAT INTEREST BE ACCRUED ON THE EXCESS OF NON-FIRM OFF SYSTEM SALES MARGIN WHICH EXCEEDS THE MARGIN ACTUALLY INCLUDED IN CURRENT RATES?

A. Yes.

Q. DOES KCPL OPPOSE THE PUBLIC COUNSEL'S RECOMMENDATION FOR PAYMENT OF INTEREST ON THE EXCESS NON-FIRM OFF SYSTEM SALES MARGIN?

1 A. Yes. In rebuttal testimony, Mr. Giles states that he does not agree that the
2 interest payments OPC advocates should be allowed.

3
4 Q. WHY DOES KCPL OPPOSE THE INTEREST PAYMENTS?

5 A. It is my understanding that Mr. Giles's opposition is limited to two areas of
6 discussion which I believe require further clarification. Beginning on page 13, line
7 19, of his Rebuttal Testimony, he states his opposition to the interest proposal
8 as:

9
10 If the Company paid interest on OSS margins in excess of the
11 amount set out to be tracked, then the same amount of interest
12 expense would be included in the Company's cost of service
13 calculation, thereby increasing the revenue requirement. Recovery
14 of this interest expense in rates would exactly offset the amount
15 paid out. Customers would not benefit, nor would they be harmed.
16 It would be as though no interest was paid.

17
18
19 And,

20
21 Additionally, the current tracking mechanism is not symmetrical.
22 The Company is at risk if it does not meet the level of OSS margins
23 projected. The Company must bear that risk, not the customers.
24 Customers should not be entitled to interest payments when the
25 Company would not be kept whole should OSS margins fail to meet
26 the projection.
27

1 Q. IS IT PUBLIC COUNSEL'S POSITION THAT INTEREST ON THE EXCESS
2 NON-FIRM OFF SYSTEM SALES MARGIN BE INCLUDED IN THE
3 COMPANY'S COST OF SERVICE?

4 A. No.

5
6 Q. WHY DOES PUBLIC COUNSEL BELIEVE MR. GILES'S FIRST OBJECTION TO
7 BE NOT RELEVANT?

8 A. Mr. Giles's first objection to OPC's interest proposal is not relevant because it is
9 not supported by the theory or procedures of appropriate regulatory ratemaking.
10 Mr. Giles is attempting to equate Public Counsel's excess non-firm off system
11 sales margin interest proposal with the treatment of interest paid on customer
12 deposits. However, the appropriate regulatory treatment of interest paid on
13 customer deposits and interest paid for Company utilization of cost-free customer
14 supplied revenues are not the same.

15
16 Indeed, ratepayers do provide utilities with customer deposits which are utilized
17 and probably in most cases returned back to them - with interest. In ratemaking,
18 customer deposit interest is usually annualized and included in the a utility's cost
19 of service; however, there is no valid reason to treat the proposed excess off-
20 system sales margin interest the same as interest expense for customer
21 deposits. Customer deposits are part and parcel of a much bigger regulatory

1 expense issue concerning the treatment of uncollectible accounts (bad debt)
2 costs.

3
4 Q. PLEASE CONTINUE.

5 A. One of the primary purposes of the customer deposit process is to condition
6 ratepayers to not default on their utility services debt thereby lowering the level of
7 uncollectible debts which are included in the utility's cost of service. For
8 example, if a ratepayer does not pay debt owed to the utility, the utility will
9 appropriate the ratepayer's deposit along with any interest earned on the deposit
10 to satisfy the debt. Whereas, if the ratepayer does pay their debt, as determined
11 by the tariffs, the utility will return their deposit with interest. For utilities that
12 require customer deposits, the associated interest is included as a normal part of
13 the utility's cost of service when rates are set.

14
15 In essence, the interest on customer deposits which is included in the utility's
16 cost of service for rate determination is a "trade-off" expense charged to
17 ratepayers. That is, if customer deposits were not required, ratepayers would in
18 all likelihood have to pay a higher level of uncollectible accounts expense in the
19 utility's cost of service and customer deposit interest would be zero. If customer
20 deposits are required, cost of service interest expense increases, but hopefully,
21 by an amount that is less than the amount that uncollectible accounts expense is

1 reduced. The interest expense associated with customer deposits represents the
2 cost to ratepayers for incurring a lower level of uncollectible accounts in the
3 utility's cost of service.
4

5 The primary evidence which refutes Mr. Giles's first objection to Public Counsel's
6 proposal for excess non-firm off system sales margin interest is that there are no
7 similar investment costs or operating expenses incurred by the utility which would
8 require recovery of the interest from ratepayers. Whereas, whether bad debt
9 costs are categorized as uncollectible accounts expense or customer deposit
10 interest expense, there is a direct correlation between the costs actually incurred
11 by the utility to operate and the uncollectible accounts expense or customer
12 deposit interest expense included in rates.
13

14 Q. IS MR. GILES'S SECOND OBJECTION THAT THE TRACKING MECHANISM
15 IS NOT SYMMETRICAL A VALID REASON TO NOT AUTHORIZE THE PUBLIC
16 COUNSEL'S INTEREST PROPOSAL?

17 A. No. The Commission reached a decision in KCPL Case No. ER-2006-0314 that
18 explicitly stated the tracking mechanism would not be symmetrical. The decision
19 was apparently based on the Commission's desire to provide the utility's
20 management with an incentive to, at a minimum, achieve the baseline non-firm off
21 system sales margin revenue included in rates. To the extent that the utility

1 achieves the 25th percentile included in current rates its risk is zero. Thus, Mr. Giles
2 testimony on this issue is nothing other than a thinly veiled attempt to gain support
3 for a transfer of shareholder-owned risk to ratepayers. Were the Company to be fair
4 and reasonable, it would have, in my opinion, led the effort to return the excess
5 revenues with interest to ratepayers. However, in Mr. Giles testimony we are
6 provided a glimmer of insight into how greed, and an apparent institutionalized lack
7 of concern for ratepayers' well-being, affects the actions of this utility.

8
9 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THAT ITS INTEREST
10 PROPOSAL SHOULD BE AUTHORIZED.

11 A. It is Public Counsel's position that the proposed interest on the excess non-firm
12 off system sales margin is not a cost of service item. It is an "opportunity cost"
13 related to the period that the Company held and had use of the excess non-firm
14 off system sales margin revenue. Basic management principles require that
15 Company would, or should, have earned some return on the excess margin
16 revenue whether by depositing the revenues in a bank savings account or some
17 other investment such as utilization of the funds in its own operations.
18 Company's shareholders were not the source of the excess non-firm off system
19 sales margin revenue so they should not be allowed to keep the opportunity cost
20 revenue earned. Public Counsel's position merely concludes that the Company
21 had use of ratepayer provided cost-free excess revenues (i.e., revenues for

1 which Company had no offsetting investment or operation costs) for a period of
2 time so the principal and an appropriate amount of interest on the principal
3 should be returned to ratepayers. In order to be conservative, Public Counsel
4 recommended that the proposed interest rate should be set at Prime+1 even
5 though it could be argued that if the excess revenues were utilized in Company's
6 own operations a more appropriate rate would be the weighted rate of return
7 authorized for the utility in its last Missouri general rate increase case.

8
9 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

10 A. Yes, it does.
11
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