

Exhibit No.: \_\_\_\_\_  
Issue: Cost Assignment  
Witness: Christine M. Davidson  
Type of Exhibit: Direct Testimony  
Sponsoring Party: KCPL  
Case No.: EM-2000-753  
Date Testimony Prepared: December 14, 2000

**FILED**

DEC 14 2000

Missouri Public  
Service Commission

Direct Testimony

of

Christine M. Davidson

On Behalf of

Kansas City Power & Light Company

**DIRECT TESTIMONY  
OF  
CHRISTINE M. DAVIDSON  
Manager-Operational Accounting  
Kansas City Power & Light Company**

**Case No.EM-2000-753**

1   **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2   A. My name is Christine M. Davidson. I am the Manager of Operational Accounting at  
3       Kansas City Power & Light Company ("KCPL or Company"). My business address  
4       is 1201 Walnut Street, Kansas City, Missouri 64106.

5   **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

6   A. I am testifying on behalf of KCPL.

7   **Q. PLEASE SUMMARIZE YOUR EDUCATION AND BUSINESS EXPERIENCE.**

8   A. I graduated Magna Cum Laude from Kansas State University in Manhattan, Kansas  
9       in 1974 with a Bachelors degree in Accounting and earned a Masters of Business  
10       Administration – Accounting from the University of Missouri-Kansas City in 1979. I  
11       am a Certified Public Accountant licensed to practice in both Kansas and Missouri.  
12       Since joining KCPL in 1975, I have served in various Manager positions within the  
13       Accounting Department with responsibilities over General Accounting, Property  
14       Accounting, Corporate Reporting, Corporate Taxes, Non-Regulated Accounting,  
15       Payroll and Accounts Payable.

16   **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17   A. The purpose of my testimony is to summarize the cost assignment methods  
18       currently being followed by KCPL for the assignment of revenues, expenses and  
19       capital expenditures to applicable business units. These methods are discussed in

more detail in KCPL's Cost Allocation Manual which is sponsored by KCPL witness  
Ruth Ann Dane.

**Q. WHAT IS THE PURPOSE OF INTER-UNIT COST ALLOCATION AT KCPL?**

A. Our purpose is two-fold: 1) to provide more complete financial information to  
management regarding the financial performance of each segment of KCPL's  
operations and 2) to provide a systematic assignment of costs between regulated  
and non-regulated activities.

**Q. WOULD YOU PROVIDE A BRIEF HISTORY OF THE DEVELOPMENT OF THE  
COST ASSIGNMENT METHODS CURRENTLY IN PLACE?**

A. Our current method of cost assignment was implemented and/or refined during the  
past several years as follows:

July 1998

- Implemented additional modules of the PeopleSoft Financial software, allowing Business Unit recordkeeping for all transactions.
- Began system-generated inter-unit billing of direct costs whenever a department in one Business Unit charged a project "owned" by another Business Unit.

January 1999

Increased direct billed costs to include a 35% multiplier to cover the service  
provider's personal overheads.

- Implemented 14 Unit of Service billings to bill Business Units for routine services such as payroll processing, telephone service and personal computing support.

January through April 1999

- Developed statistical support for the specific assignment of costs for certain corporate payments such as general office building rent, property insurance premiums and Electric Power Research Institute dues.

October 1999

- Installed the PowerPlant Asset Management system that would better allow specific assignment of each plant asset and related depreciation expense to a Business Unit.

**Q. WHAT OVERALL CONSIDERATIONS APPLY TO YOUR COST ASSIGNMENT METHODS?**

A. Costs are billed between Business Units at the Business Unit level only, based on activity in the underlying Departments. Business Units are an aggregate of specified Departments but do not necessarily parallel the organizational structure.

**Q. WHAT ARE THESE BUSINESS UNITS?**

A. For reporting of the transactions, we use the following summary Business Units:

- POWER (summarizes GENCO and Wolf Creek Nuclear Operating Corporation)
- DELIVERY (summarizes DISCO and TRANCO)
- SUBSIDIARY (summarizes KLT, Home Service Solutions and Worry Free, Inc.)
- HOLDINGCO (SUPPT, including both Corporate Services and Shared Services)

**Q. ARE ALL COSTS SUBJECT TO INTER-UNIT BILLING?**

A. No. Generally, departments in Power and Delivery charge a project that is owned by their own Business Units. In these instances, no inter-unit billing is necessary.

Inter-unit billings are required when a department charges a project owned by another Business Unit or when costs are incurred by departments in HOLDINGCO.

I will describe the Directing billing method in a moment.

**Q. WHEN NECESSARY, WHAT METHODS DO YOU CURRENTLY USE TO BILL REVENUES, EXPENSES AND CAPITAL EXPENDITURES?**

A. KCPL currently uses one of five cost assignment methods:

- Direct Bill Actual Costs – Use for high cost/low volume transactions
- Unit of Service – Use for low unit cost/high volume transactions
- Clearings & Loadings – Use for costs that attach themselves to other costs such as

- 1 fringe benefits and storekeeping
- 2 • Specific Assignment – Use when costs can be split between benefitting Business
- 3 Units based on statistical analysis of the underlying cost, *i.e.* rent.
- 4 • Corporate Allocations – Use for remaining dollars for which there is no measurable
- 5 relationship between cost and any specific Business Unit.
- 6

7 **Q. PLEASE DESCRIBE THE DIRECT BILLING METHOD.**

8 A. Direct Billing is based on project ownership. When a Department in any Business

9 Unit charges a project “owned” by another Business Unit, the PeopleSoft Financial

10 system generates an inter-unit billing. KCPL’s accounting code block requires that a

11 project be input on every transaction that is a revenue, expense or capital

12 expenditure. Projects can be very specific, such as a specific unit overhaul, or very

13 general, such as non-specific DISCO support.

14 The amount of the inter-unit billing created by PeopleSoft is the actual non-labor cost

15 incurred plus actual labor, loaded for paid absences and fringe benefits and

16 increased to include the 35% personal overheads. The personal overheads include

17 the service provider’s costs for rent, telephone, personal computer, supplies, training

18 and other such costs.

19 More information on the Direct Billing method can be found in TAB C of KCPL’s Cost

20 Allocation Manual.

21 **Q. PLEASE DESCRIBE THE UNIT OF SERVICE METHOD.**

22 A. Fourteen Unit of Service billings were implemented in January 1999. PeopleSoft

23 bills unit of service costs monthly using factors recorded in the system. These

24 factors include a rate per transaction and a quantity of service provided. The rate

25 per transaction is calculated annually prior to the beginning of the year, using the

26 upcoming year’s budgeted costs. The quantity of service provided is the actual

amount of service provided during each period. Quantity of service provided is updated monthly, quarterly or annually, depending on the potential for variance. Quantity of service is measured using various cost drivers, including number of lines of distribution processed, number of personal computers, number of telephones and number of employees.

**Q. WHAT UNIT OF SERVICE BILLINGS ARE CURRENTLY IN PLACE?**

A. As stated, there are fourteen:

- Employee Communications Services
- Vendor Disbursement Services
- Non-Fuel Procurement Services
- Payroll Processing Services
- Employee Relations Services
- Compensation & Benefits Administration Services
- Employee Training & Development Services
- Employee Health & Safety Programs
- Telecommunication Services
- Personal Computing Support Services
- Facilities Operations & Maintenance Services
- Mail Services
- Document Processing Services
- Security Administration Services

More information on the Unit of Service method can be found in TAB D of KCPL's Cost Allocation Manual, including individual descriptions of each of the billings listed above.

**Q. PLEASE DESCRIBE THE CLEARINGS & LOADINGS METHOD.**

A Clearings and Loadings are used for types of costs that "attach" to other costs. In some applications, costs are distributed, or "cleared" over a related base of costs. For instance, the cost of small tools issued from inventory are distributed over the jobs on which those tools are used. Because a tool is not "used up" on a single job,

1 the cost of the tools issued to a Business Unit are "cleared" to all the accounts  
2 charged with labor by that Business Unit during the period.

3 In other applications, costs are distributed, or "loaded" onto a related cost. An  
4 example is the accounting for paid absences. The FERC Uniform System of  
5 Accounts requires that the various paid absences incurred must be distributed over  
6 the "at work" activities of employees. Because paid absences are associated with  
7 an annual period, an annual percentage is developed and applied to direct labor  
8 costs, loading (or increasing) the at work labor cost with the cost of paid absences.  
9 More information on the Clearings & Loadings method can be found in TAB E of  
10 KCPL's Cost Allocation Manual.

11 **Q. PLEASE DESCRIBE THE SPECIFIC ASSIGNMENT METHOD.**

12 A. Under the Specific Assignment method, costs are apportioned among the various  
13 Business Units based on statistics developed to show the portion of the costs  
14 benefiting each Business Unit. For instance, to assign rent expense for the  
15 corporate office at 1201 Walnut, the number of square feet occupied by each  
16 Business Unit is used. To assign the premiums for property damage insurance, the  
17 schedule of insurable values is used. Certain other costs, such as depreciation  
18 expense, are assigned based on the ownership of the asset or liability to which they  
19 apply.

20 More information on the Specific Assignment method can be found in TAB F of  
21 KCPL's Cost Allocation Manual.

1 **Q. PLEASE DESCRIBE THE CORPORATE ALLOCATIONS METHOD.**

2 A. An allocation between Business Units, using a systematic method, must be made  
3 whenever there is no measurable relationship between the cost and any individual  
4 Business Unit. Currently, such costs are being allocated based on the methods  
5 described in the Direct Testimony of Ruth Ann Dane and further described in TAB G  
6 of the Company's Cost Allocation Manual.

7 **Q. HOW DO YOU DETERMINE WHICH METHOD OF COST ASSIGNMENT WILL BE**  
8 **USED FOR ANY COST?**

9 A. The method appropriate for a given kind of cost is generally determined by size of  
10 cost and practicality. As an example, consider the kinds of costs incurred by the  
11 Investment Technology Division. The costs incurred by the programming staff for  
12 development and maintenance of computer systems are direct billed based on hours  
13 input on the staff's time tickets. Programming is generally performed in blocks of  
14 time, making it possible to code on the employee's time ticket both the specific  
15 project involved and number of hours spent. On the other hand, certain IT costs,  
16 such as administering the lease agreements for all of the Company's personal  
17 computers or manning the Help Desk for all internal users, do not lend themselves to  
18 specific coding by Business Unit on an employee's time ticket. These types of costs  
19 are included in the Personal Computing Support Unit of Service billing and assigned  
20 out based on a fixed rate per personal computer. Finally, the lease costs and  
21 operation of UNIX equipment do not fit into either category. These costs are  
22 aggregated and specific assigned to Business Units based on the processing  
23 requirements of each system.



1 Q. **WHAT IS THE RESULT OF YOUR COST ASSIGNMENTS?**

2 A. We believe that we will achieve a systematic assignment of costs to each benefiting  
3 Business Unit. This will provide a picture of a Business Unit's financial performance  
4 that includes all costs related to that Business Unit.

5 Q. **ARE ANY CHANGES ANTICIPATED TO THE COST ASSIGNMENT METHODS**  
6 **YOU HAVE DESCRIBED?**

7 A. No changes are anticipated to the methods currently being used. However, costs  
8 currently assigned through one method, such as a Unit of Service billing, may be  
9 replaced by another method, such as Direct Billing, in the future.

10 In addition, KCPL witness Charles Tickles discusses in his testimony "Service  
11 Level Agreements," a term created to describe inter-unit billing of costs under all  
12 methods as well as the Company's plans to refine and enhance the current inter-unit  
13 billing process.

14 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.

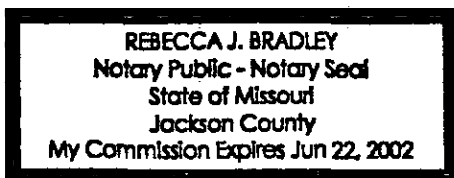
**AFFIDAVIT**

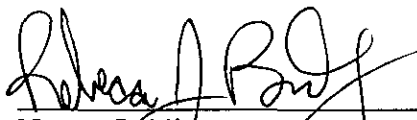
STATE OF MISSOURI     )  
                                      ) ss.  
COUNTY OF JACKSON    )

On the 6<sup>th</sup> day of December, 2000, before me appeared Christine M. Davidson, to me personally known, who, being by me first duly sworn, states that she is the Manager-Operational Accounting for Kansas City Power & Light Company, and that she has participated in the preparation of the foregoing written testimony, in question and answer form, and believes that the statements therein are true and correct to the best of her knowledge, information and belief.

  
\_\_\_\_\_  
CHRISTINE M. DAVIDSON

Subscribed and sworn to before me this 6 day of December, 2000.



  
\_\_\_\_\_  
Notary Public

My Commission Expires:

6-22-02