

Exhibit No.:

Issue(s):

Rate of Return/

Regulatory Plan Amortization

Witness/Type of Exhibit:

Trippensee/

Direct

Sponsoring Party:

Public Counsel

Case No.:

ER-2007-0291

DIRECT TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

July 24, 2007

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

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

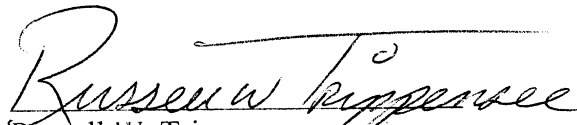
Case No. ER-2007-0291

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

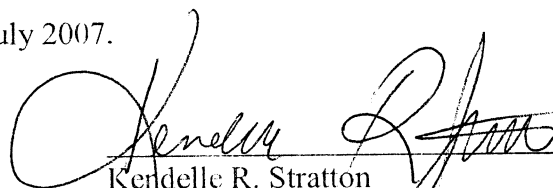
1. My name is Russell Trippensee. I am Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of 9 pages and Schedule RWT pages 1-3.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Russell W. Trippensee

Subscribed and sworn to me this 24th day of July 2007.



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


Kendelle R. Stratton
Notary Public

My Commission expires February 4, 2011.

DIRECT TESTIMONY
OF
RUSSELL W. TRIPPENSEE
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2007-0291

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

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

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

7 **Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT?**

8 A. Yes, I hold certificate/license number 2004012797 in the State of Missouri.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in
11 Accounting, in December 1977. I also completed the requisite hours for a major in finance. I
12 attended the 1981 NARUC Annual Regulatory Studies Program at Michigan State University. I have
13 attended numerous seminars and conferences related to public utility regulation. Finally, I am
14 required to take a minimum of 40 hours per year of continuing professional education to maintain my
15 CPA license.

16 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

17 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public
18 Service Commission (MPSC or Commission). In January 1978 I was employed by the MPSC as a

1 Public Utility Accountant I. I left the MPSC staff in June 1984 as a Public Utility Accountant III and
2 assumed my present position.

3 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

4 A. I served as the chairman of the Accounting and Tax Committee for the National Association of State
5 Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a
6 member of the Missouri Society of Certified Public Accountants.

7 **Q. PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**
8 **STAFF.**

9 A. Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations
10 of the books and records of public utility companies operating within the State of Missouri with
11 regard to proposed rate increases.

12 **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**
13 **THE PUBLIC COUNSEL?**

14 A. I am responsible for the Accounting section of the Office of the Public Counsel and coordinating our
15 activities with the rest of our office and other parties in rate proceedings. I am also responsible for
16 performing audits and examinations of public utilities and presenting the findings to the MPSC on
17 behalf of the public of the State of Missouri.

18 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE MPSC?**

19 A. Yes. I filed testimony in the cases listed on Schedule RWT-1 of my testimony on behalf of the
20 Missouri Office of the Public Counsel or MPSC Staff.

21 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

1 A. To address policy concerns regarding the Regulatory Plan Amortization (RPA) various parties agreed
2 to in Case No. EO-2005-0329 and that was implemented by the MPSC in Case No. ER-2006-0314.
3 Specifically, I will address the implications would result from the Commission authorizing a higher
4 return on equity as a substitute for having an increased RPA.

5 **Q. WHAT ARE THE CONSEQUENCES IF THE COMMISSION SETS RATES BASED**
6 **ON AN AUTHORIZED RETURN ON EQUITY THAT IS ABOVE A REASONABLE**
7 **LEVEL AS A SUBSTITUTE FOR A LARGER LEVEL OF REGULATORY PLAN**
8 **AMORTIZATION?**

9 A. There are two winners and one loser if the authorized return on equity is set at a level that is higher
10 than the market measures indicate is necessary.

11 Winners: Kansas City Power & Light shareholders
12 Internal Revenue Service

13 Losers: Ratepayers after the next rate case

14 The winners will receive more monies than they would have otherwise received had the return on
15 equity been set at a reasonable market based level. Ratepayers are obviously the loser as all future
16 generations of ratepayers will be required to pay the monies to the stockholders and the IRS via the
17 utility.

18 **Q. PLEASE EXPLAIN HOW STOCKHOLDERS ARE ENRICHED VIA AN EXCESSIVE**
19 **RETURN IN LIEU OF ADDITIONAL FUNDS BEING PROVIDED UNDER THE**
20 **REGULATORY PLAN AMORTIZATION?**

21 A. The Regulatory Plan set out three financial metrics that must be met and are discussed in the direct
22 testimony of Public Counsel witness Michael Gorman. Whether or not these financial metrics are
23 met is should be measured after the Commission has decided all other issues necessary to determine
24 the overall cost of service which is also referred to as the overall revenue requirement. The financial

1 metrics test uses the inputs from the overall revenue requirements to determine whether a specific
2 level of cash flow is anticipated to be generated that will meet or exceed the financial metrics. The
3 financial metrics test determines whether or not additional cash is needed to meet the metrics. There
4 are only two sources of cash available; increased earnings (return on equity) or increased RPA. The
5 ratepayer provides the monies either way. However, the question becomes who is given credit for
6 these additional monies.

7 An increase in the return on equity is retained by the stockholders. There is no argument that a
8 sufficient return on equity is appropriate, however the ratepayer should be subject to rates that are
9 premised on paying no more than the reasonable cost of equity. Paying an additional return in order
10 to meet financial metrics, results in rates being excessive and stockholders receiving an excessive
11 return.

12 **Q. HOW IS THE INTERNAL REVENUE SERVICE ENRICHED BY SUBSTITUTING**
13 **A HIGHER RETURN ON EQUITY INSTEAD OF USING THE REGULATORY**
14 **PLAN AMORTIZATION BASED ON A REVENUE REQUIREMENT DETERMINED**
15 **USING A REASONABLE RETURN ON EQUITY?**

16 **A.** The monies paid by ratepayers that provide the return on equity component of the overall cost of
17 service results in income taxes on the utility that must be paid to the IRS. The Regulatory Plan
18 Amortization also results in a "gross-up" for income taxes as set out in Appendix 1 to the
19 Nonunanimous Stipulation and Agreement Regarding Regulatory Plan Additional Amortizations
20 approved by the Commission in Case No. ER-2006-0314. Therefore in the initial rate case,
21 ratepayers and the IRS are indifferent to whether or not the Commission would authorize a higher

1 than reasonable return on equity versus use of an RPA. However, in subsequent cases the enrichment
2 of the IRS becomes relevant and significant.

3 **Q. PLEASE EXPLAIN?**

4 A. The use of an RPA gives the ratepayers credit for RPA monies by creating an Accumulated
5 Amortization Reserve. This Reserve is used to offset rate base in future cases. This agreement is set
6 out in the Nonunanimous Stipulation and Agreement Regarding Regulatory Plan Additional
7 Amortizations approved by the Commission in Case No. ER-2006-0314.

8 This resolution is implemented pursuant to and in compliance with the provisions of
9 that Stipulation And Agreement, and that as a result thereof, any Regulatory Plan
10 additional amortization that is provided to KCPL pursuant to that Stipulation And
11 Agreement shall be used as a reduction to rate base for the longer of (a) at least ten
12 (10) years following the effective date of the July 28, 2005 Report and Order in Case
13 No. EO-2005-0329 or (b) until the investment in the plant in service accounts to
14 which the Regulatory Plan additional amortizations are ultimately assigned by the
15 Commission is retired. Such reduction to rate base is understood and accepted by
16 KCPL without reservation. (page 3 of document)

17 The result of the treatment of the RPA as approved by the Commission is that future rate base will be
18 reduced for all monies paid to KCPL by the ratepayer with respect to the RPA. This reduction in rate
19 base will result in a decrease in the nominal dollars paid to KCPL by the ratepayers as the “return on
20 equity” component of the overall revenue requirement as compared to the “return on equity” that
21 would be included if the Accumulated Regulatory Plan Amortization was not available. A
22 corresponding decrease in income taxes will result from the decrease in nominal dollars of return on
23 equity. Thus, the IRS will not receive the difference in income taxes between the two scenarios from
24 the utility (paid for in rates by the ratepayer)

25 In contrast, if the Commission chooses to substitute a higher than reasonable return on equity in lieu
26 of an RPA, future rate bases will not have the Accumulated RPA available as an offset to rate base

1 and thus future rate cases will result in the ratepayer paying more nominal dollars of return on equity.

2 These nominal dollars will have to be “grossed-up” for income taxes, with the result being that the
3 ratepayer will pay more in the future (both return on equity and income taxes) and the IRS will
4 receive more tax payments under the higher than reasonable return on equity method.

5 **Q. PLEASE EXPLAIN WHY YOU USED THE TERM “NOMINAL DOLLARS” WHEN**
6 **REFERRING TO THE RETURN ON EQUITY?**

7 A. My use of the term nominal dollars refers to the absolute amount of dollars paid by the ratepayers and
8 not to the rate of return on equity that the Commission would approve if they adopted Public Counsel
9 witness Michael Gorman’s reasonable return recommendation of 10.1 %. A change in the level of
10 rate base results in a change in the nominal dollars of return on equity included in the overall revenue
11 requirement but does not result in a change in the rate of equity return.

12 **Q. CAN YOU PROVIDE A QUANTIFICATION OF THE ADDITIONAL TAXES THE**
13 **RATEPAYERS WILL HAVE TO PAY IF A HIGHER RATE OF RETURN IS**
14 **USED AS A SUBSTITUTUE FOR A REGULATORY PLAN AMORTIZATION?**

15 A. The total dollars would only be known when the nominal amount of additional earnings was
16 determined. However, the impact on ratepayers is significant when measured as a percentage. For
17 each dollar of return on equity that flows to the stockholder, the ratepayer must pay an additional 62
18 cents of revenue so that income taxes can be taken out of the total \$1.62 of revenue (\$1.00 plus \$.62).
19 The 62 cents is the quantification of what is commonly referred to as the “income tax gross up”. I
20 have referred to this “gross up” earlier in my testimony.

21 When viewing this “gross up” factor in relation to return on equity rates, it may be helpful to provide
22 an example based on data from Case No. ER-2006-0314. A change in the return on equity percentage

of 1 basis point (.01%) resulted in a change in the nominal dollars of return on equity of approximately \$52,200 after taxes. When the income tax gross up is factored in, the ratepayer would have been required to pay an additional \$32,400. Thus the total change in revenue requirement would be \$84,600. An upwards adjustment of 25 basis points in the return on equity would result in \$2,115,000 increase in revenue, of which \$810,000 is needed to pay income taxes. A full percentage point increase (100 basis points) would increase the revenue requirement by \$8,460,000 with \$2,440,000 in income tax expense in the current year. The impact on future ratepayers from a 100 basis point adjustment in return of equity would be approximately \$895,000 in revenue requirement increase with \$340,000 going to the IRS. Stockholder would retain \$545,000 each year.

These examples are annual amounts. If earnings dollars are substituted for RPA dollars in order to meet the cash flow metrics in the current year, the resulting flow of ratepayer monies to both the stockholders and the IRS will continue over the life of the property, not just for one year.

Q. DO YOU HAVE ANY OTHER COMMENTS ON THE RELATIONSHIP BETWEEN EARNINGS AND THE REGULATORY PLAN AMORTIZATION?

A. Yes. The intent of having the Regulatory Plan Amortization is clear if one examines all the various documents, presentations, analysis, and other efforts related to this issue. KCPL started the public process of building the Iatan 2 unit, wind investments, environmental upgrades, and other investments by requesting workshops be held between the various interested parties. The Commission established Case Nos. EO-2004-0577, EW-2004-0596, and EO-2005-0329 to address that process. The initial recommendation of KCPL was to preset rates with a stated rate of return during the period of construction through 2010. KCPL did not propose any process such as the Regulatory Plan Amortization. As finally memorialized in the Nonunanimous Stipulation and Agreement Regarding

1 Regulatory Plan Additional Amortizations approved by the Commission in Case No. ER-2006-0314,
2 the parties agreed to a completely different process. The agreement provided for a two-step process
3 that included a traditional rate case determination of the overall revenue requirement and then a
4 calculation of any additional monies to provide the necessary cash flows. The Commission's Report
5 and Order acknowledged the independence when it stated on page 52;

6 And, **this issue**, although tied in with return on equity and off-system sales, **is**
7 **actually independent of those, and all other issues.**
8 (Emphasis added by OPC)

9 **Q. HAVE YOU BEEN INVOLVED IN ALL THE PROCEEDINGS RELATED TO THE**
10 **IATAN 2 PROJECT AND THE OTHER INVESTMENTS OUTLINED IN THE**
11 **REGULATORY PLAN?**

12 A. Yes. In particular I was instrumental in the development of the Regulatory Plan Amortization
13 proposal along with various Staff members and KCPL personnel. I attended virtually every
14 workshop or meeting since KCPL's initial filing in EO-2004-0577 and attended a KCPL focus group
15 meeting on regulatory issues. Several focus group meeting were held prior to the initial filing in order
16 to get public and employee input into the initial plan development.

17 **Q. PLEASE SUMMARIZE YOUR TESTIMONY?**

18 A. Public Counsel believes this Commission should adopt the reasonable rate of return recommended by
19 its witness and utilize that return to determine an overall revenue requirement on a retail Missouri
20 basis. Then and only then should the Commission determine the appropriate level of the Regulatory
21 Plan Amortization based on the overall revenue requirement. It is a two step process and the steps
22 should be independent of each other. The determination of a market based rate of return on equity
23 has been addressed by Public Counsel witness Gorman. No where in the various agreements in Case
24 No. EO-2005-0329 or Case No. ER-2006-0314 will the Commission find that these agreements

1 provided for substituting a higher return on equity than reasonable in the determination of revenue
2 requirement in order to lower the RPA. Likewise the Commission will not find any support for
3 having a higher than reasonable RPA in order to include a return on equity that is below a reasonable
4 rate in the revenue requirement determination.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 A. Yes.

Direct Testimony
Russell W. Trippensee
Case No. ER-2007-0291

Missouri Power & Light Company, Steam Dept., Case No. HR-82-179
Missouri Power & Light Company, Electric Dept., Case No. ER-82-180
Missouri Edison Company, Electric Dept., Case No. ER-79-120
Southwestern Bell Telephone Company, Case No. TR-79-213
Doniphan Telephone Company, Case No. TR-80-15
Empire District Electric Company, Case No. ER-83-43
Missouri Power & Light Company, Gas Dept., Case No. GR-82-181
Missouri Public Service Company, Electric Dept., Case No. ER-81-85
Missouri Water Company, Case No. WR-81-363
Osage Natural Gas Company, Case No. GR-82-127
Missouri Utilities Company, Electric Dept., Case No. ER-82-246
Missouri Utilities Company, Gas Dept., Case No. GR-82-247
Missouri Utilities Company, Water Dept., Case No. WR-82-248
Laclede Gas Company, Case No. GR-83-233
Great River Gas Company, Case No. GR-85-136 (OPC)
Northeast Missouri Rural Telephone Company, Case No. TR-85-23 (OPC)
United Telephone Company, Case No. TR-85-179 (OPC)
Kansas City Power & Light Company, Case No. ER-85-128 (OPC)
Arkansas Power & Light Company, Case No. ER-85-265 (OPC)
KPL/Gas Service Company, GR-86-76 (OPC)
Missouri Cities Water Company, Case Nos. WR-86-111, SR-86-112 (OPC)
Union Electric Company, Case No. EC-87-115 (OPC)
Union Electric Company, Case No. GR-87-62 (OPC)
St. Joseph Light and Power Company, Case Nos. GR-88-115, HR-88-116 (OPC)
St. Louis County Water Company, Case No. WR-88-5 (OPC)
West Elm Place Corporation, Case No. SO-88-140 (OPC)
United Telephone Long Distance Company, Case No. TA-88-260 (OPC)
Southwestern Bell Telephone Company, Case No. TC-89-14, et al. (OPC)
Osage Utilities, Inc., Case No. WM-89-93 (OPC)
GTE North Incorporated, Case Nos. TR-89-182, TR-89-238, TC-90-75 (OPC)
Contel of Missouri, Inc., Case No. TR-89-196 (OPC)
The Kansas Power and Light Company, Case No. GR-90-50 (OPC)
Southwestern Bell Telephone Company, Case No. TO-89-56 (OPC)
Capital City Water Company, Case No. WR-90-118 (OPC)
Laclede Gas Company, Case No. GR-90-120 (OPC)
Southwestern Bell Telephone Company, Case No. TR-90-98 (OPC)

Direct Testimony
Russell W. Trippensee
Case No. ER-2007-0291

Empire District Electric Company, Case No. ER-90-138 (OPC)
Associated Natural Gas Company, Case No. GR-90-152 (OPC)
Southwestern Bell Telephone Company, Case No. TO-91-163 (OPC)
Union Electric Company, Case No. ED-91-122 (OPC)
Missouri Public Service, Case Nos. EO-91-358 and EO-91-360 (OPC)
The Kansas Power and Light Company, Case No. GR-91-291 (OPC)
Southwestern Bell Telephone Co., Case No. TO-91-163 (OPC)
Union Electric Company, EM-92-225 and EM-92-253 (OPC)
Southwestern Bell Telephone Company, TO-93-116(OPC) (OPC)
Missouri Public Service Company, ER-93-37, (January, 1993) (OPC)
Southwestern Bell Telephone Company, TO-93-192, TC-93-224 (OPC)
Saint Louis County Water Company, WR-93-204 (OPC)
United Telephone Company of Missouri, TR-93-181 (OPC)
Raytown Water Company, WR-94-300 (OPC)
Empire District Electric Company, ER-94-174 (OPC)
Raytown Water Company, WR-94-211 (OPC)
Missouri Gas Energy, GR-94-343 (OPC)
Capital City Water Company, WR-94-297 (OPC)
Southwestern Bell Telephone Company, TR-94-364 (OPC)
Missouri Gas Energy, GR-95-33 (OPC)
St. Louis County Water Company, WR-95-145 (OPC)
Missouri Gas Energy, GO-94-318 (OPC)
Alltel Telephone Company of Missouri, TM-95-87 (OPC)
Southwestern Bell Telephone Company, TR-96-28 (OPC)
Steelville Telephone Exchange, Inc., TR-96-123 (OPC)
Union Electric Company, EM-96-149 (OPC)
Imperial Utilites Corporation, SC-96-247 (OPC)
Laclede Gas Company, GR-96-193 (OPC)
Missouri Gas Energy, GR-96-285 (OPC)
St. Louis County Water Company, WR-96-263 (OPC)
Village Water and Sewer Company, Inc. WM-96-454 (OPC)
Empire District Electric Company, ER-97-82 (OPC)
UtiliCorp d/b/a Missouri Public Service Company, GR-95-273 (OPC)
Associated Natural Gas, GR-97-272 (OPC)
Missouri Public Service, ER-97-394, ET-98-103 (OPC)
Missouri Gas Energy, GR-98-140 (OPC)

Direct Testimony
Russell W. Trippensee
Case No. ER-2007-0291

St. Louis County Water, WO-98-223 (OPC)
United Water Missouri, WA-98-187 (OPC)
Kansas City Power & Light/Western Resources, Inc. EM-97-515 (OPC)
St. Joseph Light & Power Company, HR-99-245 (OPC)
St. Joseph Light & Power Company, GR-99-246 (OPC)
St. Joseph Light & Power Company, ER-99-247 (OPC)
AmerenUE, EO-96-14, (prepared statement) (OPC)
Missouri American Water Company, WR-2000-281 (OPC)
Missouri American Water Company, SR-2000-282 (OPC)
UtiliCorp United Inc./St. Joseph Light & Power Company, EM-2000-292 (OPC)
UtiliCorp United Inc./Empire District Electric Company, EM-2000-369 (OPC)
St. Joseph Light & Power Company, EO-2000-845 (OPC)
St. Louis County Water Company, WR-2000-844 (OPC)
Union Electric Company, EO-2001-245 (OPC)
Laclede Gas Company, GM-2001-342 (OPC)
Empire District Electric Company, ER-2001-299 (OPC)
Missouri-American Water Company, et. al., WM-2001-309 (OPC)
AmerenUE, EC-2002-152, GC-2002-153 (OPC)
UtiliCorp United Inc., ER-2001-672 (OPC)
Aquila, Inc., GO-2002-175 (OPC)
AmerenUE, ER-2002-001 (OPC)
Laclede Gas Company, GA-2002-429 (OPC)
AmerenUE, GR-2003-0517 (OPC)
Algonquin Water Resources of Missouri & Silverleaf Resort, Inc. WO-2005-0206 (OPC)
Kansas City Power & Light Company, Case No. EO-2005-0329 (OPC)
Empire District Electric Company, Case No. ER-2006-0315 (OPC)
Kansas City Power & Light Company, Case No. ER-2006-0314 (OPC)
Atmos Energy Corporation, Case No. GR-2006-0387 (OPC)
Missouri Gas Energy, Case No. GR-2006-0422 (OPC)
Aquila, Inc., ER-2007-0004 (OPC)
Missouri American Water Company, WR-2007-0216, (OPC)
Kansas City Power & Light Company, ER-2007-0291 (OPC)