

Exhibit No.:	
Issue(s):	Off-System Non-Firm Sales
Witness:	Ted Robertson
Type of Exhibit:	Direct
Sponsoring Party:	Public Counsel
Case Number:	ER-2007-0291
Date Testimony Prepared:	July 24, 2007

**DIRECT TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

**Case No. ER-2007-0219**

**NP**

\*\* \_\_\_\_ \*\* Denotes "Highly Confidential" Information that has been redacted

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 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 direct testimony consisting of pages 1 through 20.
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 24<sup>th</sup> day of July 2007.



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



Jerene Buckman  
Notary Public

My commission expires August 10, 2009.

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**DIRECT TESTIMONY  
OF  
TED ROBERTSON**

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

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**I. INTRODUCTION**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

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

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as a Public Utility Accountant III.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W. Trippensee, I am responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I passed the Uniform Certified Public Accountant Examination, and I obtained

1 Certified Public Accountant (CPA) certification from the state of Missouri in 1989.

2 My CPA license number is 2004012798.

3  
4 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC  
5 UTILITY ACCOUNTING?

6 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel  
7 since July 1990, I have attended the NARUC Annual Regulatory Studies  
8 Program at Michigan State University, and I have also participated in numerous  
9 training seminars relating to this specific area of accounting study.

10  
11 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
12 SERVICE COMMISSION (COMMISSION OR MPSC)?

13 A. Yes, I have testified on numerous issues before this Commission. Please refer  
14 to Schedule TJR-1, attached to this testimony, for a listing of cases in which I  
15 have submitted testimony.

16  
17 **II. PURPOSE OF TESTIMONY**

18 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

19 A. I am sponsoring the Public Counsel's position regarding Kansas City Power &  
20 Light Company's (KCPL or Company) ratemaking treatment of non-firm off-  
21 system sales and ratepayers credits associated with the net margin achieved that

1 exceeds the baseline amount included in rates. In the testimony to follow, I will  
2 provide an overview of the current ratemaking treatment of the net margin along  
3 with OPC recommendations regarding:  
4

- 5 1. The annual baseline level of non-firm off-system sales margin to include in  
6 the calculation of the cost of service for the instant case.  
7
- 8 2. The calculation and tracking of the amount of non-firm off-system sales  
9 margin in excess of the baseline amount that should be credited to  
10 ratepayers.  
11
- 12 3. The interest rate that should be applied to the excess of non-firm off-  
13 system sales margin achieved that exceeds the baseline amount included  
14 in KCPL's cost of service.  
15
- 16 4. The calculation of the interest amount associated with the excess non-firm  
17 off-system sales margin that should be credited to ratepayers.  
18
- 19 5. The method and timing for returning any excess margin (with interest).  
20  
21

### 22 **III. OFF-SYSTEM NON-FIRM SALES**

23 Q. WHAT IS THE CURRENT RATEMAKING TREATMENT OF NON-FIRM OFF-  
24 SYSTEM SALES?

25 A. In Case No. ER-2006-0314 the Commission authorized a mechanism, proposed by  
26 KCPL, whereby it would set the Company's rates by using the 25<sup>th</sup> percentile of  
27 expected non-firm off-system sales in the revenue requirement. In addition, KCPL  
28 is to book any amount exceeding the 25<sup>th</sup> percentile as a regulatory liability, with  
29 said liability to flow back to ratepayers in the next rate case. Commission

1 authorization of the original mechanism is stated on page 33 of the Case No. ER-  
2 2006-0314 Report and Order as:

3  
4 The Commission finds that the competent and substantial  
5 evidence supports KCPL's position, and finds this issue in favor of  
6 the alternative KCPL sponsored in which it would agree to book  
7 any amount over the 25<sup>th</sup> percentile as a regulatory liability, and  
8 would flow that money back to ratepayers in the next rate case,  
9 with a corresponding regulatory asset account for KCPL to book  
10 any amount below the 25<sup>th</sup> percentile to be recovered in the next  
11 rate case.  
12  
13

14 Subsequent to its issuing the Report And Order, the Commission modified its  
15 original position by eliminating the "regulatory asset" authorization from the  
16 mechanism. Beginning on page 2 of its Order Regarding Motions For Rehearing,  
17 the Commission stated,  
18

19 Furthermore, the Commission reconsiders its off-systems sales  
20 decision, in which it allowed KCPL to put the projected 25<sup>th</sup>  
21 percentile from KCPL witness Schnitzer's curve into revenue  
22 requirement. Depending upon actual 2007 actual [sic] non-firm off-  
23 system sales, the Commission's Report and Order required KCPL  
24 to establish either a regulatory asset account to recover any deficit  
25 from that 25<sup>th</sup> percentile from ratepayers, or a regulatory liability  
26 account to return the surplus over that 25<sup>th</sup> percentile to ratepayers.  
27 Upon reviewing the motions for rehearing from Praxair and OPC,  
28 and KCPL's response, the Commission concludes that the  
29 regulatory asset mechanism could provide a disincentive to KCPL  
30 to make off-system sales up to the 25<sup>th</sup> percentile, which could  
31 result in rates that are not just and reasonable to the detriment of  
32 Missouri ratepayers. Therefore, the Commission will no longer

1 allow KCPL to use the regulatory asset mechanism described in its  
2 December 21, 2006 Report and Order, but will continue to require  
3 KCPL to book any amounts above the 25<sup>th</sup> percentile as a  
4 regulatory liability. Relying upon the same rationale as it did in its  
5 Report and Order, the Commission still concludes that the trued-up,  
6 25<sup>th</sup> percentile amount of non-firm, off-system sales from KCPL  
7 witness Schnitzer's curve is the appropriate amount off-systems  
8 sales to include in revenue requirement.  
9  
10

11 Q. WAS THE 2006 NET MARGIN FOR NON-FIRM OFF-SYSTEM SALES HIGHER  
12 THAN THE BASELINE INCLUDED IN KCPL CASE NO. ER-2006-0314?

13 A. Yes. Company's response to MPSC Staff Data Request No. 206 identifies that  
14 the actual 2006 net margin was approximately \*\* \_\_\_\_\_ \*\* the  
15 baseline amount included in KCPL Case No. ER-2006-0314.  
16

17 Q. IS IT EXPECTED THAT THE 2007 NET MARGIN FOR NON-FIRM OFF-SYSTEM  
18 SALES WILL EXCEED THE BASELINE INCLUDED IN ITS RATES IN KCPL CASE  
19 NO. ER-2006-0314?

20 A. Based on the net margin KCPL earned in 2006 and the amount of non-firm off-  
21 system sales revenue Company has budgeted for 2007, I believe that it is likely that  
22 it will. However, the actual determination of the net margin earned in 2007 is  
23 unknown at this time since the year is only a little more than half completed.  
24

1 In regard to the actual margins earned in 2007, Company's response to MPSC Staff  
2 Data Request No. 206 states, in part,

3  
4 \*\*  
5 \_\_\_\_\_  
6 \_\_\_\_\_  
7 \_\_\_\_\_  
8

9

10 However, the data request response also identifies that the budgeted non-firm off-  
11 system net margin for 2007 is approximately \*\* \_\_\_\_\_ \*\* the same budgeted  
12 revenue was for 2006. This indicates to me that the Company expected 2007  
13 revenues to not vary significantly from 2006.

14 Q. DOES PUBLIC COUNSEL BELIEVE THAT THE LEVEL OF NON-FIRM OFF-  
15 SYSTEM SALES MARGIN INCLUDED IN KCPL'S COST OF SERVICE SHOULD  
16 BE INCREASED IN THE INSTANT CASE?

17 A. Yes. It is Public Counsel's belief that the 25<sup>th</sup> percentile baseline margin authorized  
18 in KCPL Case No. ER-2006-0314 is not a fair and reasonable representation of the  
19 non-firm off-system sales margin Company is likely to achieve on a going-forward  
20 basis. In years 2004, 2005 and 2006, the net margins achieved were \*\*

21 \_\_\_\_\_ \*\*, \*\* \_\_\_\_\_ \*\*, and \*\* \_\_\_\_\_ \*\*, respectively. Whereas,  
22 the median net margin for years 2007 and 2008, as identified by the Company in its  
23 Case Nos. ER-2006-0314 and ER-2007-0291 workpapers, is expected to



1       approximate \*\* \_\_\_\_\_ \*\* and \*\* \_\_\_\_\_ \*\*, respectively. Given the level  
2       of historical margin actually earned in recent years and expected in the near future,  
3       Public Counsel does not believe that the 25<sup>th</sup> percentile baseline margin is a  
4       reasonable compromise between the risk and harm to which Company and  
5       ratepayers are subjected.

6  
7       Q.       WHY DID THE COMMISSION AUTHORIZE THE UTILIZATION OF THE 25<sup>TH</sup>  
8       PERCENTILE BASELINE FOR NET MARGIN?

9       A.       On page 35 of its Report And Order, KCPL Case No. ER-2006-0314, the  
10       Commission, cognizant of what was at stake, stated:

11  
12                What is at stake here is the importance to KCPL of a certain level of  
13                non-firm, off-system sales put into revenue requirement versus the  
14                importance of that same level of non-firm, off-system sales to Missouri  
15                ratepayers.  
16  
17

18       The language in the Report And Order goes on to state that the Commission  
19       authorized the 25<sup>th</sup> percentile baseline because it believed ratepayers, in the  
20       short term, are not harmed due to the fact any sales over the baseline will be  
21       flowed back to them and that the damage to KCPL, in the event it did not  
22       achieve the baseline, could be more disastrous than any benefit the might  
23       accrue to ratepayers by authorizing a higher baseline.

1  
2 Q. DO YOU AGREE WITH THE COMMISSION'S CONCLUSIONS REGARDING ITS  
3 AUTHORIZATION OF THE 25<sup>TH</sup> PERCENTILE BASELINE FOR NET MARGIN?

4 A. No. Given the historical evidence regarding the actual net margins achieved, plus,  
5 Company testimony of expected future net margins, I believe that the Commission  
6 has lowered the risk to which KCPL is exposed to a level that is far too low. In fact,  
7 the Commission recognized the Company's admission of the low risk on page 34 of  
8 the Report And Order, KCPL Case No. ER-2006-0314, where it states,  
9

10 ...Mr. Giles, admits, given the fairly substantial chance that KCPL will  
11 meet or exceed that 25<sup>th</sup> percentile, there are a number of ways to  
12 account for KCPL's relatively low risk for non-firm off-system sales...  
13  
14

15 Furthermore, I believe the Commission also erred in its conclusion regarding the  
16 level of harm to be experienced by ratepayers. For example, I can think of, and will  
17 discuss in the following testimony, several instances whereby ratepayers are  
18 harmed by the utilization of a baseline net margin set at the 25<sup>th</sup> percentile even with  
19 the use of a regulatory liability mechanism.  
20

21 Q. DOES KCPL HAVE A SIGNIFICANT INCENTIVE TO GO BEYOND A BASELINE  
22 LEVEL IF THE EXCESS MARGIN IS TO BE CREDITED ENTIRELY TO  
23 RATEPAYERS?

1 A. No. Public Counsel believes that Company's incentive is unreasonably limited by  
2 the utilization of the 25<sup>th</sup> percentile baseline margin. There may be a small incentive  
3 to exceed the 25<sup>th</sup> percentile due to an immediate cash flow benefit for Company in  
4 the short-term. However, that benefit would be offset by any refund of the excess  
5 margin it has to credit back to ratepayers in the future. Besides, the utility likely  
6 already has in place a cadre of financing resources for the normal utility investments  
7 or costs this additional cash flow would support.

8  
9 Furthermore, if every dollar of additional non-firm off-system sales margin above the  
10 baseline is to be refunded to ratepayers, Company may perceive higher levels of  
11 margins to be contrary to its interest because they would help parties argue in future  
12 cases for a higher baseline or normalized amount.

13  
14 Q. WILL RATEPAYERS BE CREDITED WITH INTEREST ON NET MARGINS  
15 ABOVE THE BASELINE?

16 A. The mechanism to flow back excess margins to ratepayers has yet to be defined. If  
17 this mechanism is not constructed properly, the harm to ratepayers would be  
18 significant. If interest is not applied to excess margins achieved, Company will  
19 benefit from receiving higher retail rates from customers upon which no utility  
20 investment or expense is associated. In essence, Company will have had the use  
21 of a cost-free source of funds provided by ratepayers.

1  
2 Historically, the proper regulatory ratemaking for a cost-free source of funds is to  
3 treat the amount either as a reduction from a utility's rate base or to calculate and  
4 add interest for credit to ratepayers. Ratepayers are in fact being harmed because  
5 they are forced to pay the higher retail rates and they are also being subjected to  
6 unnecessary risk because the mechanism for calculating and paying interest on the  
7 cost-free funds provided by ratepayers is unknown.  
8

9 Q. DOES THE COMMISSION'S AUTHORIZATION OF A "TRACKER MECHANISM"  
10 INCREASE THE PROBABILITY THAT INTERGENERATIONAL INEQUITY WILL  
11 OCCUR?

12 A. Yes. Every day that the workings of the tracker mechanism are left undefined  
13 increases the risk that current ratepayers who leave the system will not receive  
14 credits for excess margins achieved by KCPL. The Commission's decision to  
15 reduce KCPL's risk, by using such a low percentile for a baseline margin, has  
16 increased the harm to these ratepayers by forcing them to pay higher retail rates  
17 with no assurance of future offsetting credits. In addition, depending on when  
18 credits are returned to ratepayers, it is possible that ratepayers who did not provide  
19 cost-free funds to the utility may themselves be provided with credits which they do  
20 not deserve. Public Counsel does not believe that increasing the harm to one group  
21 of ratepayers while benefiting another, who deserve no benefit, just so KCPL's risk

1 can be lowered to a level which it agrees has a fairly substantial (75%) chance of  
2 being met or exceeded is not a reasonable policy.

3  
4 Q. WHAT LEVEL OF NON-FIRM OFF-SYSTEM SALES MARGIN SHOULD BE  
5 INCLUDED IN KCPL'S COST OF SERVICE ON A GOING-FORWARD BASIS?

6 A. Public Counsel is acutely aware of, and shares, the Commission's concern that  
7 KCPL's operations not be unduly burdened while it is in the current construction  
8 mode. In fact, this was the reason why Public Counsel helped construct and agreed  
9 upon the regulatory plan that was approved by the Commission in KCPL Case No.  
10 EO-2005-0329. However, it is our belief that a baseline net margin set at the 25<sup>th</sup>  
11 percentile is unreasonably low in light of the extensive risk-sharing between  
12 ratepayers and shareholders that has already been effectuated in the KCPL  
13 regulatory plan.

14  
15 In Case No. ER-2006-0314, OPC recommended exposing rate payers and  
16 shareholders to equal amounts of risk by setting the baseline at the 50th percentile  
17 level. The Commission rejected the OPC position even though the net margins  
18 actually achieved by the Company during the years 2004 through 2006 far  
19 exceeded the 25<sup>th</sup> percentile baseline the Commission ultimately authorized for year  
20 2007. Thus, in order to more fairly allocate the associated risks involved and to  
21 create incentive for the Company to seek and achieve a level of sales margins that

1 is not based on an abnormally low level of likely outcomes, Public Counsel  
2 recommends that the baseline going forward be increased slightly and set at the  
3 40<sup>th</sup> percentile level forecasted by the Company for year 2008. Company's updated  
4 April forecast workpaper identifies the amount associated with the 40<sup>th</sup> percentile as  
5 being, 1) \*\* \_\_\_\_\_ \*\* the 25<sup>th</sup> percentile amount authorized in the  
6 last rate case and 2) approximately \*\* \_\_\_\_\_ \*\* the actual net margin earned  
7 in year 2006.

8  
9 Q. HOW SHOULD THE NON-FIRM OFF-SYSTEM SALES NET MARGIN THAT  
10 EXCEEDS THE BASELINE AMOUNT INCLUDED IN RATES BE CALCULATED  
11 AND TRACKED?

12 A. There are any number of ways to calculate when the baseline and excess net  
13 margin were earned and how the balances are to be tracked. The following are just  
14 a few of the ways that Public Counsel has discussed amongst ourselves,  
15

- 16 1. Weighted monthly by revenues.
- 17 2. Evenly allocated month by month.
- 18 3. Average of single year.
- 19 4. Annual amount.
- 20 5. Cumulative until and after baseline is met.

1 The issue here is not so much the determination of the total annual net margin  
2 earned, but when it was earned over the course of the year and how it is to be  
3 tracked. This is important because if interest is to be accrued on the excess net  
4 margin, the time period in which it was earned and when it is finally credited back to  
5 ratepayers directly impacts the calculation of margins and interest. Since the  
6 Commission has not specified a methodology for the calculation of the excess  
7 margin, interest or the credit of the balance back to ratepayers, it is up to the parties  
8 to propose a reasonable solution.

9  
10 Q. HOW DOES PUBLIC COUNSEL PROPOSE TO CALCULATE AND TRACK  
11 EXCESS MARGIN AND INTEREST EARNED ON THE BALANCES?

12 A. In the interest of making the process as simple and as fair as possible, Public  
13 Counsel proposes that interest associated with excess margins be calculated by  
14 treating the balance as if it was earned on an even monthly basis over the course of  
15 the year and then applying an appropriate interest rate to each month's balance for  
16 the period from when it was earned until it is credited back to ratepayers. To  
17 illustrate,

18  
19 Data:

- 20  
21 1. Total annual net margin = \$36.  
22 2. Annual baseline margin = \$12.  
23 3. Excess margin = \$24 (\$36 minus \$12).

4. \$24 divided by 12 = \$2 represents excess margin earned per month.

Interest Calculation:

Period	\$	Months Outstandin g	Months Factor	Interest 10%
1	2	12	1.00	0.20
2	2	11	0.92	0.18
3	2	10	0.83	0.17
4	2	9	0.75	0.15
5	2	8	0.67	0.13
6	2	7	0.58	0.12
7	2	6	0.50	0.10
8	2	5	0.42	0.08
9	2	4	0.33	0.07
10	2	3	0.25	0.05
11	2	2	0.17	0.03
12	2	1	0.08	0.02
Total Interest				<u>\$1.40</u>

Note: Example assumes a 10% interest rate for illustration purposes only. Also, the excess net margin and interest is credited to ratepayers very near the end of the year. If the credit period extends past year-end the interest earned would continue to accrue until the credits are completed.

Q. WHY DOES PUBLIC COUNSEL BELIEVE THE ABOVE RECOMMENDATION IS REASONABLE?

A. As I stated in the prior Q&A, in the interest of simplicity I believe that this methodology is easy to understand, requires less aggregation of supporting material which would require further analysis, and could result in credits being returned to



1 ratepayers quicker. Furthermore, because the excess margin revenues are in fact  
2 represented by the higher retail rates being paid by ratepayers over the entire  
3 course of the year, I believe that the matching of the revenue source with the period  
4 earned is more appropriately aligned.

5  
6 Q. SHOULD THE TRACKER MECHANISM BE SYMMETRICAL IN THAT THE  
7 OPPORTUNITY EXISTS FOR KCPL TO BOOK EITHER A REGULATORY  
8 ASSET OR A REGULATORY LIABILITY IN THE EVENT THAT THE NET MARGIN  
9 ACTUALLY ACHIEVED DOES NOT EQUAL THE BASELINE AMOUNT  
10 INCLUDED IN THE DETERMINATION OF RATES?

11 A. No, it should not be symmetrical. The Commission's decision in its Order  
12 Regarding Motions For Rehearing, Case No. ER-2006-0314, eliminated the  
13 regulatory asset authorized in the original Report And Order, Case No. ER-2006-  
14 0314. By eliminating the possibility of Company booking a regulatory asset for any  
15 portion of the baseline net margin not achieved, the Commission provided the  
16 utility's management with an incentive to, at a minimum, achieve the baseline.

17  
18 Q. IS THERE A SIGNIFICANT RISK THAT THE COMPANY WILL NOT ACHIEVE  
19 THE 40<sup>TH</sup> PERCENTILE BASELINE PROPOSED BY PUBLIC COUNSEL?

20 A. Though the possibility exists, history shows that the Company has earned and will  
21 most likely continue to earn a level of net margin that exceeds the amount Public

1 Counsel proposes to include in the determination of rates. There does not appear  
2 to be a significant risk that KCPL would not achieve the 40<sup>th</sup> percentile.

3  
4 Q. SHOULD INTEREST BE ADDED TO THE REGULATORY LIABILITY OWED TO  
5 RATEPAYERS?

6 A. Yes. The Commission's Report And Order, Case No. ER-2006-0314, did not  
7 specifically state that interest would be added to excess net margin revenues;  
8 however, Public Counsel believes if interest is not added to net margins subject to  
9 refund, Company will have had free use of ratepayer provided funds for the  
10 period(s) it had the monies in its possession. To not apply interest to the regulatory  
11 liability amount(s) to be credited to ratepayers would be a grossly unfair position  
12 since ratepayers have been paying the higher rates associated with the non-firm off-  
13 system sales net margin not included in KCPL's cost of service in Case No. ER-  
14 2006-0314.

15  
16 Q. WHAT IS AN APPROPRIATE INTEREST RATE TO APPLY TO THE NON-FIRM  
17 OFF-SYSTEM SALES NET MARGIN THAT EXCEEDS THE BASELINE AMOUNT  
18 INCLUDED IN RATES?

19 A. The determination of an appropriate interest rate can be quite subjective and open  
20 to considerable debate and negotiation; however, the fact of the matter is that the  
21 Company actually has the excess net margin revenues in its possession and would

1 have, or should have, applied them towards an investment to maximize their  
2 earnings potential prior to them being credited back to ratepayers. Examples, of  
3 likely interest rates that could be utilized would include the Company's weighted  
4 cost of capital (WROR), its current allowance for funds used during construction rate  
5 (AFUDC), its short-term debt rate and, as in the case of customer deposits, a rate  
6 equaling the recent prime rate+1.  
7

8 Q. HOW ARE THE AFOREMENTIONED RATES OF INTEREST NORMALLY  
9 UTILIZED?

10 A. Each of the aforementioned rates of interest have specific purposes to which they  
11 are normally are applied. For example, both the WROR and the AFUDC rates are  
12 intricately intertwined with the long-term, rate base type, investments of the utility.  
13 Whereas, the short-term debt rate is often applicable to investments or costs of a  
14 shorter time period. Furthermore, short-term debt is included in the determination of  
15 the AFUDC rate utilized for long-term investments and usually supports investments  
16 or costs that are awaiting aggregation to a level economic to finance at long-term  
17 debt rates. Once the refinancing occurs it is thereafter incorporated into the WROR  
18 rate. While the utilization of an interest rate consisting of a recent prime rate+1 and  
19 applied to customer monies being utilized cost-free by utilities has been accepted  
20 ratemaking policy in Missouri for a number of years.  
21

1 Q. WHAT INTEREST RATE DOES PUBLIC COUNSEL RECOMMEND BE APPLIED  
2 TO ANY EXCESS NON-FIRM OFF-SYSTEM NET MARGINS ACHIEVED?

3 A. Public Counsel recommends that a prime+1 interest rate be utilized in the  
4 calculation of interest on the annual excess net margin amount because of the  
5 nature and source of the margin revenues. These revenues represent a cost-free  
6 source of funds that are not likely to be used to support long-term investments of the  
7 utility. They do represent collections from ratepayers which, like customer deposits,  
8 are to be returned or credited to them within a reasonable time. Therefore, I believe  
9 that the application of a prime+1 interest rate to the excess net margin amount  
10 supports the Commission's historical ratemaking treatment for these types of funds.  
11

12 Q. HOW AND WHEN SHOULD ANY EXCESS MARGIN REVENUES, AND  
13 INTEREST, ASSOCIATED WITH RATES DETERMINED IN KCPL CASE NO. ER-  
14 2006-0314 BE RETURNED TO RATEPAYERS?

15 A. It is Public Counsel's recommendation that any excess margin revenues and  
16 interest associated with rates authorized in KCPL Case No. ER-2006-0314 be  
17 calculated and returned to ratepayers as soon as possible after the conclusion of  
18 calendar year 2007.  
19

1 Q. DOES THE PUBLIC COUNSEL'S RECOMMENDATION FOR THE PROPOSED  
2 REFUND DIFFER FROM THAT ORDERED BY THE COMMISSION IN KCPL  
3 CASE NO. ER-2006-0314?

4 A. Yes. The Commission's Report And Order in the case stated that any money  
5 booked to the regulatory liability would flow back to ratepayers in the next rate case;  
6 however, the determination of the excess margin revenues, if any, are not likely to  
7 occur before the conclusion of the instant case.

8  
9 Public Counsel believes that it would be premature to determine an amount in this  
10 case to return to ratepayers and that waiting until KCPL's next rate case (tentatively  
11 scheduled to be filed in Spring 2008) to receive refunds would be too long since it  
12 would, 1) exacerbate the intergenerational inequity effect, 2) leave customers  
13 burdened with the impact of risk transfer, and 3) substantially increase the amount  
14 of interest to be included in the refund amount.

15  
16 Q. DOES PUBLIC COUNSEL RECOMMEND SIMILAR TREATMENT OF ANY  
17 REFUNDS THAT RESULT FROM RATES DETERMINED IN THE INSTANT AND  
18 FUTURE KCPL RATE CASES?

19 A. Yes. As long as the Commission maintains its current policy for including KCPL's  
20 non-firm off-system sales in rates, any excess margin revenues, and interest,

1       should be flowed back to ratepayers as soon as possible after the end of each  
2       calendar year.

3

4   Q.   DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5   A.   Yes, it does.

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b><u>Company Name</u></b>	<b><u>Case No.</u></b>
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291