

Exhibit No.: **GMO-44**
Issue: Rate case expense;
Iatan 1 regulatory asset;
Bad debt expense/Forfeited discount revenue
Witness: John P. Weisensee
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

JOHN P. WEISENSEE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
January 2011**

KCP&L Exhibit No. **GMO 44**
Date **4/31/11** Reporter **NS**
File No. **ER-2010-0356**

Fischer Exhibit No. **44**

SURREBUTTAL TESTIMONY

OF

JOHN P. WEISENSEE

Case No. ER-2010-0356

1 **Q: Please state your name and business address.**

2 A: My name is John P. Weisensee. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

4 **Q: Are you the same John P. Weisensee who prefiled direct and rebuttal testimony in**
5 **this matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your surrebuttal testimony?**

8 A: The purpose of my testimony is to rebut various Missouri Public Service Commission
9 (“MPSC” or “Commission”) Staff (“Staff”) witnesses on the following issues:

10 Rate case expense;

11 Iatan 1 regulatory asset; and

12 Bad debt expense/Forfeited discount revenue;

13 **Rate Case Expense**

14 **Q: Please discuss the rate case expense issue.**

15 A: Staff witness Keith Majors has proposed that certain rate case expenses not be
16 recoverable in this case, expenses that KCP&L Greater Missouri Operations Company
17 (“GMO” or “the Company”) believes are reasonable and prudent rate case costs. In
18 Kansas City Power & Light Company’s (“KCP&L”) Case No. ER-2010-0355, Mr.
19 Majors proposed the removal of \$1,728,874 of costs which he identified as “Staff

1 Transfer to Iatan Project.” In that KCP&L case Mr. Majors also proposed the removal of
2 \$338,813 of costs billed by NextSource for consulting services by Mr. Chris B. Giles. He
3 indicated in his GMO rebuttal testimony that similar adjustments would be proposed in
4 the GMO True Up, although he was not sure of the dollar amounts at that point in the rate
5 proceeding. Finally, Mr. Majors indicated Staff’s intent to make significant additional
6 adjustments to exclude other attorney and consulting fees from allowed rate case
7 expenditures.

8 **Q: Why do you believe it is inappropriate for Staff to remove the “Iatan-related” costs**
9 **from the 2010 rate case expenditures to be deferred and amortized over two years?**

10 A: The Company believes these costs were accurately segregated in its financial statements
11 between those costs related to the construction of the Iatan projects and those costs
12 related to the rate case. Certain consultants and external attorneys submitted invoices for
13 both construction-related activities, such as contract administration, and for rate case
14 activities, such as regulatory filings. Their invoices separately summarized billed
15 amounts by activity and the invoiced costs by activity were recorded to the appropriate
16 accounting distribution. Although the Company does not believe that charges were
17 miscoded, we would certainly be willing to review such detail to ensure that no errors
18 were made.

19 **Q: Do you have any other concerns about this proposed “transfer”?**

20 A: Yes. Mr. Majors indicates on page 19 of his rebuttal testimony that while Staff will
21 remove costs from GMO’s rate case expense, it may not include all such costs in the
22 Iatan Construction Project plant balances. He indicates Staff will do so “if appropriate.”
23 Although the Company disagrees with this adjustment, if Staff should determine that

1 certain rate case costs are more capital in nature, GMO expects that Staff would include
2 in plant any costs that it removes from rate case expenditures.

3 **Q: Why do you disagree with Staff's removal of expenditures billed by NextSource for**
4 **Mr. Giles?**

5 A: First, I would like to clarify that Staff has conveyed its intent to remove these costs from
6 2010 rate case expenditures, but did not reflect such removal in its adjustments in the
7 Staff Accounting Schedules revised December 14, 2010 and attached to my rebuttal
8 testimony. Mr. Majors has indicated that he will make this adjustment in the True Up.

9 **Q: Other than for this concern, do you agree with Staff's intended removal of these**
10 **costs?**

11 A: No, I do not. As stated on pages 20-22 of his rebuttal testimony, Mr. Majors believes that
12 these costs would constitute a double-counting, once through inclusion of Mr. Giles in
13 annualized payroll costs in Case No. ER-2009-0090 ("2009 Rate Case") and again by
14 inclusion in the current case of deferred rate case costs as a consultant.

15 **Q: Is this an accurate depiction?**

16 A: No, it is not. When Mr. Giles retired and ceased to be an employee of KCP&L, his
17 position was filled by Mr. Curtis Blanc, formerly a regulatory lawyer in KCP&L's Legal
18 Department. Mr. Blanc's former position was first filled by Ms. Vickie Schatz. When
19 Ms. Schatz transferred into a different internal position, it was filled by a new hire, Mr.
20 Roger Steiner. Consequently, the annualized payroll in the 2009 Case, which included
21 the Giles/Blanc combination, was subsequently replaced by the Blanc/Steiner
22 combination. In both cases, there were two employees on KCP&L/GMO's payroll and
23 two employees included in cost of service. As a consultant, Mr. Giles is performing

1 services related primarily to rate case recovery of Iatan 2 costs, a new issue in this case.
2 Mr. Giles has a long history with KCP&L, including development and implementation of
3 the Regulatory Plan. Mr. Giles was employed by KCP&L during the majority of the time
4 the Iatan project was under construction. Mr. Giles and Mr. Blanc's roles are not
5 duplicative at all as evidenced by the significant differences in both of their testimonies in
6 this case.

7 **Q: What is your concern about the contention that Staff will likely make significant**
8 **additional adjustments to exclude certain consulting and attorney fees?**

9 A: At this time, Staff has not presented any workpapers identifying either the amount or
10 computation of these additional adjustments. On page 20 of his rebuttal testimony, Mr.
11 Majors only indicates that:

12 Staff has concerns that GMO may have been charged excessively high
13 hourly rates for attorney and consulting fees, that KCPL may have retained more
14 attorneys and consultants for this work than reasonable and appropriate, and the
15 total costs KCPL and GMO have incurred to process the current rate cases. It is
16 likely that Staff will make adjustments to exclude GMO expenditures from
17 GMO's rate case expense.

18 GMO believes that the True Up case is intended to update the values of issues already
19 identified and defined in earlier testimony. If new adjustments are introduced at that
20 time, the Company will not have had the opportunity to rebut either the amount or
21 computation of such adjustments.

22 **Q: Please summarize the Company's position on this issue.**

23 A: GMO believes its "Iatan-related" rate case charges are properly coded to the deferred rate
24 case account, as opposed to a capital account, but would be willing to review any specific
25 charges that Staff believes are miscoded. If such costs are miscoded then the costs should
26 be included in capital costs in this rate case. The Company believes its NextSource costs

1 related to the services of Mr. Giles are properly includable in deferred rate case costs.
2 GMO believes that it would be improper for Staff to initiate new adjustments during the
3 True Up to reduce attorney and other consulting fees.

4 **Iatan 1 Regulatory Asset**

5 **Q: Please discuss the Iatan 1 regulatory asset issue.**

6 A: Mr. Majors does not believe the Iatan 1 Air Quality Control System ("AQCS") and Iatan
7 Common plant regulatory asset, collectively referred to as the "Iatan 1 regulatory asset",
8 should be included in rate base in this case, or the associated annual amortization expense
9 in cost of service.

10 **Q: Please briefly describe the Iatan 1 regulatory asset.**

11 A: The Non-Unanimous Stipulation and Agreement in the 2009 Rate Case, approved by the
12 Commission on June 10, 2009, included a provision that allowed the Company to record
13 in a regulatory asset carrying costs related to Iatan 1 AQCS and Iatan Common plant
14 additions not included in rate base in the 2009 Rate Case, through the effective date of
15 new rates in the 2010 rate case (current case). Additionally, the regulatory asset
16 provision allowed GMO to defer to this regulatory asset depreciation charges on these
17 plant additions, also through the effective date of new rates in this case. The combined
18 effect of these two provisions is essentially to treat plant additions not included in the
19 2009 Rate Case similar to construction work in progress, until new rates are established
20 in this rate case.

21 **Q: What rationale does Mr. Majors offer to support such exclusion?**

22 A: He states on page 23 of his rebuttal testimony:

23 Staff included neither the Iatan 1 regulatory asset nor an amortization of it
24 in Staff's determination of GMO's revenue requirement for L&P in its direct

1 filing, because Staff's proposed disallowances of costs of both the Iatan Unit 1
2 Air Quality Control System (AQCS) Project and the Iatan Common Plant
3 essentially remove the need for construction accounting on the plant expenditures
4 not included in rates in the prior case, Case No. ER-2009-0089 (sic).

5 **Q: Do you agree with his rationale?**

6 A: No, I do not. All Iatan 1 AQCS and Iatan Common costs should be included in rate base
7 prior to any decision as to possible prudence disallowance. By excluding the carrying
8 cost component of the regulatory asset, Staff has proposed an additional Iatan 1
9 disallowance over and above the prudence disallowance it has proposed in this case.

10 **Q: Does the same logic apply to the depreciation deferral component of the Iatan 1**
11 **regulatory asset?**

12 A: The end result is the same, although the depreciation component serves a different
13 purpose than the carrying cost component. As state above, the purpose of the
14 depreciation component is to reverse charges to the depreciation reserve for depreciation
15 expense charged on plant amounts that have not yet been included in rate base.
16 Therefore, disallowing this "depreciation reversal" results in a reduction in net plant/rate
17 base and is effectively a "disallowance" similar to the carrying cost disallowance. Once
18 again, the only disallowance that should be considered should be any disallowance
19 related to prudence, reflected as a reduction in the total costs of the project, which
20 include the regulatory asset.

21 **Q: What is the impact of this issue?**

22 A: The exact impact will not be known until the True Up. However, based on the
23 Company's update that was provided to the parties, the rate base impact is projected to be
24 about \$2.0 million and \$1.5 million for GMO's MPS and L&P, jurisdictions respectively,
25 as of the True Up date, consisting of the regulatory asset balances of \$3.3 million and

1 \$2.4 million, respectively, net of associated ADIT of \$1.3 million and \$0.9 million,
2 respectively. The annual amortization expense, based on a 27 year amortization period,
3 is about \$123,000 and \$88,000, respectively.

4 **Q: Please summarize the Company's position on this issue.**

5 A: The Iatan 1 regulatory asset should be included in rate base in this case, as should
6 capitalized Iatan 1 costs. Any Commission-authorized disallowance should relate to
7 prudence issues and should be reflected as a reduction in total Iatan 1 costs, including the
8 regulatory asset and capitalized costs.

9 **Bad Debt Expense and Forfeited Discount Revenue**

10 **Q: Please discuss the bad debt expense issue.**

11 A: Staff and GMO, in their respective revenue requirement schedules, have different
12 approaches to estimating bad debt expense associated with the revenue requirement
13 ultimately granted by the Commission in this case, referred to as the "bad debt gross-up."
14 Neither party addressed this issue in its respective rebuttal testimony. I have since
15 spoken to Mr. Cary Featherstone of the Staff and we have agreed to bring this issue up in
16 our respective surrebuttal testimonies.

17 **Q: What is Staff's approach?**

18 A: My understanding is that Staff is taking the same position in this rate case that it took in
19 the 2009 Rate Case, that no bad debt expense should be included in the revenue
20 requirement related to the revenue requirement increase. Staff witness Kofi Boateng, in
21 his surrebuttal testimony in that case (page 2) stated:

22 Staff believes that there is not a direct correlation for the need to reflect
23 increased bad debts associated with the additional increase in rates from this case.
24 In analyzing the data for bad debts there is not a sufficient relationship to support
25 the proposal made by GMO.

1 **Q: What is the Company's approach?**

2 A: GMO agrees that there is not an exact relationship, where one could multiply the rate
3 increase by a normalized bad debt write-up factor and determine the exact amount of the
4 bad debt expense increase. Such an exact relationship seldom occurs, with income tax
5 impacts being one exception. However, the Company believes it is entirely reasonable
6 and intuitive that bad debt write-offs will be higher if a rate increase is granted than the
7 write-offs would be without such an increase, all other factors, such as the economy,
8 being held constant. The inability to determine the exact impact is not a reason to deny
9 any bad debt recovery on the incremental revenue. Bad debts should be calculated on the
10 revenue increase based on the normalized bad debt write-off factor in this case.

11 **Q. Has the Commission ruled on this issue in any past rate case proceedings?**

12 A. Yes. In KCP&L's Case No. ER-2006-0314, the Commission's Report and Order, page
13 63, included this conclusion in regard to bad debt expense:

14 The Commission understands Staff's argument that there is not a perfect
15 positive correlation between retail sales and the percentage of bad debts. While
16 it's possible that KCPL's bad debt expense could decrease, the Commission finds
17 it more probable, and therefore just and reasonable, that an increase in the amount
18 of revenue that KCPL is allowed to collect from its Missouri retail ratepayers will
19 result in a corresponding increase in bad debt expense.

20 **Q: Do Staff and GMO agree on the bad debt write-off factor?**

21 A: Yes. The parties calculated the normalized bad debt write-off factor consistently. The
22 actual factor used in this case will be adjusted as part of the True Up process.

23 **Q: What is the impact of the different approaches taken by Staff and the Company
24 regarding the bad debt gross-up?**

25 A: The impact cannot be determined at this time because it is a function of the revenue
26 increase granted and the update to the normalized bad debt factor that will occur at True

1 Up. Staff's bad debt write-off factor in its filed case was 0.5414% and 0.5177% for MPS
2 and L&P, respectively; therefore, the impact should be approximately that rate multiplied
3 by the rate increase granted in this case.

4 **Q: If the Commission should agree with the Company on this issue would forfeited**
5 **discount revenue be affected?**

6 A: Yes. GMO believes it is reasonable that forfeited discount revenue would be higher if a
7 rate increase is granted than the revenue would be without such an increase, similar to the
8 bad debt write-off impact. Therefore, forfeited discount revenue should be calculated on
9 the rate increase granted in this case, based on the normalized forfeited discount factor.
10 Staff and the Company agree on the normalized factor to use in this case.

11 **Q: Does that conclude your testimony?**

12 A: Yes, it does.

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

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its)
Electric Tariffs to Effectuate a Rate Increase)

Docket No. ER-2010-0356

AFFIDAVIT OF JOHN P. WEISENSEE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

John P. Weisensee, being first duly sworn on his oath, states:

1. My name is John P. Weisensee. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Regulatory Affairs Manager.

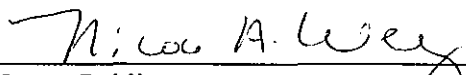
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



John P. Weisensee

Subscribed and sworn before me this 12th day of January, 2011.



Notary Public

My commission expires: Feb. 4, 2011

