

Exhibit No.: **KCPL-65**

Issue: ADIT- Additional amortizations;
Rate case expense;
Iatan 1 regulatory asset;
Production maintenance;
Bad debt expense and Forfeited
discount revenue

Witness: John P. Weisensee

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2010-0355

Date Testimony Prepared: January 5, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

SURREBUTTAL TESTIMONY

OF

JOHN P. WEISENSEE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
January 2011**

Fischer Exhibit No. **KCPL 65**
Date **1/31/11** Reporter **NS**
File No. **ER-2010-0355**

SURREBUTTAL TESTIMONY

OF

JOHN P. WEISENSEE

Case No. ER-2010-0355

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 Accumulated deferred income taxes (“ADIT”)- Additional amortizations;

11 Rate case expense;

12 Iatan I regulatory asset;

13 Production maintenance; and

14 Bad debt expense and Forfeited discount revenue

15 **ADIT-Additional Amortizations**

16 **Q: Please discuss the ADIT-Additional amortizations issue.**

17 A: Mr. Harrison states that Staff has some concerns with the \$56.2 million (Missouri
18 jurisdictional) ADIT- Additional amortizations balance that Kansas City Power & Light

1 Company ("KCP&L" or "the Company") has included as a reduction in the ADIT rate
2 base offset.

3 **Q: What is Mr. Harrison's specific concern?**

4 A: Mr. Harrison raises several points, but it appears his primary point is that Staff is still
5 reviewing the reasonableness of this rate base component and would therefore like to
6 keep this issue "alive" until the True Up process in this case, when the "final" balances
7 are available. Additionally, Mr. Harrison discusses other ADIT items are not related in
8 any manner to the ADIT-Additional amortizations issue.

9 **Q: Please briefly describe the additional amortizations mechanism.**

10 A: In Case No. EO-2005-0329 ("Regulatory Plan"), KCP&L was granted an additional/
11 accelerated amortization mechanism to assist with cash flow during the Regulatory Plan.
12 During the various rate cases under the Regulatory Plan, the Company and Staff included
13 in cost of service the level of annualized amortization expense necessary to help meet
14 credit metrics. The total additional amortization recovered in rates through the effective
15 date of new rates in this case will be \$146.4 million.

16 **Q: Please discuss the deferred income tax effects of this mechanism.**

17 A: In each rate case during the Regulatory Plan, KCP&L and Staff have included in the tax
18 straight line depreciation/amortization component of the income tax provision the current
19 annualized level of additional amortization built into rates. However, this amortization
20 has not been a deductible expense on the Company's income tax return. The result has
21 been a higher currently payable income tax expense offset by a "negative" deferred tax
22 expense and an accumulated deferred tax asset. This effect is very similar, although in
23 the opposite direction, to the more common "positive" deferred income tax expense

1 related to accelerated tax depreciation, which is caused by accelerated tax return
2 depreciation rates in excess of straight-line rates. Accelerated tax depreciation results in
3 a “deferred tax liability” or rate base offset.

4 **Q: How will this ADIT balance associated with accelerated amortizations reverse?**

5 A: The reversal mechanism will be directly tied to the approach used to reverse the \$146.4
6 million of accumulated additional amortizations. Several parties have suggested
7 approaches to the additional amortization reversal, as I discuss in my rebuttal testimony,
8 pages 24-28. Under the Company’s proposal, the cumulative additional amortizations
9 reverse, and flow back to ratepayers, through annual reductions in depreciation expense.
10 Tax straight line depreciation will correspondingly be lowered, and, with no comparable
11 effect on income tax return depreciation, the result will be a deferred tax expense and a
12 corresponding reduction in the deferred tax asset.

13 **Q: Would this same result occur with a different approach to additional amortization**
14 **flow back, such as the regulatory liability approach suggested by Midwest Energy**
15 **Users Association/Missouri Industrial Energy Consumers/Praxair, Inc. witness**
16 **Greg R. Meyer in his rebuttal testimony, pages 29-31?**

17 A: Yes, the same reversal would occur. In that case the impact is straight forward. As the
18 regulatory liability is amortized, over 15 years under Mr. Meyer’s proposal, a negative
19 amount would be reflected in the income tax calculation for tax straight-line
20 amortization. This would cause a greater excess of tax return depreciation/amortization
21 over tax straight-line depreciation/amortization, with a resulting charge (increase) to
22 deferred tax expense. The charge to deferred income tax expense would be accompanied
23 by a reduction of the associated deferred income tax asset. As a result, the deferred tax

1 asset would be amortized over that same time period as is the amortization of the
2 regulatory liability.

3 **Q: You mentioned that Mr. Harrison would like to wait until True Up to resolve this**
4 **issue. Why is that?**

5 A: He believes all relevant amounts must be trued up before Staff can determine whether the
6 Company's recommended approach is valid.

7 **Q: Do you agree?**

8 A: No, I do not. KCP&L's approach is the approach contemplated under the Regulatory
9 Plan and documented in the Non-Unanimous Stipulation and Agreement Regarding
10 Regulatory Plan Additional Amortizations in Case No. ER-2006-0314 ("2006 Case"),
11 approved by the Commission on December 21, 2006. The rationale behind this approach
12 could have been evaluated in the last rate case (Case No. ER-2009-0089, or "2009 Rate
13 Case") and/or it could have been evaluated up to this point in the current rate case. Final
14 dollar amounts are not necessary in order to determine the proper approach. The True Up
15 is not the proper time to address rate case theory. If Staff had any specific objections to
16 the Company's approach on this issue, they should have brought them up in rebuttal
17 testimony.

18 **Q: You mentioned that Mr. Harrison raised several points. Please elaborate.**

19 A: Mr. Harrison made three other points, as follows:

20 1. He believes the \$56.2 million ADIT balance is an adjustment. Additionally, he states
21 that this "adjustment" was made in prior rate cases and may no longer be necessary.

1 2. He believes there is some connection or relationship between this \$56.2 million
2 ADIT- Additional amortizations balance and \$55.8 million of ADIT adjustments
3 discussed in data request No. 122.2.

4 3. He discusses “synthetic book depreciation vs. fully allocated depreciation” and the
5 “unrecovered reserve amortization.”

6 **Q: Please discuss point #1, regarding the “adjustment.”**

7 A: In several sections of his testimony, Mr. Harrison discusses the \$56.2 million ADIT-
8 Additional amortizations “adjustment.” The Company did not make a \$56.2 million
9 ADIT adjustment related to additional amortizations. The \$56.2 million represents the
10 expected ADIT- Additional amortizations balance at May 4, 2011, the effective date of
11 new rates in this rate case. This ADIT balance has accumulated/grown over the years
12 under the Regulatory Plan, coincident with the accumulation of the additional
13 amortization itself. That is, this ADIT balance at any point in time has been 38.39% of
14 the accumulated additional amortizations, representing the composite federal/state
15 income tax rate impact.

16 **Q: Please address Mr. Harrison’s concern regarding the ADIT balance possibly being
17 considered in prior rate cases and not being necessary in this rate case.**

18 A: KCP&L has considered the ADIT- Additional amortizations balance in prior cases, as
19 required under terms of the Regulatory Plan. However, once again, the ADIT balance
20 reflected in prior Regulatory Plan cases has simply been the income tax impact of the
21 accumulated additional amortizations at that point in time. The Company will continue
22 to reflect the unamortized ADIT- Additional amortizations balance in its rate cases in
23 future years, until the balance has been fully amortized. This will likely take 15-20 years,

1 depending on which method being proposed by the parties in this rate case is used to
2 amortize additional amortizations, as discussed above.

3 **Q: You mentioned that the Company has abided by the Regulatory Plan as to the**
4 **ADIT treatment. Please elaborate.**

5 **A:** Mr. Harrison has provided us the Regulatory Plan requirements of this ADIT balance in
6 his rebuttal Testimony, page 4:

7 The accumulated book depreciation reserve resulting from the recognition
8 of the Regulatory Plan amortization as book depreciation will be recognized as an
9 offset (reduction) to rate base in subsequent rate cases. The accumulated reduction
10 in deferred income tax expense resulting from including the Regulatory Plan
11 amortization in the straight line tax depreciation deduction will be reflected on
12 KCPL's tax records and included in subsequent rate cases, as appropriate, along
13 with all other factors included in the determination of deferred income tax
14 expense. The net effect of these changes related to the Regulatory Plan
15 amortizations to the accumulated depreciation reserve and the accumulated
16 deferred tax reserve is an overall reduction to KCPL's rate base. **The reduction**
17 **in deferred taxes will be reflected in the deferred income tax balance in rate**
18 **base in future rate cases (emphasis added),** as well as all other changes affecting
19 the deferred tax balance, including additional deferred taxes resulting from
20 KCPL's plant additions.

21 This is exactly what the Company has done in this rate case proceeding.

22 **Q: Please discuss point #2, regarding a \$55.8 million ADIT adjustment.**

23 **A:** The \$55.8 million adjustment referred to by Mr. Harrison is part of a larger \$62.0 million
24 adjustment representing the amount by which the test year financial basis ADIT net
25 liability must be decreased to reflect the net ADIT liability on a Missouri basis and to
26 reflect changes between the December 31, 2009 test year ADIT and the ADIT at the June
27 30, 2010 cutoff date. This conversion of financial-basis to a Missouri-jurisdictional basis
28 is a typical adjustment made in KCP&L's rate cases. Mr. Harrison has confused this
29 adjustment with the \$56.2 million ADIT- Additional amortizations balance. The two

1 amounts are completely unrelated, although the amounts are similar and both relate to
2 ADIT. Thus, Mr. Harrison's confusion is understandable.

3 **Q: Please discuss point #3, regarding "synthetic book depreciation vs. fully allocated
4 depreciation" and the "unrecovered reserve amortization."**

5 A: First, and foremost, these two items are completely unrelated to the issue at hand, the
6 proper treatment of the ADIT- Additional amortizations balance. Therefore, Mr.
7 Harrison should not even have brought up these two items; their introduction simply
8 confuses the issue.

9 **Q: However, since he has brought up these two items, please discuss the nature of each
10 item.**

11 A: Staff made a point several years ago that the Company should continue to record negative
12 deferred income tax expense on plant assets that had become fully depreciated for income
13 tax purposes. Up to that point KCP&L had not recorded such negative deferred income
14 taxes. The memorandum that Mr. Harrison attached to his rebuttal testimony (Schedule
15 PRH 1-1 through 1-3) was simply documentation of the Company's approach to
16 addressing this Staff concern, addressing the "synthetic book depreciation vs. fully
17 allocated depreciation" issue. KCP&L did make the necessary revisions and Staff has not
18 raised any concerns in this area since that time. Once again, this issue is completely
19 unrelated to the ADIT- Additional amortizations issue that Staff has raised in this rate
20 case.

21 **Q: Please discuss the "unrecovered reserve amortization" item.**

22 A: KCP&L is proposing in this case that it be allowed to recover through a ten-year
23 amortization the unrecovered reserve related to its general plant accounts. I discuss this

1 issue in my direct testimony (pages 72-74) and Company witness John Spanos discusses
2 this issue in his direct testimony (pages 15-16). This issue has nothing to do with the
3 ADIT- Additional amortizations issue.

4 **Q: Has the ADIT- Additional amortizations issue come up in other KCP&L rate cases?**

5 A: As discussed above, the issue came up in Non-Unanimous Stipulation and Agreement in
6 the 2006 Case, resulting in formal recognition of rate base treatment of this ADIT
7 balance. Mr. Harrison addresses this issue at length in his rebuttal testimony in this case
8 (pages 4-5). The ADIT- Additional amortizations issue was also a major issue in the
9 Company's recent Kansas rate case, Docket No. 10-KCPE-415-RTS ("Kansas 2010
10 Case").

11 **Q: Please discuss the issue in the 2010 Kansas Rate Case.**

12 A: In the 2010 Kansas Rate Case, the issue was labeled differently, "ADIT- Pre-Tax
13 Payment on Plant ("PTPP")", with the term "PTPP" being identical to the term
14 "Additional Amortizations" used in this Missouri case. One of the parties in the 2010
15 Kansas Rate Case did not believe the ADIT balance should be included in rate base,
16 similar to Staff's concern in this rate case. The Kansas Corporation Commission
17 ("KCC") Order in that case stated, on page 106:

18 The Commission finds evidence in the record as a whole supports KCPL's
19 request to reflect tax impacts from PTPP in its revenue requirement. The
20 Commission rejects the argument that KCPL should not be allowed to recover
21 income tax expenses resulting from PTPP because these impacts were not
22 specifically listed in the 1025 S&A or in the Giles 09-246 Explanation. The
23 Commission approves KCPL's proposal to reflect PPTP in the amount of
24 \$71,750,000 in its Reserve for Depreciation and to reduce its ADIT reserve in the
25 amount of \$28,400,443 to account for income tax expense.

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

1 A: KCP&L has consistently treated the ADIT associated with the additional amortizations as
2 a rate base component, throughout the Regulatory Plan rate cases. Such treatment has
3 been authorized by the Commission's approval of a prior Stipulation and Agreement on
4 the subject. The Company is not proposing any different treatment in this case. Staff has
5 raised several "points", many of which are not at all germane to this issue. Staff has
6 stated that we must wait for the True Up to further discuss this issue. This issue, if there
7 even is an issue, must be dealt with at Hearings; the True Up is not the appropriate forum.

8 **Rate Case Expense**

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

10 A: Staff witness Keith Majors has proposed that certain rate case expenses not be
11 recoverable in this case, expenses that KCP&L believes are reasonable and prudent rate
12 case costs. Mr. Majors proposes the removal of \$1,728,874 of costs which he identifies
13 as "Staff Transfer to Iatan Project." He proposes the removal of \$338,813 of costs billed
14 by NextSource for consulting services by Chris B. Giles. Finally, Mr. Majors indicated
15 Staff's intent to make significant additional adjustments to exclude other attorney and
16 consulting fees from allowed rate case expenditures.

17 **Q: Why do you believe it is inappropriate for Staff to remove the \$1.7 million of costs
18 from the 2010 rate case expenditures to be deferred and amortized over two years?**

19 A: In its workpaper supporting adjustment E-181.6 as reflected in the Staff Accounting
20 Schedules revised December 7, 2010, attached to my rebuttal testimony as Schedule
21 JPW2010-8, Staff removed \$1,728,874 from the \$1,862,817 cumulative 2010 rate case
22 expenditures as of June 30, 2010. The caption indicates "Staff Transfer to Iatan Project."
23 KCP&L believes that costs were accurately segregated in its financial statements between

1 those related to the construction of the Iatan projects and those related to the rate case
2 activity for that project. Certain consultants and external attorneys submitted invoices for
3 both construction-related activities, such as contract administration, and for rate case
4 activities such as regulatory filings. Their invoices separately summarized billed
5 amounts by activity and the invoiced costs by activity were recorded to the appropriate
6 accounting distribution. Staff's workpapers do not include a listing identifying which
7 expenditures it believes were miscoded as rate case expenses. It seems highly unlikely
8 that over 90% of the cumulative 2010 rate case costs reflected by KCP&L as of June 30,
9 2010 were miscoded. Although KCP&L does not believe that charges were miscoded,
10 we would certainly be willing to review such detail to ensure that no errors were made.

11 **Q: Do you have any other concerns about this proposed "transfer"?**

12 A: Yes. Mr. Majors indicates on page 19 of his rebuttal testimony that while Staff removed
13 costs from KCP&L's rate case expense, it has not included such costs in the Iatan
14 Construction Project plant balances at this time. He indicates Staff will do so "if
15 appropriate." Although KCP&L disagrees with this adjustment, if Staff should determine
16 that certain rate case costs are more capital in nature, KCP&L expects that Staff would
17 include in plant any costs that it removes from rate case expenditures.

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

20 A: First, I would like to clarify that Staff has conveyed its intent to remove these costs from
21 2010 rate case expenditures, but did not reflect such removal in its adjustments in the
22 Staff Accounting Schedules revised December 7, 2010 and attached to my rebuttal
23 testimony. Second, in subsequent discussions between Staff and KCP&L, it was

1 determined that the \$338,813 amount includes amounts charged to KCP&L Greater
2 Missouri Operations Company ("GMO"), as well as to KCP&L. Mr. Majors has
3 indicated that he will adjust this amount for the True Up.

4 **Q: Other than for those concerns, do you agree with Staff's intended removal of these**
5 **costs?**

6 A: No, I do not. As stated on page 21 of his rebuttal testimony, Mr. Majors believes that
7 these costs would constitute a double-counting, once through inclusion of Mr. Giles in
8 annualized payroll costs in the 2009 Case and again by inclusion in the current case of
9 deferred rate case costs as a consultant.

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

11 A: No, it is not. When Mr. Giles retired and ceased to be an employee of KCP&L, his
12 position was filled by Mr. Curtis Blanc, formerly a regulatory lawyer in KCP&L's Legal
13 Department. Mr. Blanc's former position was first filled by Ms. Vickie Schatz. When
14 Ms. Schatz transferred into a different internal position, it was filled by a new hire, Mr.
15 Roger Steiner. Consequently, the annualized payroll in the 2009 Case, which included
16 the Giles/Blanc combination, was subsequently replaced by the Blanc/Steiner
17 combination. In both cases, there were two employees on KCP&L's payroll and two
18 employees included in cost of service. As a consultant, Mr. Giles is performing services
19 related primarily to rate case recovery of Iatan 2 costs, a new issue in this case. Mr. Giles
20 has a long history with KCP&L, including development and implementation of the
21 Regulatory Plan. Mr. Giles was employed by KCP&L during the majority of the time the
22 Iatan project was under construction. Mr. Giles and Mr. Blanc's roles are not duplicative
23 at all as evidenced by the significant differences in both of their testimonies in this case.

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

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

6 Staff has concerns that KCP&L may have been charged excessively high
7 hourly rates for attorney and consulting fees, that KCPL may have retained more
8 attorneys and consultants for this work than it needed, and the total costs KCPL
9 has incurred to process the current rate cases. It is likely that Staff will make
10 significant adjustments to exclude KCPL expenditures that Staff removes from
11 KCPL's rate case expense.

12 KCP&L believes that the True Up case is intended to update the values of issues already
13 identified and defined in earlier testimony. If new adjustments are introduced at that
14 time, the Company will not have had the opportunity to rebut either the amount or
15 computation of such adjustments.

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

17 A: KCP&L believes its "Iatan-related" rate case charges are properly coded to the deferred
18 rate case account, as opposed to a capital account, but would be willing to review any
19 specific charges that Staff believes are miscoded. If such costs are miscoded then the
20 costs should be included in capital costs in this rate case. The Company believes its
21 NextSource costs related to the services of Mr. Chris Giles are properly includable in
22 deferred rate case costs. The Company believes that it would be improper for Staff
23 to initiate new adjustments to reduce rate case expense during the True Up.

24 **Iatan 1 Regulatory Asset**

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

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

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

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

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

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

18 Staff included neither the Iatan 1 regulatory asset nor an amortization of it in
19 Staff's determination of KCPL's revenue requirement in its direct filing because Staff's
20 proposed disallowances of costs of both the Iatan Unit 1 Air Quality Control System
21 (AQCS) Project and the Iatan Common Plant essentially remove the need for
22 construction accounting on the plant expenditures not included in rates in the prior case,
23 Case No. ER-2009-0089.

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

25 A: No, I do not. All Iatan 1 AQCS and Iatan Common costs should be included in rate base
26 prior to any decision as to possible prudence disallowance. By excluding the carrying

1 cost component of the regulatory asset, Staff has proposed an additional Iatan 1
2 disallowance over and above the prudence disallowance it has proposed in this case.

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

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

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

15 A: The exact impact will not be known until the True Up. However, based on the
16 Company's Update that was provided to the parties the rate base impact is projected to be
17 about \$8.6 million as of the True Up date, consisting of the regulatory asset balance of
18 \$14.0 million, net of associated ADIT of \$5.4 million. The annual amortization expense,
19 based on a 26 year amortization period, is about \$540,000. These amounts are Missouri
20 jurisdictional.

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

22 A: The Iatan 1 regulatory asset should be included in rate base in this case, as should
23 capitalized Iatan 1 costs. Any Commission-authorized disallowance should relate to

1 prudency issues and should be reflected as a reduction in total Iatan 1 costs, including the
2 regulatory asset and capitalized costs.

3 **Production Maintenance**

4 **Q: Please discuss the Production maintenance issue.**

5 A: The Company has proposed that production maintenance expense be normalized based
6 on a seven-year average indexed for price escalation using the Handy-Whitman Index
7 (“HW Index”). Staff is opposed to the use of indexing in general and specifically this
8 particular index.

9 **Q: What concerns does Staff have with indexing in general?**

10 A: Staff witness Karen Lyons states that use of an index is not consistent with traditional
11 ratemaking, in particular: (1) Indexing is not used for other cost of service components;
12 and (2) indexing is not consistent with the “known and measurable” concept.

13 **Q: Please address the concern regarding other cost of service components.**

14 A: Few if any other cost of service adjustments are based on normalizing costs that span
15 seven years. It is simply not reasonable to average costs spanning this interval without
16 adjusting each year’s dollars to a common base, in this case the 2009 test year. Any
17 resulting average would be misleading. KCP&L would agree that in circumstances
18 where an averaging of this many years is appropriate that indexing should be utilized, not
19 just for maintenance normalization.

20 **Q: Please address the concern regarding the known and measurable concept.**

21 A: Ms. Lyons, on page 18 of her rebuttal testimony states that “inflationary factors
22 contradict the known and measurable concept as they are highly speculative in nature.”
23 KCP&L is not proposing the use of inflationary factors. An example of an inflationary

1 factor would be asking for payroll cost in this case based on current costs (December 31,
2 2010 for the True Up) escalated to estimated 2011 payroll rates. The Company is not
3 attempting to "inflate" maintenance costs, but simply to average such costs over an
4 extended period of time, adjusting the annual expenses to a common dollar value.

5 **Q: Please address the comment that the indexing is "highly speculative" in nature.**

6 A: I believe that my comments above, specifically addressing the HW Index, adequately put
7 that concern to rest.

8 **Q: What additional concerns does Staff have with the HW Index?**

9 A: Ms. Lyons states that the production maintenance normalization adjustment includes only
10 non-labor costs, while the HW Index is developed from labor costs.

11 **Q: Please address this concern.**

12 A: It is true that the production maintenance normalization adjustment does not include
13 KCP&L internal labor costs, but outside contractor costs are a very significant
14 component of that adjustment. The HW Index includes not only contractor labor costs,
15 but also many types of "non-labor" components. The Forward section of the HW Index,
16 Bulletin No. 172 (1912 to July 2010) states:

17 Prices of basic materials such as cement, sand, gravel, cast iron pipe, wire, etc.,
18 are obtained from publications such as Engineering NewsRecord and checked against
19 prices actually being paid for such materials. Labor cost trends are computed from labor
20 rates obtained from sources such as the Construction Labor Research Council. Prices and
21 cost trends of equipment are obtained from nationally recognized manufacturers, and
22 operating utilities.

23 The proportions of basic materials, labor, equipment and other cost components
24 used in the Handy-Whitman Index are based on analyses developed during valuation and
25 design assignments and on data furnished by utilities and industrial sources willing to
26 assist with the Index. These data are reviewed continuously, and weightings and
27 components are revised as required.

1 **Q: Are there any other comments made by Ms. Lyons regarding the HW Index that**
2 **you would like to address?**

3 A: Yes, Ms. Lyons explains in detail how the Company and Staff consider payroll costs in
4 their respective payroll annualization adjustments and therefore the use of the HW Index
5 is inappropriate. Once again, we agree that the production maintenance adjustment
6 excludes KCP&L internal payroll. That issue is not relevant since, as I mentioned above,
7 the "labor" component of the HW Index addresses the very significant contractor cost
8 that the Company incurs. I discuss this further in my direct testimony (page 50).

9 **Q: Do you have any other comments regarding the HW Index?**

10 A: Yes. There are several other reasons why the HW Index is an appropriate index to use
11 for the production maintenance normalization, including:

- 12 • The Index is a highly recognized independent source for historical cost fluctuations,
13 utilized for rate cases and many other utility functions since 1924.
- 14 • The Index was developed specifically for the electric industry.
- 15 • The Index is available by geographical region. KCP&L uses the specific Index
16 prepared for electric utilities in the North Central Region, which encompasses the
17 Company's Missouri and Kansas jurisdictions.

18 **Q: Has the Company considered any other indexes?**

19 A: KCP&L has considered other published indexes, such as the Consumer Price Index, but
20 has found that other indexes do not provide the advantages of the HW Index discussed
21 above. KCP&L did consider in this case using an "internal" index, based on the
22 Company's actual experiences, and compiled price escalation data.

23 **Q: What were the results of that compilation?**

1 A: As I discuss in my direct testimony (page 50), KCP&L's internal study of production
2 maintenance costs, which was based on local conditions and prices (excluding internal
3 labor), supports higher escalation factors than those provided by the HW Index. In
4 response to Staff Data Request No. 479, the Company provided its historical cost analysis
5 on both contractor labor and materials that demonstrated the conservative correlation to
6 the HW Index. Since the HW Index results in a more conservative escalation rate than
7 the Company's internal experience, it makes sense to use an index that reduces ratepayer
8 impact and is easy to administer (i.e., a detailed study is not required for each use).

9 **Q: Does the HW Index Bulletin address the comparison of the HW Index to specific**
10 **utility experience?**

11 A: Yes, the Bulletin cited above states:

12 Average prices and cost trends are used to develop the Index, and any
13 direct application of cost trends without checking with actual local experience
14 may not be accepted without controversy. When local experience is compared
15 with the index and the correlation between the two trends is determined, the result
16 is satisfactory.

17 **Q: Do you believe this correlation was established in this rate case?**

18 A: Yes, as stated above, actual local experience indicates prices escalations in excess of
19 those indicated in the Index. Therefore, use of the Index in this rate case is a
20 conservative approach.

21 **Q: Are you aware of any other jurisdiction adopting the use of the HW Index?**

22 A: Yes, the KCC recently addressed this issue in KCP&L's 2010 Kansas Rate Case. The
23 KCC adopted KCP&L's position to use the HW Index as an escalation factor for multi-
24 year averaging of historical Production maintenance, stating on page 51 of the Order:

25 After reviewing all the testimony submitted by the parties on this issue,
26 and the evidence in the record, the Commission finds that using the Handy-
27 Whitman Index is appropriate. We are persuaded by the predictability inherent in

1 an industry index and note that FERC has found that the Handy-Whitman Index
2 specifically supplies a known and unbiased adjustment factor in some instances
3 where figures are not subject to a full review. FERC also notes acceptance of this
4 Index by stakeholders of PJM, a large regional transmission organization.

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

6 A: The difference in the two normalization approaches is about \$972,000 (Missouri
7 jurisdictional) with the Company approach resulting in a higher normalized maintenance
8 expense than that used by Staff.

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

10 A: Indexing to address price escalation is necessary when normalization is based on multi-
11 year averaging spanning several years. Otherwise, the resulting average is not
12 meaningful. The HW Index is the most appropriate index to utilize because it is industry
13 specific, is available for KCP&L's region, and includes the contractor and material
14 components that make up the Company's maintenance costs.

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

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

17 A: Staff and KCP&L, in their respective revenue requirement schedules, have different
18 approaches to estimating bad debt expense associated with the revenue requirement
19 ultimately granted by the Commission in this case, referred to as the "bad debt gross-up."
20 Neither party addressed this issue in its respective rebuttal testimony. I have since
21 spoken to Mr. Cary Featherstone of the Staff and we have agreed to bring this issue up in
22 our respective surrebuttal testimonies.

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

24 A: My understanding is that Staff is taking the same position in this rate case that it took in
25 the prior GMO rate case (ER-2009-0090), that no bad debt expense should be included in

1 the revenue requirement related to the revenue requirement increase. Staff witness Kofi
2 Boateng, in his surrebuttal testimony in that case (page 2) stated:

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

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

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

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

18 A. Yes. In the 2006 Case (ER-2006-0314), the Commission's Report and Order, page 63
19 included this conclusion in regard to bad debt expense:

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

26 **Q: Do Staff and KCP&L agree on the bad debt write-off factor?**

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

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

3 A: The impact cannot be determined at this time because it is a function of the revenue
4 increase granted and the update to the normalized bad debt factor that will occur at True
5 Up. Staff's bad debt write-off factor in its filed case was 0.5417%; therefore, the impact
6 should be approximately that rate multiplied by the rate increase granted in this case.

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

9 A: Yes. KCP&L believes it is reasonable that forfeited discount revenue would be higher if
10 a rate increase is granted than the revenue would be without such an increase, similar to
11 the bad debt write-off impact. Therefore, forfeited discount revenue should be calculated
12 on the rate increase granted in this case, based on the normalized forfeited discount
13 factor. While I had indicated in my rebuttal testimony that there was a difference of
14 opinion on the normalized factor to use in this case, it is now my understanding that Staff
15 agrees with the Company's approach.

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

17 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariffs to) Docket No. ER-2010-0355
Continue the Implementation of Its Regulatory Plan)

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 Kansas City Power & Light Company consisting of twenty-one (21) 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
John P. Weisensee

Subscribed and sworn before me this 5th day of January, 2011.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

