KCP&L-236

Exhibit No.: KCP&L-236
Issues: *Advertising*
*"Clarification," regarding*
*Gross Receipts Tax (GRT)*
Witness: *Bret G. Prenger*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
File No.: *ER-2010-0355*
Date Testimony Prepared: *January 5, 2011*

# MISSOURI PUBLIC SERVICE COMMISSION

## UTILITY SERVICES DIVISION

# SURREBUTTAL TESTIMONY

# OF

# BRET G. PRENGER

**Great Plains Energy, Incorporated**
**KANSAS CITY POWER & LIGHT COMPANY**

## FILE NO. ER-2010-0355

***Jefferson City, Missouri***
***January, 2011***

Staff Exhibit No. KCP&L-236
Date 1/18/11 Reporter LmB
File No. ER-2010-0355

**TABLE OF CONTENTS**

**OF THE SURREBUTTAL TESTIMONY OF**

**BRET G. PRENGER**

**Great Plains Energy, Incorporated**
**KANSAS CITY POWER & LIGHT COMPANY**

**FILE NO. ER-2010-0355**

**SURREBUTTAL TESTIMONY**

**OF**

**BRET G. PRENGER**

**Great Plains Energy, Incorporated**
**KANSAS CITY POWER & LIGHT COMPANY**

**FILE NO. ER-2010-0355**

Q. Please state your name and business address.

A. Bret G. Prenger, Fletcher Daniels State Office Building, Room G8, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Bret G. Prenger who previously provided information found in Staff's Cost of Service Report filed in this proceeding?

A. Yes. I also provided input into the Staff Cost of Service Report filed in the KCP&L Greater Missouri Operations Company, File No. ER-2010-0356.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my testimony is to respond to statements made by the Company in the Rebuttal Testimonies of Kansas City Power & Light Company (KCPL or Company) witnesses Curtis Blanc and John Weisensee. The issues addressed are advertising expenses, certain "Clarification" statements made by the Company regarding gross receipts taxes and payroll, and the Economic Relief Pilot Program (ERPP).

**ADVERTISING**

Q. Does the Company agree with the Staff's handling of advertising expense in regards to the Company's Connections Program?

A. No. Curtis Blanc stated on page 53 of his Rebuttal Testimony that the Company feels that the costs incurred associated with the Connections Program benefit its customers now, and in the immediate future. Thus it is "inappropriate to delay the recovery of them over a ten-year period," which is the Staff's position.

Q. Does Staff feel it is appropriate to amortize a portion of the costs of the Connections Program?

A. Yes. Staff maintains that the costs associated with the Connections Program should be split, with half being expensed immediately, and half deferred over a 10 year period by being associated with the Staff's Demand Side Management (DSM) program.

Q. Is the Company being allowed full recovery of these advertising costs?

A. Yes. Staff's proposal allows KCPL full recovery of these deferred expenses and even allows for a rate of return at the Company's Allowance for Funds Used During Construction ("AFUDC") rate on the unamortized balance. These costs are for advertisements that inform KCPL's customers about DSM programs and energy efficiency options. They are clearly DSM costs. DSM costs are not incurred to provide a benefit for a one-year period, but rather are designed to produce benefits well into the future. To charge to expense in the current period, costs that are clearly designed to produce benefits well into the future, does not make sense from either an accounting standpoint or a ratemaking perspective.

Q. Why did Staff handle the Connection's Program in this manner?

A. Staff decided to defer half of the costs of the Connection Program based on Staff's review of documentation related to this promotional campaign. Staff determined a portion of the costs were associated with informing consumers about efficient home appliances and how to be more efficient with energy use in general. In prior cases, it has been

Staff's goal to associate advertising costs with the project to which such advertising appears to relate (i.e. advertising supporting wind energy and specifically the Spearville Wind Farm would be charged to that project; costs regarding the Iatan 2 project were charged to that plant, etc.). Staff treated the advertising costs relating to the Connections Program in the same manner in this case as it did in the examples provided above. The advertising costs for the portion of the Connections Program that dealt with DSM-type programs/costs were assigned to DSM accounts because in Case No. ER-2009-0089 costs related to energy efficiency programs were deferred to the DSM accounts as well. Staff continues to believe this is the proper way to treat those costs.

Q. Does the Company offer a description of the Connections Program?

A. Mr. Blanc describes this program on page 53 of his Rebuttal Testimony. He states that the program includes "products and services to help customers save energy…"

Q. Does Staff agree with this statement?

A. Staff feels this is an accurate statement. In fact, that is exactly why Staff has taken the position it has in this case. Providing customers with information on products that save energy was considered by Staff as part of the Company's Energy Efficiency Program. In Case No. ER-2009-0089, these types of costs were amortized over a 10 year period for the Company's DSM Program. The Connections Program informs customers about opportunities for them to save money, including a range of payment and funding options. Staff believes this should be the main focus of the Connections Program, as there are already other Energy Efficiency Programs in place to discuss resources aimed at informing consumers about energy conservation products. Based on the existence of other Energy Efficiency

Programs, Staff has included as an expensed cost, half of the Connection's Program's total cost, while amortizing the other half over a 10 year period as part of the DSM program costs.

Q. How did Staff decide that the Program dealt with Energy Efficiency?

A. Staff reviewed all the Connection Program material in meetings held in late September 2010 and early October 2010. While in the review process, Staff determined that the program does provide information to assist consumers with financial need, with alternate/assistance in bill payment and also informs and educates customers about energy efficiency and energy efficient home appliances and heating and cooling methods.

Q. Did Staff make an adjustment of $86,406 to General Advertising costs?

A. Yes. As Mr. Blanc stated on page 53 of his Rebuttal Testimony, Staff made a reduction consisting primarily of two items: 1) $23,043 for an energy efficiency kiosk and 2) $56,872 for the development of an energy efficiency website.

Q. Why were these specific costs adjusted?

A. Staff proposed this adjustment for the same reasons mentioned in the above discussion of the costs associated with the Connections Program. These General Advertising costs deal with Energy Efficiency costs and to maintain consistency with how these costs have been treated in prior rate cases, specifically Case No. ER-2009-0089, Staff amortized these over a 10 year period as part of the Company's DSM Program. Staff's DSM adjustment is being sponsored by Staff witness Charles Hyneman.

## CLARIFICATION

Q. Mr. Weisensee states at page 29 of his Rebuttal Testimony that you indicated that the Company had included gross receipts taxes (GRT) in prepayments. Did the Company do this?

A. No. It was stated in the Cost of Service Report, on pages 46 and 47 that GRT was included by the Company in prepayments, however, they were not included in prepayments.

Q. Please explain the payroll clarification described by Company witness Weisensee on page 29 of his Rebuttal Testimony.

A. Page 83 of the Staff Cost of Service Report states that "Great Plains Energy (GPE) has minuscule labor costs that are to be annualized using current employee levels and current salaries. GPE provides common services such as accounting, tax consolidation, corporate legal, and governance to GPE entities…" These duties were transferred to KCPL in 2009 and are now allocated to other GPE companies. They are no longer handled by GPE and this was misstated in the Cost of Service Report.

Q. Does this Correction have any financial impact?

A. No, this is simply written incorrectly, the financial impact was handled correctly in the Staff Accounting Schedules.

**ECONOMIC RELIEF PILOT PROGRAM (ERPP)**

Q. Does Staff agree with the Company's proposal to recover costs associated with the ERPP program?

A. Yes, Staff believes that the Company should receive the projected on-going level of expense of the program, as well as 12 months (1 year) of the 3 years amortization of the deferred costs of the program.

Q. Does the Company agree with this position?

A. No, the Company requested the Staff's treatment plus an additional unamortized balance of deferred costs to be given Rate Base treatment.

Q. Why is Staff opposed to Rate Base treatment for the unamortized balance of deferred costs of the program?

A. Staff is opposed to this treatment because stated on page 7 of Case No. ER-2009-0089's stipulation is the following statement regarding the ERPP program. "The Signatory Parties agree that this program should be implemented, but that it should not be considered a demand side management program. (DSM)" KCPL is requesting rate base treatment of its DSM programs in this case, and given the prior statement, that the ERPP Program shouldn't be considered a DSM Program, Staff is opposed to including Rate Base treatment for the Program. Staff has included an ongoing level of costs and the amortization relating to the deferral. Staff does not believe that this type of operating cost should be afforded rate base treatment.

Q. Why has Staff not given the unamortized balance Rate Base Treatment?

A Traditionally, items that are included in Rate Base are related more to investments made by the Company over a longer life than one year. Staff views the Program as more of a period cost or ongoing operational cost versus a Company investment and thus shouldn't be afforded Rate Base treatment.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

**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 Continue the Implementation of Its Regulatory Plan | ) ) ) ) ) | File No. ER-2010-0355 |

AFFIDAVIT OF BRET G. PRENGER

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

Bret G. Prenger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Bret G. Prenger
Bret G. Prenger

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

Nikki Senn
Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016