KCP&L-222

Exhibit No.:	
Issue:	*Accumulated Deferred Income Taxes-Regulatory Plan Amortization*
Witness:	*Paul R. Harrison*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
File No.:	*ER-2010-0355*
Date Testimony Prepared:	*December 08, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

PAUL R. HARRISON

Great Plains Energy, Inc.
KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri
December 2010

** **Denotes Highly Confidential Information** **

Staff Exhibit No. KCP&L-222
Date 1/18/11 Reporter LMB
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Q. Please state your name and business address.

A. Paul R. Harrison, P. O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Paul R. Harrison who filed direct testimony in this case?

A. Yes, I am. I contributed to the Staff Cost of Service Report filed on November 10, 2010.

Q. With reference to File No. ER-2010-0355, please provide a summary of your rebuttal testimony.

A. The purpose of my testimony is to address Kansas City Power & Light Company's (KCPL's or Company's) position concerning approximately a $56.2 million adjustment that was made to Company's accumulated deferred income tax reserve (deferred tax reserve or ADIT) balance as of December 31, 2010, relating to the regulatory plan additional amortizations resulting from the Regulatory Plan approved by the Commission in Case No. EO-2005-0329 for KCPL's Comprehensive Energy Plan.

EXECUTIVE SUMMARY

Q. In summary, what does your testimony cover?

A. In KCPL's Revenue Model, Schedule 8, Deferred Tax Reserve, the Company made a $56,185,820 ($56.2 million) adjustment to increase rate base by reducing the amount of the ADIT offset in rate base on account of the regulatory plan's additional amortizations (Regulatory Plan Amortizations). These additional amortizations were authorized by the Commission as an aid for the Company to maintain certain credit ratings during the period the Regulatory Plan was to be in place. In effect, the $56.2 million reduces the deferred tax reserve. Deferred taxes are used to reduce rate base – as such any decrease to the deferred tax reserve will result in a decrease to the amount that is used to reduce rate base—as such, this reduced amount of deferred tax reserve will result in an increase to the rate base amount.

In the Staff's direct filing, the Missouri Public Service Commission Staff (Staff) included this adjustment when it calculated the Missouri Jurisdictional projected December 31, 2010, ending balance of ADIT for KCPL's cost of service. It was initially believed this adjustment was necessary to reduce deferred tax reserve. However, Staff reexamined this adjustment more closely after discussions with other parties to this rate case and upon review of the direct testimony filed on this issue. On the basis of this review, Staff decided to perform further analysis on the impact of this adjustment in order to determine the appropriate amount of deferred tax reserve that should be included in this case related to the regulatory plan amortizations. Since Staff filed its direct case, Staff has had several meetings internally and with the Company and other parties concerning this issue and the discussions are still ongoing. Until the actual numbers are known and trued up for the amount of rate base, depreciation, depreciation reserve, income taxes and accumulated deferred income taxes for this case as of December 2010 the Staff's position of this issue is subject to change. Therefore, this issue is not resolved at this time and the Staff is submitting this testimony to preserve this issue so that a determination of the appropriate amount of ADIT related to the regulatory plan amortizations can be made for this case.

DEFERRED TAX RESERVE REGULATORY PLAN AMORTIZATIONS

Q. What adjustment did KCPL make to its ending balance for deferred tax reserve in its case related to the regulatory plan additional amortizations in this case?

A. KCPL made an adjustment to its deferred tax reserve ending balance to increase rate base by $56,185,820.

Q. Does the Staff agree with the Company's adjustment for the deferred tax reserve?

A. At the current time, it is unknown whether this adjustment is appropriate or not. Until the actual numbers are known and trued up for the amount of rate base, depreciation, depreciation reserve, income taxes and accumulated deferred income taxes for this case as of December 2010, the Staff's position on this issue could possibly change. The effects removing the impact of the prior regulatory plan amortizations, that were embedded in each of KCPL's last three rate cases since the Regulatory Plan for KCPL was implemented, for each of these different areas will definitely affect the ending balance of deferred tax reserve and the income tax expense calculations for this case. Additionally, the Staff has concerns as to whether the ending balance of the deferred tax reserve was also adjusted in previous KCPL Regulatory Plan rate cases as result of the regulatory plan amortizations, which would impact the deferred tax reserve balance that should be included in this case as well. If the prior KCPL Regulatory Plan rate cases included an adjustment to deferred tax reserve relating to the regulatory plan amortizations, then the proposed adjustment in this case would appear to be unwarranted and would cause the ending balance of KCPL's deferred tax reserve offset to rate base be understated in the current case by $56.2 million—in other words result in rate base being over stated by this amount.

Q. Why might Staff's position on this issue change as a result of the amount of rate base, depreciation, depreciation reserve, income taxes and accumulated deferred income taxes that are trued up for this rate case as of December 2010?

A. In the "Nonunanimous Stipulation and Agreement Regarding Regulatory Plan Additional Amortization" Appendix 1, Regulatory Plan Amortization Resolution Explanation issue in Case No. ER-2006-0314, it was ordered that:

> A resolution of the Regulatory Plan Additional Amortization "gross-up" for taxes issue has been reached in the Kansas City Power & Light Company (KCPL) rate increase case, Case No. ER-2006-0314, involving the following key points:
>
> 1. The entire amount of the Regulatory Plan amortization allowed in rates is to be treated as additional book depreciation for rate and financial statement purposes by KCPL;
>
> 2. An additional tax straight-line depreciation deduction in the entire amount of the regulatory Plan amortization allowed in rates will be assumed for rate purposes and financial reporting purposes; and
>
> 3. The accumulated book depreciation reserve resulting from the recognition of the Regulatory Plan amortization as book depreciation will be recognized as an offset (reduction) to rate base in subsequent rate cases. The accumulated reduction in deferred income tax expense resulting from including the Regulatory Plan amortization in the straight line tax depreciation deduction will be reflected on KCPL's tax records and included in subsequent rate cases, as appropriate, along with all other factors included in the determination of deferred income tax expense. The net effect of these changes related to the Regulatory Plan amortizations to the accumulated depreciation reserve and the accumulated deferred tax reserve is an overall reduction to KCPL's rate base. The reduction in deferred taxes will be

> reflected in the deferred income tax balance in rate base in future rate cases, as well as all other changes affecting the deferred tax balance, including additional deferred taxes resulting from KCPL's plant additions.
>
> The Regulatory Plan amortization is intended to provide KCPL the necessary cash flow to meet the two particular debt coverage ratios identified in the Regulatory Plan based upon KCPL's Missouri jurisdictional cost of service.[1] The entire amount of the Regulatory Plan amortization will be treated as additional book depreciation, and the entire amount of the amortization will be reflected in KCPL's tax calculation as additional tax straight-line depreciation deduction.
>
> [1] Adjusted Funds From Operations Interest Coverage and Adjusted Funds From Operations as a Percent of Average Total Debt. *See* Paragraph III.B.1.i and Appendix E and Appendix F of the Regulatory Plan.

Therefore, impacts of the regulatory plan amortization are embedded in the Company's and Staff's rate base, depreciation, depreciation reserve, tax straight line calculation and deferred tax reserve for each of KCPL's rate cases filed under the Regulator Plan and will be affected by the mechanics of the regulatory plan amortization in these areas up through the end of the true-up period in KCPL's current rate case.

Q. Does the Staff have other concerns with the Company's adjustment to the ending balance of ADIT for the regulatory plan amortization in the current rate case?

A. Yes. First, because the Company uses a hypothetical or "modified" approach to normalizing depreciation relating to the method difference (e.g., accelerated versus straight-line and life differences), Staff has concerns this adjustment has already been made in each one of the KCPL Regulatory Plan rate cases. This is because the Company adjusts the test period deferred tax reserve balances on a Financial Statement Basis (which uses blended Missouri and Kansas Jurisdictional Basis) to deferred tax reserve using Missouri Jurisdictional Basis only for accounts 190, 282 and 283.

Additionally, in each of the previous KCPL Regulatory Plan rate cases, Staff and the Company added the regulatory plan amortizations to their tax straight-line depreciation calculations which should have the effect of creating a deferred tax reserve asset that would have decreased the deferred tax reserve and should have decreased the amount of deferred tax reserve in rate base by approximately 38% of the amount of the additional amortizations. If this adjustment was in fact made in each of the Regulatory Plan rate cases, then including KCPL's proposed adjustment in this case would improperly understate the amount of the ending balance of ADIT.

Q. Has the Staff submitted data requests in this case in order to get a better understanding of what adjustments were made to the Company's ADIT on account of the regulatory plan amortizations and their impact?

A. Yes.

Staff submitted Data Request No. 122.2 in this case asking KCPL:

> In reference to KCPL's RB-125 Accumulated Deferred Income Taxes and CS-125 Income Tax Expense Summary, please provide a detailed explanation of the $55,799,784 decrease for ADIT described as, "Power Tax Adjustment RB-125-Missouri Basis Deferred Income Tax." Please explain the reasons for this adjustment in detail, and its impact on the current rate case. Please explain why these "ADIT" amounts should not be included in the tax reserve for this case.

The Company's response follows:

> The $55.8 million adjustment adjusts the test period ADIT balances on a Financial Statement Basis (which uses blended Missouri and Kansas Jurisdictional Basis) to ADIT using Missouri Jurisdictional Basis only for accounts 190, 282 & 283 at December 30, 2009. It also includes the 2010 Missouri Jurisdictional activity for account 282. The 2010 Missouri Jurisdictional activity for 190 & 283 accounts are included in Column I on the Sch 8 – DIT A-1 tab in the same file. Both of these "ADIT" amounts (or adjustments) should not be included in the tax reserve. The adjustments are necessary to reflect the correct estimated Missouri Jurisdictional Basis ADIT in this case.

Q. Why is the deferred tax reserve amount identified in KCPL's response to Data Request No. 122.2 only $55.8 million?

A. The $55.8 million amount is for the period ending December 31, 2010 while the $56.2 million amount is for the period ending March 31, 2011.

Staff also submitted Data Request No. 117 asking KCPL:

> 1. With consideration to adoption of FIN 48 Accounting for Uncertainty in Income Taxes – an interpretation of FAS 109, please describe the impact of this adoption on the deferred tax reserves for KCPL in this case and on the calculation of income tax expense for KCPL in this case. 2. Please provide a current copy of the: Synthetic Book Depreciation versus Fully Allocated Depreciation. 3. Please provide a copy of the Power Tax Deferred Tax Summary Report – monthly reports from December 2008, 2009 & current to date.

The Company's response follows:

> 1. The deferred taxes associated with the adoption of FIN 48 have not been included in the calculation of deferred tax reserves or the calculation of income tax expense in this case.
>
> 2. The company has not updated the "Synthetic Book Depreciation versus Fully Allocated Depreciation" since it was originally prepared on October 5, 2004. A copy of the original memo is attached for your reference in the file named "Q0117_SBD_vs_FAD.doc."
>
> 3. KCPL does not have monthly Powertax Deferred Tax Summary Reports. See the attached PDF files "Q0117_PowerTax_Deferred_Tax_2008_Actual.pdf" and Q117_PowerTax_Deferred_Tax_2009_Budget.pdf", containing the December 2008 and 2009, respectively.

Q. Is there any other information that relates to the deferred tax reserve matter?

A. Yes. Attached to this testimony as Schedule PRH 1 is KCPL's memorandum concerning "Synthetic Book Depreciation versus Fully Allocated Depreciation" which was provided as a "HIGHLY CONFIDENTIAL" response to Staff Data Request No. 117.

Staff also submitted Data Request No. 119.1 asking KCPL:

> In reference to KCPL's Schedule 7 Tax Straight Line versus Accelerated Depreciation, RB-125 Accumulated Deferred Income Taxes and CS-125 Income Tax Expense, please explain the necessity of making this adjustment, which is a decrease of $16,985,033, for the tax basis straight line depreciation unrecovered reserve for MO. Basis of $1,842,104 & $42,402,888 for deferred tax expense? Please explain in detail why this adjustment is being made and the adjustment's impact on the current rate case.

KCPL responded with the following:

> The Additional Credit Ratio Amortization resulted in additional book deductions in the nature of additional amortization/depreciation, both in KCP&L's cost of service for ratemaking and on its financial books, beginning January 1, 2007. However, no additional tax deductions were available on its tax return as a result of the Additional Credit Ratio Amortization. Consequently, KCP&L recorded negative deferred income tax expense on the excess of the annual book deductions over the annual tax return deductions beginning with the implementation of the Additional Credit Ratio Amortization on January 1, 2007. The entry to record the negative deferred income tax expense on its income statement also established a corresponding debit-balance deferred income tax reserve on its balance sheet.
>
> The Unrecovered Reserve Amortization which is explained in John Spanos Direct Testimony Pg 14-15 and referred to as Amortization Accounting for certain General Plant Accounts is being proposed to be amortized over 10 years beginning with the effective date of new rates in this case. An adjustment is being made on Sch 7 for similar treatment as explained above for the Additional Credit Ratio Amortization.
>
> The Additional Credit Ratio Amortization is reflected on Sch 7 in the amount of $42,402,888 with deferred income taxes of $16,277,886. The Unrecovered Reserve Amortization is reflected on Sch 7 in the amount of $1,842,104 with deferred income taxes of $707,158.

Q. Please summarize your testimony on this issue.

A. At the current time, it is unknown whether KCPL's proposed adjustment to ADIT related to the regulatory plan amortizations is appropriate or not. Until the actual numbers are known and trued up for the amount of rate base, depreciation, depreciation reserve, income taxes and accumulated deferred income taxes for this case as of December 2010 the Staff's position of this issue could possibly change. The effects of attempting to remove the impact of the regulatory plan amortizations that was authorized in each of KCPL's rate cases since the Regulatory Plan for KCPL was implemented from Staff's current cost of service for these different areas will definitely have an impact on the ending balance of deferred tax reserve and the income tax expense calculations for this case. Additionally, Staff has concerns to whether the ending balance of ADIT for the regulatory plan amortizations was similarly adjusted in previous KCPL rate cases which would also impact the appropriate balance of ADIT that should be reflected in rate base in this case. If the prior KCPL Regulatory Plan rate cases included similar adjustments to ADIT related to the regulatory plan amortizations, then the proposed adjustment in this case is unwarranted and would cause the ending balance of KCPL's deferred tax offset to rate base be understated by this amount in the current case ($56.2 million)

Q. Does this conclude your rebuttal testimony?

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 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 PAUL R. HARRISON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

Paul R. Harrison

Paul R. Harrison

Subscribed and sworn to before me this 7th day of December, 2010.

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

Nikki Senn

Notary Public

SCHEDULE PRH 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

NP