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Witness: *Paul R. Harrison*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

PAUL R. HARRISON

**Great Plains Energy, Inc.
KCP&L GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND L&P ELECTRIC**

CASE NO. ER-2009-0090

*Jefferson City, Missouri
April 2009*

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1 I will also address the reasons why the Staff does not believe that these costs should be
2 recovered in rates by GMO for either GMO-MPS or GMO-L&P.

3 **INCOME TAX – COST OF REMOVAL**

4 Q. Would you please provide a brief description of the issue between the Staff and
5 GMO related to the tax timing difference for COR?

6 A. The Company is seeking a 20-year amortization of regulatory assets reflected
7 on GMO's books related to past COR tax timing differences for which the tax benefits were
8 allegedly flowed through to GMO-MPS and GMO-L&P customers in the past.
9 The Company's proposed amortization of these regulatory assets necessarily assumes that
10 flow through treatment of the COR tax timing differences were actually granted by the
11 Commission in rates, and that such flow-through treatment resulted in a past benefit to
12 customers (i.e., that regulatory income tax expense charged to customers related to COR was
13 lower due to the flow-through treatment). The Staff believes that neither assumption has been
14 substantiated by the Company to date.

15 Q. At page 5 of her surrebuttal testimony, Ms. Hardesty states that "...Staff has
16 not included an adjustment for cost of removal tax benefits previously flowed through in its
17 calculation of income tax expense." Did the Company include such an adjustment in its direct
18 case filing?

19 A. No. The Company did not include an adjustment for amortizations
20 of the COR regulatory assets in its direct filings regarding GMO-MPS's or GMO-L&P's cost
21 of service.

1 Mr. Klote did state in his direct testimony at page 72, line 1 that "the Company has not
2 included in MPS's cost of service any reflection of the amortization of the pre-1981 cost of
3 removal regulatory asset. The Company would like to discuss this issue with Commission
4 Staff to obtain the appropriate periods on which to amortize the amount and include such
5 amortization in the true-up in this proceeding." The Company and the Staff have discussed
6 this issue several times during this audit, but as of yet there has been no resolution of this
7 matter between the parties.

8 Q. Please provide the Staff's reasoning for why it does not believe it is
9 appropriate for GMO to recover a 20-year amortization of the COR tax depreciation in cost of
10 service for either GMO-MPS or GMO-L&P in this case.

11 A. The tax deduction for COR expenses was recovered and included in rates
12 consistent with the tax treatment that was applicable and authorized by the Commission for
13 each one of the rate cases of the predecessors of GMO-MPS and GMO-L&P that were filed
14 with the Commission between 1971 through 2001. Even assuming for the sake of argument
15 that the COR timing difference was flowed through to customers in all instances during that
16 period, for GMO to now come back to the Commission and attempt to "undo" the COR tax
17 deductions previously flowed through to customers would be the equivalent to GMO asking
18 the Commission to force the ratepayers to refund any shortfalls of the COR expenses that the
19 Company did not fully recover from previous rate cases. As such, GMO's proposal
20 constitutes prohibited retroactive ratemaking.

21 Q. What do you refer to in your use of the term "retroactive ratemaking?"

22 A. Retroactive ratemaking is the setting of rates designed to recover or refund
23 costs from past periods of time. Rates created through retroactive ratemaking require current

1 customers to pay for the cost of service not recovered from past customers or alternatively to
2 be reimbursed for past over-payments in rates (e.g., past rates were set too low or too high).

3 Q. On page 8 of her rebuttal testimony on lines 11-16, Ms. Hardesty responds to
4 the question, “Has the Commission approved an amortization of previously flowed through
5 cost of removal before?” She answers, “In KCPL’s Case No. ER-2007-0291 the Commission
6 approved the Unanimous Stipulation and Agreement as to certain issues dated October 3,
7 2007 wherein the parties agree to a 20-year amortization of previously flowed through tax
8 benefits related to cost of removal deduction.” Does Staff have a response to this statement?

9 A. Yes. The Stipulation and Agreement As To Certain Issues (Stipulation) from
10 Case No. ER-2007-0291 referenced by Ms. Hardesty was entered into by the Staff and other
11 parties after extensive negotiations solely for the purpose of disposing of a variety of issues
12 that are specifically addressed in that Stipulation. Based upon the standard language included
13 in that Stipulation, it should be very clear to GMO that the Staff’s acquiescence
14 to a COR regulatory asset amortization for KCPL in that instance does not serve as precedent
15 for similar treatment of this issue in this proceeding in any way.

16 Q. Does Staff have a copy of the Stipulation in Case No. ER-2007-0291?

17 A. Yes. Schedule 1 to this testimony is a complete copy of the signed Stipulation
18 in Case No. ER-2007-0291, a Kansas City Power & Light Company rate case. The language
19 concerning the resolution of the COR issue in that case can be found on Schedule 1-3.
20 Specifically, the Stipulation contained language that nothing in this agreement could be
21 viewed as precedent setting for future cases. The following language was included in the
22 Stipulation:

1 This Agreement is being entered into solely for the purpose of
2 disposing of the issues that are specifically addressed in this
3 Agreement. Except as specifically addressed otherwise for the
4 particular issues set out in this Agreement, in presenting this
5 Agreement, none of the Signatories to this Agreement shall be deemed
6 to have approved, accepted, agreed, consented or acquiesced to any
7 ratemaking principle or procedural principle, including, without
8 limitation, any method of cost or revenue determination or cost
9 allocation or revenue related methodology, and none of the Signatories
10 shall be prejudiced or bound in any manner by the terms of this
11 Agreement (whether this Agreement is approved or not) in this or any
12 other proceeding, other than a proceeding limited to enforce the terms
13 of this Agreement, except as otherwise expressly specified herein.
14

15 Staff viewed the treatment for COR for the KCPL as settling a package of issues and
16 was a way of resolving a complex tax issue in that case. Staff did not view that it was means
17 or a roadmap to address any future tax issues that would come up.

18 Q. Does the Staff view the issue raised by GMO in this proceeding to be identical
19 to the COR issue KCPL raised in Case No. ER-2007-0291?

20 A. No. Though there were some questions raised by the Staff regarding the
21 quantification of KCPL's COR regulatory asset and past rate treatment of the COR timing
22 difference in the 2007 KCPL case, the Staff believes there is even more uncertainty with
23 GMO's claims regarding the amount of the regulatory assets of GMO-MPS and GMO-L&P
24 and the past rate treatment afforded these utilities regarding the COR tax timing difference in
25 prior rate proceedings for these operations.

26 Q. Would you please define "tax timing difference"?

27 A. "Tax timing differences" exist when specific costs are reflected in determining
28 pretax operating income, for both financial reporting and ratemaking purposes, in a different
29 period than when they are reflected in determining current year taxable income under Internal
30 Revenue Service (IRS) rules. In calculating income tax for ratemaking purposes, timing

1 differences can be reflected consistent with when they are reflected under IRS rules
2 (*flow-through treatment*) or they can be reflected consistent with when they are reflected in
3 determining pretax operating income for financial reporting and ratemaking purposes
4 (*normalization treatment*). When timing differences are normalized for ratemaking purposes,
5 a deferred tax adjustment is used for the purpose of *not* reflecting the timing of cost
6 recognition under IRS rules. Deferred taxes are reversed in subsequent years consistent with
7 the timing for recognizing the related costs for financial reporting purposes in determining
8 pretax operating income. The deferral of a tax timing difference (*normalization treatment*)
9 can result in either a Deferred Tax Liability or a Deferred Tax Asset.

10 Q. Would you please define the difference between a Deferred Tax Liability and a
11 Deferred Tax Asset under *normalization* treatment for a regulated utility?

12 A. When the current year deduction for a specific cost, allowed for determining
13 taxable income to the IRS, *exceeds* the cost used for determining pre-tax operating income for
14 ratemaking purposes, a Deferred Tax Liability is recognized under *normalization* treatment to
15 recognize that the utility's *actual* income tax expense will be higher in the future than the
16 income tax expense recovered in rates.

17 When the current year deduction for a specific cost allowed for determining taxable
18 income to the IRS is *less than* the cost used in determining pre-tax operating income for
19 ratemaking purposes, a Deferred Tax Asset is recognized under *normalization* treatment to
20 recognize that the utility's *actual* income tax expense will be less in the future than the
21 amount recovered in rates.

22 Q. Can you provide an example for a Deferred Tax Liability under *normalization*
23 treatment for a tax timing difference?

1 A. Yes. The most common tax timing difference which results in a Deferred Tax
2 Liability is the tax timing difference related to depreciation expense. The tax timing
3 difference resulting from accelerated depreciation methods allowed by the IRS must be
4 normalized under IRS rules for a regulated utility. The *tax deduction* for depreciation expense
5 cannot be reflected for ratemaking purposes any sooner than the timing for recognizing book
6 depreciation in determining pre-tax operating income for ratemaking purposes.
7 The IRS allows a regulated utility, like all corporations, to use an accelerated depreciation
8 method in calculating its current income tax liability. However, with regard to a regulated
9 utility, Congress intended for the additional cash flow (lower current income tax), resulting
10 from an accelerated depreciation method, to be retained by the utility. As a result,
11 under IRS rules for a regulated utility, the additional deduction resulting from the use of an
12 accelerated depreciation method cannot be reflected in rates. Ratepayers receive the tax
13 deduction for depreciation expense over the same period used for recovery of book
14 depreciation expense in rates – the expected life of the asset. Over the life of the asset, the *tax*
15 *deduction* for depreciation expense is the same for ratemaking purposes and calculating
16 taxable income to the IRS. The only difference is that *tax deduction* is reflected sooner under
17 IRS rules than it is for cost of service recognition for ratemaking purposes. Attached as
18 Surrebuttal Schedule 2 is an example of the Deferred Tax Liability which results from
19 *normalization* treatment for the tax timing difference related to depreciation expense.

20 Q. Can you provide an example of the Deferred Tax Liability which results from
21 *normalizing* the tax timing difference related to depreciation expense?

22 A. Yes. Surrebuttal Schedule 2 provides an example of the Deferred Tax Liability
23 which results from *normalizing* the tax timing difference related to depreciation expense.

Surrebuttal Testimony of
Paul R. Harrison

1 Lines 1, 2 and 3 provide the assumptions for the example: a \$1,000,000 asset with a 10 year
2 expected life resulting in a 10% book depreciation rate and IRS accelerated depreciation
3 method with a 20% depreciation rate. Column A reflects the tax deduction for depreciation
4 allowed for ratemaking purposes and financial reporting - \$100,000 per year for 10 years.
5 The utility's actual tax deduction for calculating current income tax to the IRS is reflected at
6 \$200,000 per year for 5 years in Column B. Column C reflects the difference between the
7 IRS tax depreciation deduction (Column B) and the Book Depreciation amount in Column A.
8 This difference represents the tax timing difference which must be *normalized*
9 under IRS rules. Column D reflects an assumed effective tax rate of 40%. Column E reflects
10 deferred income tax expense by year. Note that the positive deferred income tax expense for
11 years 1-5 represents recognition of the a Deferred Tax Liability. The Accumulated Deferred
12 Tax Liability is reflected in Column F.

13 Q. What is the significance of the Deferred Tax Liability in Column F?

14 A. As previously stated, a Deferred Tax Liability results when the current year tax
15 deduction allowed by the IRS (\$200,000 in Column B) exceeds the tax deduction allowed for
16 ratemaking purposes (\$100,000 in Column A). The Accumulated Deferred Tax Liability in
17 Column F at the end of year 5, \$200,000, recognizes that the utility has collected \$200,000
18 more in rates than its actual IRS tax liability for years 1-5. However, for years 6-10,
19 the reverse is true. In years 6 -10, ratepayers continue to receive a \$100,000 per year tax
20 deduction for depreciation expense as reflected in Column A. The utility's tax return however
21 will reflect a \$0 tax deduction in years 6-10 (Column B) because the asset is fully depreciated
22 at the end of the five-year life allowed for IRS purposes using the accelerated depreciation
23 method with a 20% rate. The utility will pay \$40,000 more in income tax to the IRS in years

1 6-10 than it collects in rates from ratepayers. The \$200,000 Deferred Tax Liability at the end
2 of year 5 in Column F will be reduced by \$40,000 / year in year 6-10 until it is reduced
3 to \$0 at the end of year 10.

4 Q. What is the relevance of understanding a Deferred Tax Liability as it relates to
5 the issue between the Staff and GMO related to the timing difference for COR?

6 A. When the tax timing difference for COR is *normalized* for income tax expense
7 recognition, a Deferred Tax *Asset* normally results instead of a Deferred Tax Liability.
8 In order to understand this complicated issue, it is important to understand the difference
9 between a Deferred Tax Liability and a Deferred Tax Asset, and more importantly to
10 understand that *normalizing* the timing difference for COR usually results in a Deferred Tax
11 Asset when the book depreciation rate includes a component for COR which is the case for
12 GMO as well as other Missouri utilities.

13 Q. Please explain the tax timing difference related to COR.

14 A. The book depreciation rates approved for GMO-MPS and GMO-L&P include
15 a component for COR. Expense recognition of COR for rate recovery occurs over the life
16 assumption used in determining the book depreciation rate. However, the tax deduction for
17 COR is not allowed by the IRS until it is actually incurred when the asset is retired from
18 service at the end of its service life. The timing difference for COR is just the opposite of the
19 timing difference previously discussed for depreciation expense. Recognition of tax
20 deduction for depreciation expense under IRS rules occurs in *advance* of the recognition of
21 the tax deduction for ratemaking purposes. *Normalizing* the timing difference for
22 depreciation expense results in a Deferred Tax Liability. A Deferred Tax Liability reflects
23 recovery of income tax expense in rates which exceeds the actual income tax paid

1 to the IRS in the early years of the asset under an accelerated method allowed by the IRS.
2 This Deferred Tax Liability reverses (turns around) in the later years of the asset when income
3 tax collected in rates is less than the actual IRS tax liability.

4 However, normalizing the timing difference for COR results in a Deferred Tax Asset
5 because the recognition of the *tax deduction* for COR for ratemaking purposes occurs sooner
6 than recognition of the tax deduction under IRS rules. As previously discussed, under
7 *normalization* treatment for COR the ratepayer receives the benefit of the tax deduction for
8 COR for ratemaking consistent with expense recognition included in book depreciation
9 expense. Cost recognition and ratemaking tax recognition for COR are recognized at the
10 same time. However, recognition of the tax deduction by the IRS does not occur until
11 retirement of the asset at the end of the life of the asset. The Deferred Tax Asset recognized
12 from normalizing the tax timing difference for COR recognizes that the utility will collect a
13 higher amount of income tax in the future in rates than the utility's actual income tax to the
14 IRS when the actual COR is incurred and taken as a deduction in determining the IRS tax
15 liability.

16 Q. Do you have an example to demonstrate the calculation of a Deferred Tax
17 Asset which results from *normalizing* the timing difference from COR?

18 A. Yes. Attached as Surrebuttal Schedule 3 is an example of normalizing the tax
19 timing difference for COR. The assumptions for the example are reflected on lines 1-7.
20 The asset cost \$1,000,000 and has an expected life of 10 years. The estimated cost to remove
21 the asset from service (COR) at the end of its useful life is \$150,000. The total annual
22 depreciation rate required to recover the cost of the asset and the cost to remove it from

1 service is 11.5%; 10% for 10 years to recover the cost of the asset and 1.5% for 10 years to
2 recover the COR.

3 Normalizing a tax timing difference for any expense results in recognition of the
4 *tax deduction* for ratemaking purposes consistent with when the expense is recovered in rates.
5 COR is recovered in rates in depreciation expense over the 10-year life assumption.
6 COR recovered in book depreciation is reflected in Column A at \$15,000 per year
7 for 10 years. Under normalization treatment, rates would reflect a corresponding \$15,000 tax
8 deduction for COR. If the normalization approach is used for the COR tax timing difference,
9 ratepayers receive a *tax deduction* for COR equal to the amount they are paying in rates.
10 Column B reflects the timing for recognizing the *tax deduction* for COR by the IRS which is
11 in year 11, the year the asset is retired from service. If flow-through treatment were used for
12 the COR tax timing difference, this would result in reflection of a ratemaking tax deduction
13 consistent with the timing used in determining taxable income to the IRS.

14 Column C of Schedule 3 reflects the annual tax timing difference. Column E reflects
15 the annual amount of Deferred Income Tax Expense recognized based upon the assumed
16 40% effective tax rate in Column D. The \$6,000 negative result in Column E represents an
17 annual Deferred Tax Asset which accumulates in Column F to the balance of \$60,000 in year
18 10. This \$60,000 Deferred Tax Asset represents that the utility's actual tax liability
19 to the IRS in year 11 will be \$60,000 less than the amount collected from ratepayers in year
20 11. Recognition of the actual \$150,000 tax deduction for COR in year 11 eliminates
21 (reverses) the Deferred Tax Asset recognized in years 1-10 in the example.

22 Q. How is the COR timing difference currently handled for GMO-MPS
23 and GMO-L&P?

1 A. Since 2001, the COR tax timing difference have been normalized.

2 Q. On page 7 of her Rebuttal testimony in the question and answer on lines 7-9,
3 Ms. Hardesty states “GMO consistently flowed-through the tax benefits for cost of removal in
4 the annual surveillance reports filed with the Staff from 1971 until 2001. In addition, it has
5 reflected the flow-through of these tax benefits in its financial records.” Please comment.

6 A. For purposes of this issue, it is irrelevant how the Company chose to reflect
7 income tax treatment of the COR timing difference on surveillance reports and on financial
8 records. What matters is how the Commission treated the COR timing difference for
9 purposes of setting rates from in cases from 1971 to 2001.

10 Q. Did the Commission flow-through COR tax timing differences in the rate
11 proceedings of GMO-MPS and GMO-L&P and their predecessors from 1971 to 2001?

12 A. No. The Staff has reviewed all Report and Orders for rate proceedings of
13 GMO-MPS and GMO-L&P and their predecessors from 1971 to 2001. The Orders reviewed
14 by the Staff indicate that normalization treatment was provided for rate treatment of the
15 COR timing difference in at least some of these cases during that period.

16 In its *Report and Order* in Case No. 18,181, a 1975 rate case of a predecessor to
17 GMO-MPS, the Commission, at page 98, stated:

18 The Commission finds that insofar as cost of removal is
19 concerned the normalization concept is generally favored by the
20 FPC and the SEC; that normalization of the tax benefit of costs
21 of removal will reflect a better quality of earnings than flow
22 through treatment, and will reflect an improved interest
23 coverage critical to the Company at this time; that this
24 Commission has in the past allowed normalization of tax
25 benefits; that normalization has the benefit of evening out the
26 peaks and valleys of tax advantages; that the Company’s
27 ratepayers will receive all the economic benefits of the tax
28 advantages obtained by the Company; and that the

1 normalization of the tax benefit of cost of removal is therefore
2 proper.
3

4 In its *Report and Order* in Case No. ER-78-29, a 1978 rate case of a predecessor to
5 GMO-MPS, the Commission apparently changed to flow-through treatment of the COR
6 timing difference. At page 197 and 198, the Order stated:

7 Income Tax - Normalization. Some of the Company's former
8 financial problems have abated to the extent that it no longer
9 needs full normalization. Normalization requires ratepayers to
10 pay \$2 for every \$1 of approved cash flow.
11

12 The Company's cash flow, interest coverage, and internally
13 generated funds will remain adequate if it is allowed to
14 normalize only tax timing differences related to accelerated
15 depreciation, repair allowances, investment tax credit, and
16 injuries and damages.

17 Additionally, the Company provided the Staff a copy of its tax study that was done as
18 a result of the Stipulation and Agreement in Case Nos. ER-2004-0034 and HR-2004-0024,
19 when GMO was named Aquila, Inc. In that case, GMO agreed to complete a formal tax study
20 to develop the best methodology for computing regulated income tax expense. In particular,
21 the tax study was intended to develop a mutually agreeable basis for computing a tax
22 deduction associated with depreciation expense for ratemaking purposes. In relation to rate
23 treatment of COR income tax impacts for the period prior to June 23, 1978, the notes from
24 prior years' Annual Shareholders Report for a predecessor to GMO-MPS that was included as
25 part of the tax study state that COR was to be normalized states as follows:

26 Normalization accounting procedures are used by the Company
27 with respect to the excess of tax depreciation over book
28 depreciation, for certain plant additions acquired after 1969.
29 Deferred taxes have been provided for this excess depreciation
30 as required by Federal Power Commission Order No. 530 and
31 the Internal Revenue Code. Accelerated tax depreciation
32 methods include the use of the Asset Depreciation Range

1 System and current deduction of removal costs and repair
2 allowances as permitted by IRS regulations. Investment tax
3 credits have been deferred and are being amortized to income
4 over service lives of the related properties.
5

6
7 Under established rate regulatory practices, the Company has
8 provided deferred income taxes for significant timing
9 differences. The Missouri Public Service Commission, in
10 Orders dated September 4, 1980 relating to unbilled revenue
11 and June 23, 1978 relating to removal costs, the allowance for
12 borrowed funds used during construction and taxes and other
13 costs capitalized for financial accounting purposes, directed the
14 Company to cease recording deferred income taxes for these
15 timing differences. The tax effects of timing differences, for
16 which no deferred income taxes are provided, are expected to be
17 recovered through future revenues.
18

19 Q. Based upon your review of past Orders from 1971 to 2001 of predecessors to
20 GMO-MPS and GMO-L&P, is it always clear whether the rates authorized by the
21 Commission reflect flow-through or normalization treatment of the COR timing difference?

22 A. No, it is not.

23 Q. Do the regulatory asset balances for which GMO is seeking amortization
24 treatment in this case assume that all of the COR tax timing differences in the period 1971 to
25 2001 were given flow through rate treatment by the Commission?

26 A. Yes, Staff believes it is the Company's view that all of the COR tax timing
27 differences were flowed though. The Staff has submitted a data request to GMO on this
28 question to verify the Company's view, but has yet to receive a response.

29 Q. What do the balances of GMO's COR regulatory asset accounts represent?

30 A. In the Staff's opinion, they appear to represent a claim that there has been a
31 shortfall in the amount of COR expense recovered from customers compared to the amount of

1 COR tax deductions flowed through to ratepayers. Keep in mind that the amount of past
2 COR tax deductions received by ratepayers should equal the amount of a company's actual
3 COR expenditures, if COR was provided flow-through treatment in the past.

4 Q. Is it reasonable to expect that regulated Missouri utility's actual
5 COR expenditures will exceed the accrued cost for COR recovered in rates through book
6 depreciation expense?

7 A. No. In fact, the depreciation studies conducted by the Commission's
8 Engineering and Management Services Department Staff generally reflect the exact opposite
9 result. The accrued recovery of COR by a utility through book depreciation rate which
10 includes a COR component is generally significantly higher than the utility's actual incurred
11 cost for removing retired assets from service.

12 Q. Why is it unlikely that a Missouri utility would fail to recover sufficient
13 COR over the life of the asset through book depreciation expense to cover its actual cost of
14 removing the retired asset from service?

15 A. The book depreciation rates approved for GMO and other Missouri utilities
16 include a component for the recovery of COR over the expected life used in setting the book
17 depreciation rate. Referring back to my Surrebuttal Schedule 3, the \$1,000,000 asset had an
18 expected life of 10 years with an expected cost to remove the asset from service of \$150,000.
19 The book depreciation rate was set at 11.5 % to recover the cost of the asset, along with the
20 cost to remove it from service, over the 10 year "expected life" of the asset. The key word
21 here is "expected life" of the asset. Many of an electric utility's major assets have remained
22 in service well beyond the "expected life" used in setting the book depreciation rate.
23 For example, GMO's Sibley coal generating units were originally expected to have service

1 lives of approximately 30 years. The book depreciation rate was therefore intended to recover
2 both the cost of the plant and the estimated COR at the end of 30 years. However, once the
3 end of the estimated initial asset life of these units was approached, it proved to be more
4 economic to overhaul the Sibley units and extend their useful lives rather than remove the
5 units from service and build new units. GMO's life extension project for the Sibley units in
6 the early 1990s extended the expected lives of the units by approximately 20 years. The result
7 was that GMO will collect the estimated COR for an additional 20 years even though 100% of
8 the cost to retire the Sibley plant was assumed in the book depreciation rate to be collected by
9 the end of year 30 – the original life assumption. Extending the accrual of COR through the
10 book depreciation rate for an additional 20 years in this example will result in an approximate
11 additional collection of COR of 65%.

12 GMO's assertion that it has experienced a \$22,262,436 COR for GMO-MPS and
13 \$6,653,007 for GMO-L&P deficiency in the recovery of its 1971 through 2001 COR expenses
14 is contrary to the Staff's known experience in this matter with other Missouri utilities.

15 Q. If, in fact, GMO was aware of a \$22,262,436 COR recovery deficiency for
16 GMO-MPS and a \$6,653,007 recovery deficiency for GMO-L&P COR, what action should
17 GMO have initiated before now?

18 A. \$22,262,436 and \$6,653,007 COR recovery deficiencies for GMO-MPS and
19 GMO-L&P, respectively, should have indicated to the Company that it needed to seek an
20 increase in its booked depreciation rates to end the shortfall in COR recovery. If there has
21 been an actual shortfall in COR recovery, GMO should have addressed this situation with a
22 requested change in the approved book depreciation rates. To the Staff's knowledge, no such
23 request has been made by GMO. The Staff reviewed the Report and Orders in all rate cases

1 during this time period (from 1971-on) and did not find anything in the Orders that would
2 precluded the parties from recommending changes to GMO's existing book depreciation
3 rates.

4 Q. Does GMO-MPS and GMO- L&P's failure to request a change in its book
5 depreciation rates to address alleged COR deficiencies equal to a \$22,262,436 for GMO-MPS
6 and \$6,653,007 for GMO-L&P raise questions regarding the validity of such deficiency
7 claims in Ms. Hardesty's rebuttal testimony?

8 A. Yes it does. If such deficiencies were real, it is unlikely in Staff's view that
9 GMO would not have addressed a deficiency of this magnitude with a requested change in its
10 book depreciation rates. The Staff has requested detailed support for this alleged deficiency
11 which is not due to be provided until after the April 9, 2009 filing date for this Surrebuttal
12 testimony.

13 Q. Does Staff agree with the amounts of COR that GMO is requesting should be
14 amortized?

15 A. No. While Staff is opposed to any amortization recovery of the COR tax
16 timing differences amounts for prior years, even in the event the Commission were inclined to
17 rule in GMO's favor on this issue the amounts the Company is requesting (685,842 for
18 GMO-MPS and \$200,460 for GMO-L&P) are not the correct amounts. Correcting, at a
19 minimum, for the years that COR timing differences were definitely normalized
20 (through Case NO. ER-78-29), the amount should be \$606,352 for GMO-MPS and \$178,953
21 for GMO-L&P. (See Schedule 4 attached to this Surrebuttal testimony.)

1 Q. Does GMO's current calculation of the annual timing difference
2 for COR support Ms. Hardesty's assertion that GMO has a \$22,262,436 COR for GMO-MPS
3 and \$6,653,007 for GMO-L&P deficiency in recovery of its actual COR?

4 A. Certainly not. In fact GMO-MPS's and GMO-L&P's current calculation of the
5 timing difference for COR related to calendar years 2007 and 2008 properties reflects the
6 *opposite* result. For calendar years 2007 and 2008, the amount of COR being collected in
7 book depreciation expense by GMO-MPS and GMO-L&P is higher than GMO-MPS's and
8 GMO-L&P's actual incurred COR expenses by approximately \$4,171,359 and \$118,913,
9 respectively.

10 Q. On page 8 of her Rebuttal testimony, Ms. Hardesty suggests that GMO will
11 experience a net write-off of \$13,716,843 for GMO-MPS and a net write-off of \$4,009,203
12 for GMO-L&P if it is not allowed recovery of the regulatory assets and tax-gross up recorded
13 on its financial statements related to COR. What is the Staff's response to this statement?

14 A. The Staff has never seen such a claim from any other Missouri utility (besides
15 KCPL) in similar circumstances as GMO. The tax timing difference for COR is currently
16 being normalized for Union Electric Company d/b/a AmerenUE and The Empire District
17 Electric Company, to name two. None of these utilities has sought recovery of any regulatory
18 asset relating to past flow-through treatment of COR in any rate proceeding, to the Staff's
19 knowledge. This alleged charge against earnings is premised upon acceptance
20 of GMO's assertion that it has a \$22,262,436 for GMO-MPS and \$6,653,007 deficiency for
21 GMO-L&P in its recovery of 1971 through 2001 COR expense. The \$13,716,843
22 for GMO-MPS and \$4,009,203 for GMO-L&P income tax impact was calculated by GMO by

1 applying a 38.3886% tax rate to the \$22,262,436 and \$6,653,007 deficiency and grossing up
2 for taxes...

3 Q. Please summarize your testimony on this issue.

4 A. Ms. Hardesty asserts that GMO will have to recognize a \$13,716,843 write-off
5 for GMO-MPS and \$4,009,203 write-off for GMO-L&P income tax expense if it is not
6 allowed to amortize the prior tax impacts of COR over a 20 year period. This assertion is
7 premised upon claims that the COR timing difference was consistently given flow-through
8 ratemaking treatment by the Commission for the period 1971 to 2001, and that GMO has
9 experienced significant shortfalls in the recovery of COR expense from ratepayers compared
10 to its actual incurred COR expenses related to its property. No support has been provided by
11 GMO to prove the accuracy of either point. Even if GMO's assertions could be demonstrated
12 to be true, the propriety of charging current customers for a shortfall in COR expense
13 recovery from customers prior to 2002 is doubtful, at best.

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

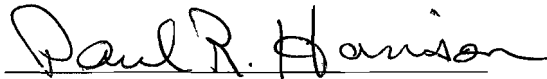
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for) Case No. ER-2009-0090
Approval to Make Certain Changes in its)
Charges for Electric Service.)

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 Surrebuttal Testimony in question and answer form, consisting of 19 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.


Paul R. Harrison

Subscribed and sworn to before me this 9th day of April, 2009.

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


Notary Public

**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

**STIPULATION AND AGREEMENT
AS TO CERTAIN ISSUES**

COME NOW Kansas City Power & Light Company ("KCPL" or "Company"), the Staff of the Missouri Public Service Commission ("Staff"), and respectfully state to the Missouri Public Service Commission ("Commission") that, as a result of negotiations, the undersigned parties ("Parties") have reached the stipulations and agreements contained herein in order to settle the certain issues specified below.

1. **Issues Settled.** This Stipulation and Agreement is intended to settle the following issues previously identified by some or all of the Parties through testimony and or schedules.

- Wolf Creek Refueling Outage Costs (Issue 18);
- Research and Development Tax Credits (Issue 16);
- Bad Debt Expense (Issue 17);
- Cost of Removal Income Tax (Issue 8);
- Surface Transportation Board Litigation Expenses (Issue 20);
- Washington Employee Costs (Issue 11);
- Rate Case Expense (Issue 19);

- Organization Membership Dues (Issue 9);
- KCPL Supplemental Executive Retirement Pension (SERP) costs (Issue 12);
- Meal Expenses (Issue 13).

2. Wolf Creek Refueling Outage Costs

The Parties agree to use the defer-and-amortize method for Wolf Creek Refueling Outage Costs. They further agree to adjust the working capital calculation to exclude the specific line item for Wolf Creek Refueling Outage Costs, and include such costs with miscellaneous cash vouchers.

3. Research and Development Tax Credits

The Parties agree to reverse the Missouri jurisdictional consulting expenses incurred related to the research and development tax credit studies from the Company's cost of service, and set up a regulatory asset for the expense. The Parties agree also to set up a regulatory liability for the Missouri jurisdictional research and development tax credits included as adjustments on the 2000-2005 amended tax returns filed in 2007. Both the regulatory asset and the regulatory liability will be amortized over five years beginning on the effective date of the new rates in the first general rate case following the receipt of the refunds by the Company.

4. Bad Debt Expense

In the True-Up Proceeding, the Parties agree to update the bad debt factor to the actual factor experienced for the 12 months ending September 30, 2007.

5. Cost of Removal Income Tax

The Parties agree that KCPL will adopt in this case normalization accounting for the tax timing difference associated with pre-1981 vintage cost of removal, and amortize \$7,088,760 (Missouri jurisdictional), representing the excess of KCPL's actual cost of removal over the accrued cost included in book depreciation in prior years, over a 20 year period, beginning January 1, 2008. The Parties agree the Staff's deferred income tax expense will be increased by \$354,438. The tax timing difference for cost of removal related to pre-1981 vintage property will be normalized by KCPL on a going forward basis for financial reporting and ratemaking purposes.

This settlement of this issue in this case will resolve this issue for all future rate cases as well.

6. Surface Transportation Board Litigation Expenses and Rate Case Expense

For the purposes of settling the Surface Transportation Board Litigation Expenses and Rate Case Expense issues, the Staff's revenue requirement will be increased by \$191,927.

7. Washington Employee Costs, Organization Membership Dues, KCPL Supplemental Executive Retirement Pension (SERP) costs and Meals Expenses

For the purposes of settling the Washington Employee Costs, Organization Membership Dues, KCPL Supplemental Executive Retirement Pension (SERP) costs and Meals Expenses issues, the Staff's revenue requirement will be increased by \$150,000.

8. Testimony Received Into Evidence. Unless called by the Commission or the Regulatory Law Judge to respond to questions of the Commissioners or the Regulatory Law Judge, in the event the Commission accepts the specific terms of this Stipulation and Agreement, the portions of the testimony of the following witnesses concerning matters not at issue between the Parties, including the Issues Settled as set out in paragraph 1, *supra*, shall be received into evidence without the necessity of these witnesses taking the stand:

KCPL Witnesses and Testimony

Weisensee
Hardesty

Staff Witnesses and Testimony

Traxler
Hyneman
Vesley

9. This Agreement is being entered into solely for the purpose of disposing of the issues that are specifically addressed in this Agreement. Except as specifically addressed otherwise for the particular issues set out in this

Agreement, in presenting this Agreement, none of the Signatories to this Agreement shall be deemed to have approved, accepted, agreed, consented or acquiesced to any ratemaking principle or procedural principle, including, without limitation, any method of cost or revenue determination or cost allocation or revenue related methodology, and none of the Signatories shall be prejudiced or bound in any manner by the terms of this Agreement (whether this Agreement is approved or not) in this or any other proceeding, other than a proceeding limited to enforce the terms of this Agreement, except as otherwise expressly specified herein.

10. This Agreement has resulted from extensive negotiations and the terms hereof are interdependent. If the Commission does not approve this Agreement without modification, then the Agreement shall be void and no Signatory shall be bound by any of the agreements or provisions herein, except as specifically provided herein.

11. If the Commission does not unconditionally approve this Agreement without modification, and notwithstanding its provision that it shall become void, neither this Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any Signatory has for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Signatories shall retain all procedural and due process rights as fully as though this Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Agreement shall

become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

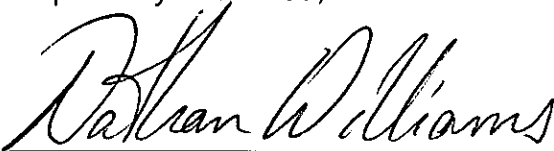
12. If the Commission unconditionally accepts the specific terms of this Agreement without modification, the Signatories waive, with respect to the issues resolved herein: their respective rights (1) to call, examine and cross-examine witnesses pursuant to Section 536.070(2), RSMo 2000; (2) their respective rights to present oral argument and/or written briefs pursuant to Section 536.080.1, RSMo 2000; (3) their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2, RSMo 2000; (4) their respective rights to seek rehearing pursuant to Section 386.500, RSMo 2000 and (5) their respective rights to judicial review pursuant to Section 386.510, RSMo 2000. These waivers apply only to a Commission order respecting this Agreement issued in this above-captioned proceeding, and do not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Agreement. This Agreement contains the entire agreement of the Signatories concerning the issues addressed herein.

13. If the Commission has questions for the Signatories' witnesses or Signatories, the Signatories will make available, at any on-the-record session, their witnesses and attorneys on the issues resolved by this Agreement, so long as all Signatories have had adequate notice of that session. The Signatories agree to cooperate in presenting this Agreement to the Commission for approval,

and will take no action, direct or indirect, in opposition to the request for approval of this Agreement.


WHEREFORE, the undersigned Signatories respectfully request the Commission to issue an order in this case approving the Agreement subject to the specific terms and conditions contained therein.

Respectfully submitted,



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ATTORNEY FOR
THE STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION



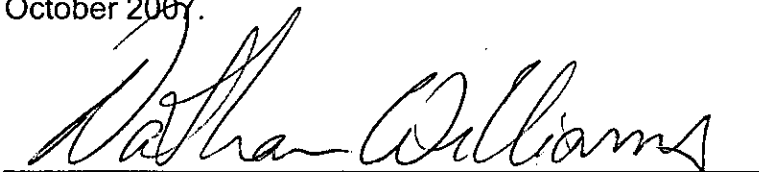
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ATTORNEYS FOR
KANSAS CITY POWER & LIGHT
COMPANY

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 3rd day of October 2007.



**GMO- MoPUB and L&P Electric
Case No. ER-2009-0090
Cost of Removal Example**

Deferred Tax Liability - Normalizing the Timing Difference for Depreciation Expense

<u>LineNo.</u>							
1	Asset Cost						\$1,000,000
2	Accelerated Tax Depreciation Rate - 5 years = 20%						
3	Book Depreciation Rate - 10 years = 10%						
		Book Depreciation (A)	Accelerated Tax Depreciation (B)	Tax Deprec . to be Deferred (C) (B) - (A)	Effective Tax Rate (D)	Deferred Tax Expense (E) © X (D)	Accumulated Deferred Income Tax Liability (F)
4	Year 1	\$100,000	\$200,000	\$100,000	40%	\$40,000	\$40,000
5	Year 2	\$100,000	\$200,000	\$100,000	40%	\$40,000	\$80,000
6	Year 3	\$100,000	\$200,000	\$100,000	40%	\$40,000	\$120,000
7	Year 4	\$100,000	\$200,000	\$100,000	40%	\$40,000	\$160,000
8	Year 5	\$100,000	\$200,000	\$100,000	40%	\$40,000	\$200,000
9	Year 6	\$100,000	\$0	(\$100,000)	40%	(\$40,000)	\$160,000
10	Year 7	\$100,000	\$0	(\$100,000)	40%	(\$40,000)	\$120,000
11	Year 8	\$100,000	\$0	(\$100,000)	40%	(\$40,000)	\$80,000
12	Year 9	\$100,000	\$0	(\$100,000)	40%	(\$40,000)	\$40,000
13	Year 10	\$100,000	\$0	(\$100,000)	40%	(\$40,000)	\$0
14	Total	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>

**GMO- MoPUB and L&P Electric
Case No. ER-2009-0090
Cost of Removal Example**

Deferred Tax Asset - Normalizing the Timing Difference for Cost of Removal

Line No.

1	Asset Cost	\$1,000,000
2	Estimated Cost of Removal	\$150,000
3	Total Cost to Recover in Book Depreciation Expense	\$1,150,000
4	Number of Years	10
5	Book Depreciation Rate - Life Assumption	10.00%
6	Book Depreciation Rate - Cost of Removal Assumption	1.50%
7	Total Book Depreciation Rate	11.50%

		Cost of Removal Recovered in Book Depreciation	Cost of Removal Tax Deduction IRS	Tax Depreciation To Be Deferred	Effective Tax Rate	Deferred Tax Expense	Accumulated Deferred Income Tax Liability
		(A)	(B)	(C) (B) - (A)	(D)	(E) © X (D)	(F)
8	Year 1	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$6,000)
9	Year 2	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$12,000)
10	Year 3	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$18,000)
11	Year 4	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$24,000)
12	Year 5	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$30,000)
13	Year 6	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$36,000)
14	Year 7	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$42,000)
15	Year 8	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$48,000)
16	Year 9	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$54,000)
17	Year 10	\$15,000	\$0	(\$15,000)	40%	(\$6,000)	(\$60,000)
18	Year 11	\$0	\$150,000	\$150,000	40%	\$60,000	\$0
19	Total	\$150,000	\$0	(\$150,000)		(\$60,000)	\$0

**GMO- MoPUB and L&P Electric
Case No. ER-2009-0090
Cost of Removal**

Actual Costs Incurred

Electric	Company		Staff	
	<u>MOPUB</u>	<u>SJLP</u>	<u>MOPUB</u>	<u>SJLP</u>
<u>Year</u>				
1970	0	0	0	0
1971	256,599	0	256,599	0
1972	476,778	114,662	476,778	114,662
1973	586,931	115,307	586,931	115,307
1974	524,713	151,277	524,713	151,277
1975	385,905	135,320	385,905	135,320
1976	514,979	495,123	514,979	495,123
1977	767,151	98,918	767,151	98,918
1978	626,988	243,922	626,988	243,922
COR Normalized 1970-1978	<u>4,140,044</u>	<u>1,354,529</u>	<u>4,140,044</u>	<u>1,354,529</u>
1979	658,769	234,126	658,769	234,126
1980	440,302	317,903	440,302	317,903
1981	505,748	200,119	505,748	200,119
1982	619,695	271,161	619,695	271,161
1983	647,890	298,314	647,890	298,314
1984	801,319	239,395	801,319	239,395
1985	1,059,219	453,345	1,059,219	453,345
1986	909,069	306,694	909,069	306,694
1987	790,751	682,781	790,751	682,781
1988	1,007,566	337,954	1,007,566	337,954
1989	1,300,493	318,470	1,300,493	318,470
1990	3,817,281	316,256	3,817,281	316,256
1991	1,707,680	360,132	1,707,680	360,132
1992	2,691,522	430,296	2,691,522	430,296
1993	1,901,794	605,538	1,901,794	605,538
1994	1,539,348	861,458	1,539,348	861,458
1995	1,967,482	616,021	1,967,482	616,021
1996	1,005,478	662,878	1,005,478	662,878
1997	1,137,733	508,994	1,137,733	508,994
1998	1,185,505	537,237	1,185,505	537,237
1999	1,412,650	688,995	1,412,650	688,995
2000	1,852,142	51,669	1,852,142	51,669
2001	2,630,771	23,525	2,630,771	23,525
Total	<u>35,730,251</u>	<u>10,677,790</u>	<u>31,590,207</u>	<u>9,323,261</u>
Income Tax Rate	38.39%	38.39%	38.3886%	38.3886%
Tax Benefit Flowed Thru	13,716,843	4,009,203	12,127,038	3,579,069
FAS 109 Gross up (Response DR No. 356)	8,545,593	2,553,803		
	<u>22,262,436</u>	<u>6,563,006</u>		
Amort Period - Years	20	20	20	20
Annual Amort - Incr Def Inc Tax	<u>685,842</u>	<u>200,460</u>	<u>606,352</u>	<u>178,953</u>