Exhibit No.:	
Issues:	Fleet Fuel Costs; T&D O&M Normalization; Customer Satisfaction
Witness:	William P. Herdegen
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2009-0089
Date Testimony Prepared:	March 11, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

REBUTTAL TESTIMONY

OF

WILLIAM P. HERDEGEN, III

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2009

REBUTTAL TESTIMONY

OF

WILLIAM P. HERDEGEN, III

Case No. ER-2009-0089

Q: Are you the same William P. Herdegen, III, who submitted Direct Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L") on or about September 5, 2008?

A: Yes, I am.

Q: What is the purpose of your Rebuttal Testimony?

A: The purpose of my Rebuttal Testimony is to rebut the direct testimony of Jatinder Kumar, United States Department Of Energy, National Nuclear Security Administration and Federal Executive Agencies ("DOE"); the direct testimony of Russell W. Trippensee, Office of the Public Counsel; and to rebut the Missouri Public Service Commission ("Commission") Staff's *Cost of Service Report*, specifically maintenance normalization adjustments proffered by Karen Herrington and the discussion of customer service and satisfaction proffered at pages 92 through 93 by Charles R. Hyneman.

Q: What specific adjustments are you rebutting?

A: I am rebutting Mr. Kumar's Schedule 32, Adjusted Transmission Maintenance Expense of ($232,582); Schedule 33, Adjusted Distribution Maintenance Expense of ($1,891,920); Mr. Kumar's alternate view to Schedules 32 and 33, removing a productivity factor, and captured in Schedule 35, Adjusted Transmission Maintenance Expense of ($196,145) and Schedule 36, Adjusted Distribution Expense of ($1,549,064).

Furthermore, I am rebutting Mr. Trippensee's proposed adjustment to KCP&L's request for transmission and distribution maintenance expense, namely, OPC's adjustment of KCP&L's company-wide fuel expense of ($257,315), which affects transmission and distribution maintenance expense shown in KCP&L's Schedule JPW-2, Adjustments 26b and 26c.

Q: Please explain your exception to Mr. Kumar's testimony on these adjustments?

A: First, I disagree with Mr. Kumar's statement, "…that increasing expense with inflation does not leave much incentive for controlling costs." (Kumar Direct Testimony, p. 27, ll. 9-10) The incentive to control costs stems from the customer's expectation of reliable electric service and, beyond regulatory initiatives, KCP&L wanting to maximize resources to meet that expectation. The cost of providing reliable electric service is found in transmission and distribution operation and maintenance expense, which is impacted by inflation—a decrease in buying power—and escalating commodity prices.

Second, Mr. Kumar recommends use of Handy-Whitman Indices projected based on the average historical growth and offers that in many cases, which he fails to cite, that when cost increases are allowed to be recovered based on an index, the increase is offset with a productivity factor. He proposes the use of an offset of a productivity factor of two percent in the event an index is used. It is unclear how Mr. Kumar arrives at this productivity factor, which seems arbitrary, so it should not be considered since it is not known and measurable. (Kumar Direct Testimony, p. 27, ll. 12-15, 17-20)

Q: How would you characterize Mr. Trippensee's testimony on behalf of OPC?

A: First, Mr. Trippensee attempts to normalize the per gallon price per fuel across diesel, bio-diesel, gasoline and ethanol—all fuels used in KCP&L's fleet. He uses the 2007 test year expense ratio for the fleet clearing account, which I believe he is referring to FERC account 933, to establish a normalized level of fleet activity.

Second, he looks to establish a 2009 price for fuel by using the *Short-Term Energy Outlook* published by the Energy Information Administration ("EIA"). (Trippensee Schedule RWT-2) The fuel price information in the EIA's *Short-Term Energy Outlook* dated January 13, 2009, provides gasoline and diesel cost projections for 2009 and 2010. Mr. Trippensee uses the 2009 projected price of gasoline and rounds it up to the nearest 10 cents. He uses the same method for the cost of diesel and bio-diesel. KCP&L uses both kinds of diesel at any given time, depending on the marketplace. Furthermore, Mr. Trippensee states ethanol is approximately 20 cents less per gallon than gasoline. He uses the price differential between gasoline, diesel, bio-diesel and ethanol in the EIA 2009 *Survey* to establish a normalized fuel price per gallon, but does not state that price in his testimony.

Third, Mr. Trippensee attempts to normalize the number of gallons of fuel used by KCP&L for transmission and distribution operations and maintenance. He uses a four-year average to determine the on-going level of fuel use. He testifies that the normalized gallons of fuel will be greater than the test year by 26,439 gallon.

Based on Mr. Trippensee's testimony, it is unclear how he arrived at his requested adjustment of ($257,315). Putting this fact aside, his methodology is flawed.

Q: Will you please explain your exception to Mr. Trippensee's testimony?

A: Yes. His methodology does not take into account the volatility in the commodity markets, such as fuel prices. Mr. Trippensee's testimony and exhibit support the view of the great volatility in the fuel market. The price of fuels used by KCP&L can be impacted by more than the price of oil, corn and availability of vegetable waste. Fuel prices are affected by poor corn crop yield, a mere threat of geo-political instability, severe weather that impacts refining operations, statutory and regulatory initiatives requiring the use of bio-diesel. The EIA *Survey* does not fully consider these impacts in a long-range view.

Also, Mr. Trippensee does not address how volatility in fuel prices affects the cost of materials used by transmission and distribution maintenance and operations. This fact is highlighted by his use of the fleet clearing account, FERC 933, for the basis of his adjustment. The impact of increasing fuel costs on the cost of materials is not captured in the fleet clearing account.

Moreover, Mr. Trippensee's focus on a single component of Adjustments 26b and 26c, does not consider contract labor pricing or any impact from yearly market inflation/escalation. In other words, he takes 2007 dollars with no consideration for changes in commodity or contract labor pricing. In contrast, I proposed the use of a five-year indexed average wherein all historical dollars are indexed to 2009 dollars – thereby putting all dollars on a "Same-Year dollars" basis – for the year when rates will go into effect. The index that I proposed using, which is supported by Mr. Kumar, is the Handy-Whitman Index ("HW Index").

Q: How did KCP&L address market volatility and inflation/escalation?

A: We normalized transmission and distribution maintenance expense, excluding the impacts of new vegetation management and infrastructure rules, based on a five-year average (2003-2007) indexed for price escalations. The index used was the HW Index, a highly recognized independent source of historical escalation factors. We projected the

HW Index used in this normalization process through January 1, 2009 to take into consideration the price sensitivity issues discussed above. The resulting adjustments, Adj-26b and Adj-26c, are included in Schedule JPW-2 attached to the direct testimony of KCP&L witness John Weisensee.

Q: What is the Handy-Whitman Index?

A: The HW Index is a highly recognized, independent source of historical escalation factors. The HW Index is a widely used method and standard practice within the utility industry, as well as government agencies, for evaluating cost trends. The index numbers are prepared especially for electric, gas and water utilities and the data is under continuous review to assure the indices reflect current construction and commodity information. Separate index numbers are developed for each type of utility whether electric, gas or water.

Q: Is there consideration for regional or geographic impact on developing the HW Index?

A: Yes. The HW Index is divided into six geographic regions based on similar characteristics to reflect cost trends among the different types of utilities as well as capturing differences among regions. KCP&L uses the HW Index prepared for Electric Utility Construction for the North Central Region to obtain a regional index for electric utilities.

Q: What is the advantage of using the HW Index over the method set forth in OPC's testimony?

A: In addition to the integrity and the general acceptance of the methodology of the HW Index by industry and government, to accurately compare historic costs to current costs, the costs must take into account escalation and expenditures in "Same-Year dollars." Adjustments for transmission, KCP&L Adj-26b, and distribution, KCP&L Adj-26c, were determined in an identical manner; adjusting test year non-labor maintenance expense to a normalized level. OPC's methodology does not adjust for "Same-Year dollars" or consider volatility in the commodity markets, which greatly impacts the cost of transmission and distribution maintenance expense. Mr. Trippensee offers Exhibit RWT-2. When compared to my direct testimony, it highlights the volatility in the fuel market, but he does not offer a mechanism to capture market volatility in his proposal except through isolating fuel prices with an imperfect methodology.

Q: Why did KCP&L choose to index historical costs through 2009 rather than indexing all historical dollars forward to the test year of 2007?

A: The rates that KCP&L is currently requesting will be effective August 5, 2009. Given the significant material and labor cost increases that KCP&L is experiencing in the area of transmission and distribution maintenance, indexing forward only to 2007 would still be expected to fall well short of what KCP&L will incur over the time period these rates are in effect.

Q: Has KCP&L validated the HW Index against actual local experience?

A: Not formally. Although KCP&L has not performed formal trend comparisons, transmission and distribution operations have certainly experienced volatility in the price of commodities—which the HW Index helps to normalize. Mr. Trippensee's testimony does not challenge my proposition that KCP&L has faced extreme volatility in the commodity market.

Q: How does commodity price volatility, including fuel, impact KCP&L's O&M expense?

A: Many suppliers require monthly and quarterly price adjustments to our contracts to address commodity price volatility. As offered in my Direct Testimony (Section III, Price Sensitivity, pp. 24-27), KCP&L negotiates with its suppliers to help mitigate the commodity price volatility, but even after developing strong alliance supplier relationship, many suppliers continue to require monthly and quarterly price adjustments to address commodity price volatility. Sometimes this is to the benefit of KCP&L and many times it is not. The HW Index is a useful tool that addresses volatility in the commodity markets.

Q: Do you take exception at Ms. Herrington's testimony regarding maintenance normalization adjustments?

A: Yes. Ms. Herrington suggests using the 2007 test year account balances for future maintenance costs. She takes 2007 dollars with no consideration for changes in commodity or contract labor pricing. In contrast, I proposed the use of a five-year indexed average wherein all historical dollars are indexed to 2009 dollars – thereby putting all dollars on a "Same-Year dollars" basis – for the year when rates will go into effect. As previously stated, the index that I proposed using is the HW Index.

Q: Do you address market volatility and inflation/escalation as previously discussed regarding Mr. Trippensee's direct testimony?

A: Yes. We normalized transmission and distribution maintenance expense, excluding the impacts of new vegetation management and infrastructure rules, based on a five-year average (2003-2007) indexed for price escalations. The index used was the HW Index.

We projected the HW Index used in this normalization process through January 1, 2009 to take into consideration the price sensitivity issues discussed above. The resulting adjustments, Adj-26b and Adj-26c, are included in Schedule JPW-2 attached to the direct testimony of KCP&L witness John Weisensee.

Q: So your analysis of normalization adjustments, inflation and escalation expense in Mr. Trippensee's direct testimony would also be applicable to Ms. Herrington's direct testimony?

A: Yes, it would.

Q: Given your testimony above on the HW Index and the differing positions of Staff, DOE and OPC on these adjustments, what does KCP&L recommend the Commission use for normalized transmission and distribution maintenance expense in this case?

A: The Company recommends the use of 2008 actual dollars for transmission and distribution maintenance expense in this case without segregation of fuel costs and including an allowance for the incremental costs associated with the new vegetation management rules as discussed in my Direct testimony in this rate proceeding.

KCP&L believes it has reached an agreement with Staff to include 2008 actual maintenance expense in this rate proceeding and to include incremental vegetation management costs. Staff's revised Accounting Schedules attached to the Rebuttal testimony of KCP&L's witness John Weisensee, and referenced Schedule JPW-6, reflects 2008 actual maintenance expense and incremental vegetation management costs.

Q: Will you please explain your exception to Mr. Hyneman's testimony?

A: Yes. Mr. Hyneman proposes that KCP&L's quality of service has declined since the implementation of the Talent Assessment Program ("TAP"). To the contrary, KCP&L and KCP&L Greater Missouri Operations Company's ("GMO") reliability metrics improved in 2008 when compared with the like period in 2007. The TAP is not a factor in KCP&L's or GMO's reliability and Mr. Hyneman's proposition should be rejected.

Q: What information do you have to support your view?

A: To illustrate the improvement in reliability and the impact on reliability Great Plains Energy's acquisition of Aquila, herein represented as GMO, is having on reliability, I offer KCP&L's and GMO's service territory reliability reporting separately. This also ensures weather normalization methods were consistently applied for each organization. The reliability numbers are:

	2007 Aug - Dec	2008 Aug-Dec	Percent Change	
<u>KCP&L</u>				
SAIDI	27.0	20.8	23%	Improvement
SAIFI	0.32	0.25	22%	Improvement
<u>GMO</u>				
SAIDI	57.3	47.0	18%	Improvement
SAIFI	0.76	0.43	43%	Improvement

Q: Why did you select only the August through December period?

A: August through December represents the period KCP&L and GMO operated concurrently in 2008. The same period for 2007 was selected to ensure a relevant comparison. Based on these numbers, KCP&L and GMO have seen material improvement in reliability. Whether taken alone or together, they support the view KCP&L's reliability has improved, clearly in opposition to Mr. Hyneman's testimony.

Q: Does that conclude your 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 to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

AFFIDAVIT OF WILLIAM P. HERDEGEN

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

William P. Herdegen, being first duly sworn on his oath, states:

1. My name is William P. Herdegen. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President of Transmission and Distribution Operations.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of ten (10) pages and ~~Schedule(s) ____-___ through ____-___~~, all of which 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.

William P. Herdegen
William P. Herdegen

Subscribed and sworn before me this 10th day of March 2009.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200