Exhibit No.:	
Issues:	*Property Tax*
	Gross Receipt Tax
	Maintenance
	Injuries and Damages
Witness:	*Karen Herrington*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2009-0089*
Date Testimony Prepared:	*April 7, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

KAREN HERRINGTON

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
April 7, 2009

****<u>Denotes Highly Confidential Information</u>****

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Q. Please state your name and business address.

A. Karen Herrington, Fletcher Daniels State Office Building, Room G8, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Karen Herrington who previously filed direct and rebuttal testimony in this proceeding?

A. Yes. I filed information supporting Staff's Cost of Service Report in this case on February 11, 2009 and rebuttal testimony on March 11, 2009. I also provided input into Staff's Cost of Service Reports filed on February 11, 2009 in Case Nos. ER-2009-0090 and HR-2009-0092, which are the two rate cases filed on September 5, 2008 by KCPL Greater Missouri Operations (GMO) for its MPS and L&P operations and its L&P steam operation. On March 13, 2009, I also filed rebuttal testimony in Case No. ER-2009-0090 and Case No. HR-2009-0092.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my testimony is to respond to the rebuttal testimony of Melissa Hardesty of Kansas City Power & Light Company (KCPL or Company) with regard to Property Taxes and Gross Receipts Taxes. In addition, I will respond to the rebuttal testimony of Michael Herdegen, III of KCPL on maintenance. I will also provide a response to the rebuttal testimony of KCPL witness John Weisensee on the topic of Injuries and

Damages and Gross Receipts Taxes. Company and Staff disagree over the calculation of property taxes for plant added in 2008. KCPL includes an amount for property taxes based on all property owned in 2008. In contrast, the amount Staff includes is based on property owned on the assessment date - January 1, 2008. Company and Staff also disagree on how to handle Gross Receipts Tax. KCPL treats the taxes as a prepayment by the Company when calculating cash working capital and includes them in rate base. Staff's position is that KCPL pays the Gross Receipts Taxes after it collects them from its customers and, therefore, they are a part of cash working capital with an expense lag. Finally, although the Company and Staff have come to an agreement on the normalization of maintenance costs and because Company witness Michael Herdegen addresses the issue in rebuttal, I will respond to the Company's rebuttal testimony concerning maintenance costs.

PROPERTY TAXES

Q. Does Staff agree with Ms. Hardesty's rebuttal testimony on pages 6 and 7 describing why Iatan 1 Air Quality Control System ("AQCS") should be included in Staff's property tax calculation?

A. No. Ms. Hardesty states the property tax cost included in KCPL's cost of service should include an amount for all property KCPL owned in 2008. Staff calculated property taxes on all property that is currently providing service to customers based on property tax assessments made on January 1, 2008. Any property placed in service after January 1, 2008 would not be assessed by the taxing authority until January 1, 2009, even if it is in service at this time.

Q. How are the property taxes for Iatan 1's AQCS accounted for in 2008?

A. Since the Iatan project was still under construction in 2008, the property taxes for the project would have been included with all other construction costs associated with the project and capitalized as part of the construction work order. Upon completion, the construction costs are transferred from construction work in process (CWIP) to plant, at which time depreciation begins. The Company will receive a rate of return on its investment when new rates are determined by the Commission in this case, if Iatan 1 is completed and placed in rate base for the rates established in this case.

Q. When will the AQCS be placed in service?

A. Staff does not know. However, according to Ms. Hardesty, the in-service of the AQCS project is expected to be in early 2009. According to the Company’s status report filed with the Commission on March 2, 2009, the Company wants the in-service date for the Iatan 1 project to be extended to April 30, 2009.

Q. How much is the Company requesting in rates for property taxes for the AQCS project?

A. According to Ms. Hardesty, ** __________ ** capitalized property taxes should be included in rates as expense.

Q. Why is Staff opposed to this request?

A. If the amount of capitalized property taxes was included as an expense in the cost of service upon which rates are determined in this case, the Company would begin receiving a return of its investment (as an expense item) plus recovery of the same property taxes through depreciation when the plant is placed in rate base (a rate base item). If the property tax amount associated with the Iatan 1 project is included in expense as

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proposed by KCPL, then the Company will over recover the property taxes that were paid in 2008. This will happen because the property taxes paid at the end of 2008 were only for the capitalized amounts that were assessed January 1, 2008. In other words, the Company would be recovering in rates an amount for the capitalized property taxes through return depreciation compensated for the 2008 property taxes.

Q. When will KCPL's Iatan 1 project improvements be assessed for property taxes which will be reflected in its cost of service as an expense to the Company?

A. The Iatan 1 property investment will not actually be assessed until January 1, 2010. Therefore, 2010 will be the first year that the Iatan 1 AQCS plant additions properly could be included in KCPL's cost of service as an expense. Payment of taxes based on the January 1, 2010 assessment will not be made until December 31, 2010. Thus, the Company would recover these costs through expenses as well as an additional amount through depreciation since the property taxes were capitalized prior to the January 1, 2010 assessment date.

Q. What is the significance of the January 1 date?

A. Personal property taxes are assessed on a local and state basis on this date. The only property assessed is that which is owned on that date. The only property taxes that are expensed are those attributable to plant in service owned and assessed as of January 1 of any given year, in this case January 1, 2008 and for the true-up on January 1, 2009. However, Iatan 1 was still in the construction phase on January 1, 2009. While plant additions are under construction, the Company will capitalize all property taxes, along with all other construction costs. Only when the property is both owned and in service on January 1, it will be assessed and associated property taxes will be expensed. Any property placed in service from January 2nd through December 31st, will not be assessed until the following year. In this case, the new AQCS additions for Iatan 1 will not be assessed for property tax expense purposes until January 1, 2010, with property tax not actually being due until the end of that year.

The taxes owed for property owned and in service on January 1, 2010 will not be due until December 31, 2010. Any property taxes paid in the state of Kansas will be paid in two installments; one due December 31, 2010 and the other due in April or May of 2011. Please see Schedule 1.

Q. Will Staff update its property tax recommendation in the true-up in this case?

A. Yes, if appropriate. Staff indicated in its direct testimony that property taxes will be reviewed during the true-up to see what changes, if any, should occur for this item. Staff will perform the necessary calculations to determine if the amount included in the direct filing should change. Staff will either use the actual 2008 property taxes paid for plant in service (not plant under construction at that time) assessed on January 1, 2008 or Staff will reflect an amount for property taxes based on an update of the calculation made in the direct filing by applying a ratio to the December 31, 2008 plant balance. The ratio would be developed by using January 1, 2008 assessed plant compared to actual property taxes paid December 31, 2008. All construction additions completed to plant in service from January 2 to December 31, 2009 will be assessed as plant on January 1, 2010 and not paid until the end of 2010 (in the case of Kansas taxes, not until May 2011 for the second installment).

Q. When will KCPL file its next rate case?

A. The actual date is uncertain but, as contemplated by KCPL's experimental regulatory plan, its next rate case should be filed shortly after the completion of this case, timed for the in-service date of Iatan 2 which is currently under construction.

Q. When will property taxes for Iatan 2 construction costs be included in rates?

A. All construction costs for Iatan 2, including amounts capitalized to that construction project for property taxes that have been assessed and that have been paid at the end of each year it was under construction, will be reflected in the Company's next rate case assuming that Iatan 2 is in service and included in rate base. This is the same way that Iatan 1 construction costs should be treated in computing property taxes. Iatan 2 property taxes will not be expensed until 2011. Iatan 2 will still be under construction January 1, 2010, so any property taxes due at the end of 2010 will have been capitalized, not expensed. Iatan 2 will be assessed as an expense item on January 1, 2011 and not paid for until December 31, 2011 and May 2012. It is the status of the plant either as construction or plant in service on the all important date of January 1 of any given year that determines if those tax payments are treated as a capitalized amount or should be included in rates as expense.

Q. Does Staff believe the Company's proposed property tax amount of **____________ ** for Iatan 1 should be include in rates?

A. Yes, but not as an expense. To the extent this is the amount that has been capitalized for Iatan 1 plant additions, and then this amount should be included in this case as part of the construction costs of Iatan 1 plant additions. If the Commission includes those plant additions in rate base, then this Iatan 1 property tax amount should be included in plant in service where KCPL will recover it through depreciation and rate base treatment over the

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life of the plant beginning with this case. However, the Company's recommendation to reflect the amount it has capitalized for Iatan 1 plant additions in expense should be rejected as those taxes will not actually be in expense until 2010, not 2009 as inferred by KCPL. As noted above, the January 1, 2009 assessment of Iatan 1 additions are still subject to capitalization requirements for 2009. No expense will be necessary for 2009 for these plant additions, as the plant in service investment will not be assessed until January 1, 2010, nor paid until the end of 2010. Therefore, KCPL should not be allowed to include costs it is recovering through deprecation and as a rate base component of cost of service (the capitalized property taxes), and also be permitted to add additional expenses in rates for amounts it will only pay out once as capitalized property taxes.

GROSS RECEIPTS TAX

Q. Please explain KCPL's position regarding gross receipts taxes it pays to cities and communities it serves as identified in KCPL witness Hardesty's rebuttal testimony (page 16)?

A. KCPL believes the gross receipts taxes (GRT) it pays to its municipalities are prepayments and includes them in rate base and treats them in cash working capital as though the Company paid these taxes before it collects the tax from its customers. Both of these approaches are wrong and should not be included in rates in this case.

Q. Does Staff agree with Ms. Hardesty's position on the ratemaking treatment for Gross Receipts Taxes?

A. No. Ms. Hardesty states in her rebuttal testimony on line 16 and 17 of page 8, that KCPL has continuously treated the 6% GRT as a prepayment based on the language contained in the Kansas City Missouri License and Miscellaneous Business Regulations

Sec. 40-344. The entire ordinance is attached as Rebuttal Schedule 1 to my rebuttal testimony filed on March 11, 2009. The ordinance clearly states the payments are based on the revenues received three months prior to when payment is due. Ms. Hardesty confirms GRT is not a prepayment when she makes the following statement on Page 9, line 10 of her rebuttal testimony that "based on the above language in the regulations KCP&L has classified the 6% KCMO GRT as a prepayment that is based on the prior quarter's usage." The argument made by Ms. Hardesty on page 9, line 14, is that the license fee is for the period for which the payment was made. Staff's position is that the period for the licensee fee is extraneous, since the GRT funds are actually collected during the three months prior to the month in which the payment is actually made. As an example, the amount of GRT paid in January of any year is based on and collected during the three preceding months prior to this January payment. An excerpt from the ordinance is listed below. The entire ordinance can be found attached to this surrebuttal testimony as Schedule 2.

> Every electric light or power company…in addition to all other taxes, payments or requirements now or hereafter required by law or city ordinance, pay to the city a quarter-annual license fee to be <u>due and payable to the city treasurer on or before the thirtieth day of January, April, July and October,</u> respectively, of each year, <u>based upon the business done during the preceding period of three calendar months ending respectively</u>, on the last day of December, March, June and September. The amount shall be equal to six percent of gross receipts…
> [emphasis added]

Q. What does the language mean in the ordinance that the gross receipts taxes are "based upon the business done during the preceding period of three calendar months ending…?"

A. This means that the revenues billed in the quarter ending of March, June, September and December will be used to identify the amount owed the city which amount of gross receipts taxes will be paid in the month following the close of the quarter. As an example, the three months collections of gross receipts taxes ended in December of any given year will be tuned over to the city by January 30th of the following year. For each quarter the collections would follow this same schedule every year:

Billing & Collection	**Payment to Taxing Authority Made**
January	
February	
March	April
April	
May	
June	July
July	
August	
September	October
October	
November	
December	January

For illustration purposes assume the following payment calculation is made for the quarterly GRT in Kansas City:

Month	Amount of Revenues	GRT at 6%	Gross Receipts Taxes Due
January	$15,000	$900	
February	12,000	$720	
March	10,000	$600	$2,200

The $2,200 amount of GRT due for the March quarter ended to Kansas City would be paid April 30th, or the following month after the close of the quarter used to "base" the gross receipts. Monies are clearly collected in advance of payment to taxing authorities which is the basis of the GRT payment lag used in Staff's cash working capital calculation.

Q. Does Staff provide any support to indicate the funds are collected prior to payment to the taxing authorities?

A. Yes. Please refer to Schedule 3.

Q. Does any other witness for KCPL address the GRT issue?

A. Yes. KCPL witness John Weisensee addressed this issue in his rebuttal testimony on pages 16-17, 19. Mr. Weisensee agrees with Ms. Hardesty’s testimony on prepayments and indicates that the CWC lag for gross receipts was calculated incorrectly by staff, page 17, lines 9-10. Staff does not agree with this assessment of the proper treatment of GRT in cash working capital determination.

To address Mr. Weisensee’s rebuttal testimony on this issue a thorough description of Cash Working Capital must be provided, including the impact to the Company and the Ratepayer. In addition to Ms. Hardesty, Mr. Weisensee also agrees the 6% GRT should be treated as a prepayment. Due to his belief that it should be treated as a prepayment, the GRT expense lag is reflected in the calculation of cash working capital.

Q. What is Cash Working Capital?

A. Cash Working Capital (CWC) is the amount of cash necessary for KCPL to pay the day-to-day expenses incurred to provide electric services to their respective customers.

Q. Was a lead/lag study performed in this case?

A. Yes. The Staff performed a lead/lag study.

Q. Is the method you used to calculate KCPL's CWC requirements the same method the Staff has used in previous rate cases?

A. Yes. The lead/lag method has been used by the Staff and adopted by the Commission in many cases, including KCPL's most recent rate case ER-2007-0291.

Q. What is the purpose of a lead/lag study?

A. The lead/lag study determines the amount of cash that is necessary on a day-to-day basis for KCPL to provide electric services to its customers. A lead/lag study analyzes the cash flows related to the payments received from its customers for the provision of electric services and the disbursements made by KCPL to its suppliers and vendors of goods and services necessary to provide these electric services. A lead/lag study determines the number of days KCPL has to make payments after receiving goods or services from a vendor and is compared with the number of days it takes KCPL to receive payment for the electric services it provides to its customers. A lead/lag study also determines who provides CWC.

Q. What are the sources of CWC?

A. The shareholders and ratepayers are the sources of CWC.

Q. How do shareholders supply CWC?

A. When KCPL expend funds to pay for an expense before the ratepayers provide the cash, the shareholders are the source of the funds. This cash represents a portion of the shareholders' total investment in the Company. The shareholders are compensated for the

CWC funds they provided by the inclusion of these funds in rate base. By including these funds in rate base, the shareholders earn a return on the funds they have invested.

Q. How do ratepayers provide CWC?

A. Ratepayers supply CWC when they pay for electric services received **before** the Company pays expenses incurred to provide that service. Ratepayers are compensated for the CWC they provide by reducing rate base by the amount of CWC the ratepayers provide.

Q. How does the Staff interpret lead/lag study results?

A. A positive CWC requirement indicates that, in the aggregate, the shareholders provided the CWC for the test year. This means that, on average, the utility paid the expenses incurred to provide the electric service to the ratepayers before the ratepayers paid the Company for the provision of utility service.

A negative requirement indicates that, in the aggregate, the ratepayers provided the CWC during the test year. This means that, on average, the ratepayers paid for their electric service before the utility paid the expense incurred to provide that service.

Q. Please explain the components of the Staff's calculation of CWC that appear on Accounting Schedule 8?

A. The components of the Staff's calculation are as follows:

1) Column A (Account Description): lists the types of cash expenses, which the Company pays on a day-to-day basis;

2) Column B (Test Year Expenses): provides the amount of annualized expense included in the cost of service. It shows the dollars associated with the items listed in Column A on an adjusted Missouri jurisdictional basis;

3) Column C (Revenue Lag): indicates the number of days between the midpoint of the provision of service by the Company and the payment for the service by the ratepayer. The revenue lag addressed in this case is discussed later in this surrebutal testimony;

4) Column D (Expense Lag): indicates the number of days between the receipt of and payment for the goods and services (i.e., cash expenditures) used to provide service to the ratepayer. The expense lags addressed in this case are discussed later in this surrebutal testimony;

5) Column E (Net Lag): results from the subtraction of the Expense Lag (Column D) from the Revenue Lag (Column C);

6) Column F (Factor): expresses the CWC lag in days as a fraction of the total days in the test year. This is accomplished by dividing the Net Lags in Column E by 365;

7) Column G (CWC Requirement): the average amount of cash necessary to provide service to the ratepayer. This is computed by multiplying the Test Year Expenses (Annualized Amount) (Column B) by the CWC Factor (Column F).

Q. Please describe the revenue lag?

A. The revenue lag is the amount of time between the day the company provides the service to customers, and when it receives payment from those customers for that service. The overall revenue lag in this case is the sum of three subcomponent lags. They are as follows: usage lag, billing lag and collection lag.

Q. Did KCPL use the same three subcomponent lags discussed above in developing its total revenue lag?

A. Yes. Both KCPL and Staff's revenue lag subcomponents are identified below:

	Staff
Usage Lag	15.21 days
Billing Lag	2.00 days
Collection Lag	11.82 days
Total	29.03 days

Q. Please explain how the usage lag was determined?

A. The usage lag was determined by dividing the number of days in a typical year (365) by the number of months in a year (12) to yield the average number of days in a month (30.42). The 30.42 was then divided by two to yield an average usage lag of 15.21 days. This further calculation using two as the divisor is necessary since KCPL bills monthly, and it is assumed that service is delivered to the customer evenly throughout the month.

Q. Please explain the Staff's approach to determining the billing lag?

A. The billing lag is the time it takes between when the Company reads the meter and when the bills are subsequently mailed to the customer. Staff accepted the Company's proposed billing lag of two days.

Q. Please explain the Staff's approach to determining the collection lag?

A. The collection lag is the average number of days that elapse between the day that the bill was mailed and the day when the Company receives payment for that bill. The Staff calculated the collection lag based on the methodology used from the previous case (Case No. ER-2007-0291). When calculating the collection lag a weighted lag is used based on the Company's current program to sell 57% of its accounts receivables. In addition, bulk power sales are also included in the calculation. The total calculated revenue lag for the Company and Staff equaled 29.03.

Q. What was the scope of the Staff's work in the calculation of expense lags in this case?

A. The Staff calculated expense lags in areas where significant expenses were involved, or in areas where significant changes in payment pattern occurred since previous rate cases.

Q. Does the Company disagree with expense lag used by Staff?

A. Yes. Mr. Weisensee states "the appropriate lag days for those payments are 19.21 days, as compared to 41.64 days proposed by Staff."

Q. Does Staff provide any support why the expense lag should change to 41.64 days?

A. Yes. Staff reviewed the tax billings for each city and municipality assessing gross receipts taxes on KCPL and determined the appropriate expense lag for each. It weighted the various expense lag calculations and determined a composite expense lag for gross receipts taxes used in the cash working capital schedule. Please refer to Staff workpaper, Schedule 2.1 attached to my rebuttal testimony filed on March 11, 2009 in this case. This work paper was provided to the Company as part of Staff's direct case.

Q. What does the Staff analysis show?

A. The analysis shows the GRT has a much longer expense lag than the Company is suggesting because the funds are collected by the ratepayers prior to the payment being submitted to the taxing authority.

Q. Does KCPL's new affiliate, KCP&L Greater Missouri Operations Company (GMO) account for gross receipts tax similar to how KCPL does?

A. No. GMO accounts for the gross receipt taxes as a payment in arrears and <u>does not</u> include gross receipts as a prepayment or, as an addition to Rate Base. The approach used by GMO to develop the GRT lag for cash working capital is the same one used by Staff. In other words, GMO has determined the GRT expense is collected in advance from its customers before it pays out the funds to the taxing authorities. Both GMO and Staff have calculated the GRT expense lag in the same way for many rate cases.

It is noteworthy that GMO MPS has to collect gross receipts taxes for the Kansas City 6% GRT assessment as does KCPL. However, KCPL treats this collection as a prepayment while GMO has consistently treated it correctly as a payment in arrears, or collection in advance of payment.

Q. What is Staff's suggestion with this issue?

A. Staff recommends removing any GRT prepayments that KCPL considered to be an addition to rate base. In addition, Staff recommends the Commission adopt the Staff's expense lag for Gross Receipts Taxes and order that going forward KCPL should account for gross receipts as a payment in arrears.

INJURIES AND DAMAGES

Q. What is the purpose of this portion of your surrebuttal testimony?

This section of the testimony is to respond to the rebuttal testimony of John P. Weisensee regarding KCPL's position on the cash working capital treatment of injuries and damages which appear on pages 1and 2.

Q. What is the difference between the Company and Staff's position?

A. According to Mr. Weisensee's rebuttal testimony on page 1, lines 14-16, the Company agrees with Staff's recommendation to utilize a three-year average of actual cash payments for purposes of determining a normalized amount for injuries and damages to be included in KCPL's cost of service in this rate case. The disagreement is how Staff accounts for injuries and damages with regard to Cash Working Capital. Specifically, the Company believes that if actual cash payments are used for determining a normalized amount for this rate case, injuries and damages can no longer be used when calculating Cash Working Capital.

Q. Does Staff agree with Mr. Weisensee's argument?

A. No. As mentioned previously in this testimony, ratepayers supply CWC when they pay for electric services received **before** the Company pays expenses incurred to provide that service. Ratepayers are compensated for the CWC they provide by reducing rate base by the amount of CWC the ratepayers provide.

Q. What are injuries and damages?

Injuries and Damages relate to amounts paid to third parties who have made claims against the Company for injuries to person or damages to property. It represents the portion of legal claims against a utility that is not subject to reimbursement under the utility's insurance policies. Injuries and damages expense normally consists of the following components:

- General Liability
- Auto Liability
- Worker's Compensation

This includes worker's compensation claims as well as those who sustain injury from accidents while using the Company's electrical system. Staff, and now KCPL, developed the proper level of normalized injuries and damages expenses using a three-year average of actual cash payments. KCPL has decided to use this method to determine the level of injuries and damages to recover in rates. However, the Company believes that there is a relationship between using the actual cash payments used to determine the normalized injuries and damages expense amount included in the cost of service analysis and ignoring the timing when those cash payments are made for cash working capital purposes. Staff disagrees with this approach.

Q. Please further explain Staff's position for injuries and damages?

A. Staff position on rate treatment of injuries and damages is to include a normalized level of annualized cash payouts in the cost of service. Staff uses this method because it can calculate <u>actual</u> cash payments that are known and measurable. The known and measurable concept as it is used to develop expense amounts recommended to be included in the rate determination is that an expense that is both (1) "known", meaning that the amount is an actual incurred cost or actual liability, and (2)"measurable", meaning that a change (for example, a payroll rate increase) can be calculated with a high degree of accuracy.

The Staff has outlined three conditions which must be satisfied before they will consider recommending the use of a pro forma adjustment for ratemaking purposes:

1. The adjustment must be based on auditable information, i.e., the underlying even must have occurred and be adequately documented and capable of quantifications;

2. Potential pro forma adjustments must be considered for all components of the investment/revenue/expense relationship, so that an isolated "update" to one ratemaking component is not made without considering possible offsetting impacts from updates to other ratemaking components; and,

3. The pro forma adjustments, viewed in totality within the investment/revenue/expense relationship, must significantly impact the revenue requirement for the utility as determined from test year data.

The use of the amounts of actual cash payments made for injuries and damages to determine the normalized level (the actual cash method) of expense was used in this case and the Company now agrees with the Staff's method. The other option that could be used is basing the normalized level on an accrual basis which is the method that KCPL used in its original direct filing. Staff believes that subjective estimates of future injuries and damages claims (such as accruals) are too speculative for setting rates. Staff does not believe that the accrual method used to determine injuries and damages meets the known and measurable standard and therefore, Staff has opposed this approach in the past. Basing current rate recovery on expectations of future cash claims gives utilities incentives to base their estimates on unreasonably high levels of injuries and damages. However, because it is appropriate to use the actual cash method to determine the normalized level of expenses included in rates does not mean it is proper to ignore the reality of the how these very cash payments are paid out over time. That is the analysis for cash working capital.

Q. Is there a difference between including a normalized level of annualized cash payouts and including injuries and damages in cash working capital?

A. Yes. As previously mentioned, when calculating a normalized level of annualized cash payouts, Staff is determining the amount of expense the Company could incur for injuries and damages in the future. On the other hand, Staff calculates cash working capital by determining when revenues are collected by the ratepayers and when expenses are paid out. In other words, the amount that is reflected in cash working capital is based on timing of the actual payments made to those who have claims of injury in relation to when the injury took place. KCPL collects funds from its customers throughout the year on claims that could in many instances take years to actually pay out. Typically a claim will be paid out after an investigation of the claim, and in many instances, as a result of litigation for either actual court awarded damages or negotiated settlements. This could result in a substantial lag from the time of incurrence of an injury or property damages to an actual cash payment. While the cash basis is used to determine the ongoing level of costs to be recovered in rates, this in no way provides consideration to the timing of when those payments are <u>actually</u> made. This is the role of the cash working capital analysis where the timing of actual occurrence of the injury or accident is measured compared to when the actual cash payments for injuries and damages are paid out. These calculations determine who is paying for everyday operations, the shareholders or ratepayers. The expense lag for injuries and damages used in the cash working capital schedule is the number of days between when events take place creating the need for the claim and when payments are actually made to those injured.

Q. Is there any similarity between determining a normalized expense level to include for injuries and damages and how injuries and damages are included in cash working capital schedule?

A. No. Injuries and damages simply determines a normalized expense level to include in the case, just as a normalized maintenance or payroll expense level would be included in the case. Injuries and damages when associated with cash working capital is a cash flow issue in which the Staff determines when a claim occurs, when the cash payment is paid, and who supplied the funds, ratepayers or stockholders.

Q. How does KCPL's affiliate GMO calculate its injuries and damages?

A. Both GMO and Staff have used the cash basis to determine the proper normalized level of expense for injuries and damages for many rate cases in the past. Also, both GMO and Staff have identified an average time it takes to make payments for claims. This average time period is measured by comparing when the injury takes place and how long it actually takes to make the payments for settlements and awards. This average period of time is reflected as line item 14 in the cash working capital analysis. GMO's method to compute both the normalized expense level included in the income statement and the measurable of the length of time it takes to make payments which are necessary to reflect in cash working capital is the same as what Staff has used is and is using in the KCPL and GMO rate cases. GMO and Staff are in agreement regarding this issue but that is not the case regarding the treatment of KCPL.

MAINTENANCE - NON-WAGE

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to William P. Herdegen III's rebuttal testimony, pages, 7 and 8, addressing the non-wage and non-fuel maintenance normalizations used by Staff. Although I will provide surrebuttal testimony in response to Mr. Herdegen's rebuttal testimony, the Company and Staff reached an agreement regarding the normalization of maintenance costs to be included in this case, as reflected in the attached Schedule 4.

Q. If the Company and Staff agreed to the level of non-wage maintenance expenses, why are you addressing this issue in surrebuttal testimony?

A. While KCPL acknowledged that the differences between the Company and Staff approaches to maintenance were resolved for purposes of this case, the Company provided rebuttal testimony referencing its original position presented in its direct testimony. Staff disagrees with the approach taken by KCPL regarding how it normalized the non-wage, non-fuel maintenance costs. Since the Company presented additional testimony on this issue in rebuttal, Staff believes it is necessary to address our differences on how they originally developed its normalized amounts.

Q. Briefly explain principal difference between the Company and Staff?

A. The Company has chosen to index their calculations for maintenance costs using 2009 dollars, while Staff has not used this method, relying instead on actual costs incurred for non-wage maintenance incurred by the Company.

Q. Why does the Company escalate the maintenance adjustment levels to 2009 dollars?

A. Mr. Herdegen addresses the reasons on page 6, lines 12-16 of his rebuttal testimony. Mr. Herdegen wrote "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. Is the indexing approach consistent with traditional ratemaking?

A. No. There are several reasons why the indexing approach is not consistent with traditional ratemaking. First, specialized treatment of any one expense (or revenue) has the potential to result in single-issue ratemaking. A Company's revenue requirement is determined using various adjusted, annualized and normalized expense and revenue items. Second, ratemaking in Missouri is based on known and measurable historical costs. Inflationary factors contradict the known and measurable concept as they are highly speculative in nature.

Q. Are there any other reasons inflation factors should not be used when determining an appropriate level of maintenance costs?

A. The Handy Whitman Index numbers, used by the Company, are developed from prevailing wage rates (among other things). Payroll is annualized separately in the ratemaking process; therefore, any inflation index that also includes labor rates is not appropriate to use. The maintenance costs that both KCPL and Staff are making adjustments for in this case relate strictly to non-labor maintenance costs. In other words, maintenance costs for material and supplies excluding salaries and wages. The Handy Whitman Index uses labor costs in computing the index numbers.

Q. Please summarize the Staff's disagreement with the Company's use of the Handy-Whitman Index for normalizing its maintenance expense.

A. KCPL is using inflationary factors, not generally accepted in traditional ratemaking, that are based on labor related capitalized construction costs to normalize its non-labor related expensed maintenance costs. In addition, using inflationary factors to increase maintenance costs may be considered single issue ratemaking and the factors would not be considered a known and measurable cost. The last area of concern with the Staff and the use of The Handy Whitman Index is the lack of incentive that inflationary factors provide to the Company to improve efficiency. Inflationary factors put all the risk on the ratepayers.

Q. Since the Company and Staff have agreed to the dollar amounts of non-wage maintenance for purposes of this case, is there any thing for the Commission to decide respecting this matter?

A. No.

Q. Does this conclude your surrebuttal 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 and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan.	)))))	Case No. ER-2009-0089

AFFIDAVIT OF KAREN HERRINGTON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Karen Herrington, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 24 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

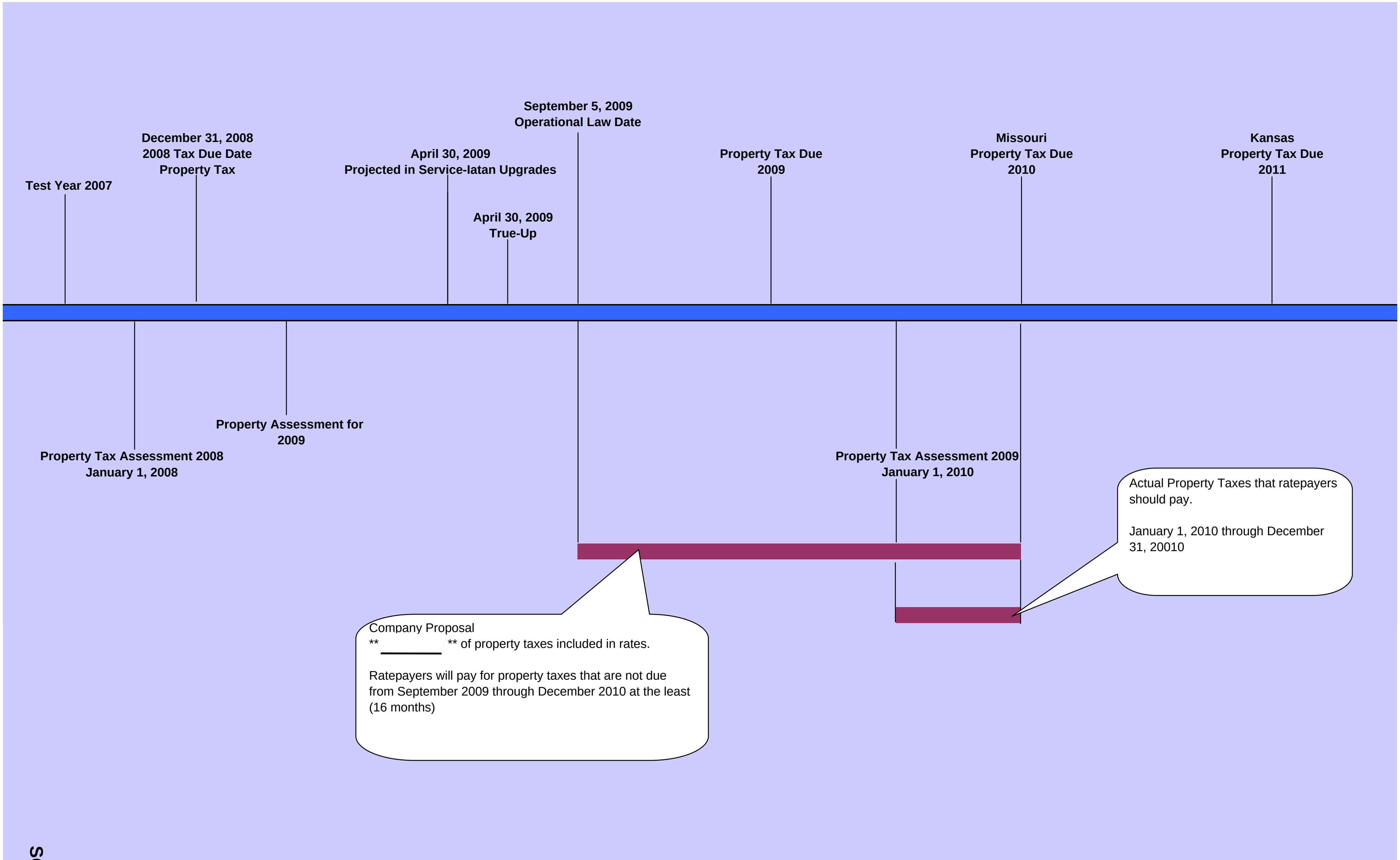
Karen Herrington
Karen Herrington

Subscribed and sworn to before me this 6th 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

Nikki Senn
Notary Public

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2009-0089
Property Tax Timeline



SCHEDULE 1

NP
SCHEDULE 1

Sec. 40-344. Electric light or power businesses--Generally.

(a) *Quarterly license fee imposed.* Every electric light or power company, and every corporation, company, association, joint stock company or association, partnership and person, and their lessees, trustees or receivers appointed by any court whatsoever, owning, operating, controlling, leasing or manufacturing, selling, distributing or transmitting electricity for light, heat or power, shall, in addition to all other taxes, payments or requirements now or hereafter required by law or city ordinance, pay to the city a quarter-annual license fee to be due and payable to the city treasurer on or before January 30, April 30, July 30 and October 30, respectively, of each year, based upon the business done during the preceding period of three calendar months ending, respectively, on December 31, March 31, June 30 and September 30. The amount of such quarterly license fee (referred to in this section as the "fee") shall be a sum equal to six percent of the gross receipts derived from the sale of electrical energy within the city during the same preceding period of three months ending as stated in this subsection, for consumption and not for resale; provided, however, that from July 1, 1988, through April 30, 2002, except as set forth in this section, the fee shall not be imposed upon, or with respect to, gross receipts derived from sales of more than $3,000,000.00 in any quarter to any one user (referred to in this section as "exempt gross receipts"), except for sales to public utilities, which shall remain fully taxable. Ten percent of exempt gross receipts shall be subject to the fee during the period from May 1, 1993, through April 30, 1994, and an additional ten percent of exempt gross receipts shall be subject to the fee during each succeeding 12-month period until exempt gross receipts are fully subject to the fee from and after May 1, 2002, as follows: During the period from May 1, 1994, through April 30, 1995, 20 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 1995, through April 30, 1996, 30 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 1996, through April 30, 1997, 40 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 1997, through April 30, 1998, 50 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 1998, through April 30, 1999, 60 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 1999, through April 30, 2000, 70 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 2000, through April 30, 2001, 80 percent of exempt gross receipts shall be subject to the fee; during the period from May 1, 2001, through April 30, 2002, 90 percent of exempt gross receipts shall be subject to the fee. From and after May 1, 1993, however, such fee shall not be imposed upon sales of more than 150,000,000 kilowatt-hours in any quarter to any one user, except for sales to public utilities, which shall remain fully taxable. The sale of electrical energy to an owner or lessee of a building who purchases such electrical energy for resale to the tenants therein shall, for the purposes of this section, be considered as sale for consumption and not for resale; but the resale to the tenants shall not be considered a sale for consumption.

(b) *Reports by licensee.* The licensee shall and he is hereby required to make true and faithful reports under oath to the director of finance and to the commissioner of revenue of the city, in such form as may be prescribed by the director of finance, and containing such information as may be necessary to determine the amounts to which the license tax shall apply, on or before January 30, April 30, July 30 and October 30 of each year, for all gross receipts for the three calendar months ending, respectively, on December 31, March 31, June 30 and September 30.

(c) *Payment of license fee.* Each fee shall constitute payment for the three months beginning on January 1, April 1, July 1 and October 1, respectively, during which months such payment shall be due and payable as prescribed in this section; provided, however, that the acceptance of such fee shall not prejudice the right of the city to collect any additional fee thereafter found to be due.

(d) *Examination of records; audits.* The city, the director of finance thereof and his assistants, and any public accountants selected by the city council or by the city manager, shall have the right, at all reasonable times during business hours, to make such examinations and inspections of the books of the licensee as may be necessary to determine the correctness of such reports. The originals of all records, books, documents, accounts, contracts and vouchers, showing accurately the true condition of the gross income and business of the licensee, shall be kept in his office in the city, and the licensee shall not remove such books, records and documents from the city except when necessary for temporary use or when temporarily required to do so by legal process, and, in any such case of temporary use or process, such books, records and documents shall be promptly returned at the conclusion thereof to the office of the licensee in the city. The city shall have the right, at its own expense, to employ the same accountants who make annual audit of the books, records and accounts and the business of the licensee to audit, at the same time, its accounts and records and certify as to correctness of any payments due and payable by the licensee to the city.

(e) *Penalty for late payment of license fee.* For each and every month, or part thereof, any such license fee remains unpaid, after the license fee becomes due and payable, there shall be added to such license fee, as a penalty for such delayed payment, ten percent of the amount of such license fee for the first month, or part thereof, the license fee is unpaid, and for each and every month thereafter two percent of the amount of such license fee until the fee is fully paid.

(f) *Authority to trim trees.* Permission is hereby granted to the licensee to trim trees upon and overhanging streets, alleys, sidewalks and public places of the city so as to prevent the branches of such trees from coming in contact with the wires and cables of the licensee, all such trimming to be done under the supervision and direction of any city official to whom such duties have been or may be delegated.

(g) *Scope of section.* Nothing contained in this section shall be construed as giving to a licensee any exclusive privileges, nor shall it affect any prior or existing rights of a licensee to maintain an electric plant within the city.

(h) *Applicability of license fee to additional charges imposed for nonpayment of electric bill.* Where an additional amount is added for failure to make payment of any electric bill within a prescribed period, the license fee shall be based on the total amount actually paid, as part of the gross receipts of the licensee.

(Code of Gen. Ords. 1967, § 21.439; Ord. No. 35166, 4-19-68; Ord. No. 35606, 7-19-68; Ord. No. 58046, 6-20-85; Ord. No. 61772, 11-24-87; Ord. No. 930360, 4-22-93; Ord. No. 930580, 6-3-93)

Sec. 40-345. Same--Emergency license tax.

(a) *Imposition; amount.* Every electric light or power company, and every corporation, company, association, joint stock company or association, partnership and person, and their lessees, trustees or receivers appointed by any court whatsoever, owning, operating, controlling, leasing or managing any electric plant or system generating, manufacturing, selling, distributing or transmitting electricity for light, heat or power shall, in addition to all other taxes, payments or requirements now or hereafter required by law or city ordinances, pay an additional emergency license tax in a sum equal to three percent of the gross receipts derived from all residential sales per month in excess of $10.00 per month each residence, four percent of the gross receipts derived from commercial sales, and four percent of the first $4,200.00 of the gross receipts per month derived from sales to each industrial user where the major use of such industrial user is to change raw or unfinished materials into other forms or products and not for space heating and lighting purposes within the city, such license tax to be payable monthly, the first such payment being due and payable no later than June 30, 1981, and no later than the last day of the month thereafter, based on the prior month's gross receipts, but otherwise based on the same computations and subject to the same penalties as provided in section 40-344, so long as this section remains in effect.
(b) *Scope of section.* No occupation license, however, shall be issued to any electric light or power company until and unless such company shall have paid to the city the full amount of the normal license tax of six percent of the gross receipts of the licensee, under section 40-344, in addition to the emergency license tax imposed by this section.
(Code of Gen. Ords. 1967, § 21.440; Ord. No. 33851, 4-14-67; Ord. No. 36638, 4-18-69; Ord. No. 38105, 4-17-70; Ord. No. 39510, 4-16-71; Ord. No. 41067, 4-21-72; Ord. No. 42557, 4-19-73; Ord. No. 43976, 4-19-74; Ord. No. 45270, 4-18-75; Ord. No. 46456, 4-9-76; Ord. No. 47663, 4-15-77; Ord. No. 48985, 4-14-78; Ord. No. 52571, 4-10-81.)

Source: City of Kansas City Website (Charters and Codes). Located at following website

http://www.municode.com/resources/gateway.asp?sid=25&pid=10156

Missouri Public Service Commission

Test Year 2007	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
	4th Quarter 2006			1st Quarter 2007			2nd Quarter 2007			3rd Quarter 2007			
Revenues Collected from RatepayerS	$86,937,112												
KCPL Payment 1/26/2007 based on previous quarter's revenues				$5,216,227									
Revenues Collected from Ratepayers				$96,974,333									
KCPL Payment 4/26/2007 based on previous quarter's revenues							$5,818,460						
Revenues Collected from Ratepayers							$102,630,578						
KCPL Payment 7/26/2007 based on previous quarter's revenues										$6,157,835			
Revenues Collected from Ratepayers										$158,904,229			
KCPL Payment 10/26/2007 based on previous quarter's revenues													$9,534,254

Source: Response to Data Request 290, Case No. 2009-0089. KCPL actual tax bills and payments

SCHEDULE 4

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY