







1 **Q IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**  
2 **THAT TESTIMONY?**

3 A Yes. This information is included in Appendix A to my direct testimony on revenue  
4 requirement issues.

5 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

6 A This testimony is presented on behalf of Ag Processing, Inc., the Sedalia Industrial  
7 Energy Users Association, Wal-Mart Stores, Inc., and Whiteman Air Force Base  
8 (collectively "Industrials").

9 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A To respond to the rebuttal testimony of KCPL-GMO witness Melissa K. Hardesty  
11 regarding the deferred taxes associated with the Crossroads units.

12 **Q DO YOU AGREE WITH MS. HARDESTY'S ARGUMENT FOR NOT REFLECTING**  
13 **THE FULL AMOUNT OF DEFERRED TAXES ASSOCIATED WITH THE**  
14 **CROSSROADS UNITS?**

15 A No. In Ms. Hardesty's rebuttal testimony she attempts to make a distinction between  
16 a regulated and non-regulated subsidiary. Her testimony seems to suggest that if the  
17 sale of the Crossroads units were from a regulated entity to GMO, then the deferred  
18 taxes at issue here would have already been reflected in the purchase price.  
19 However, because the purchase of the Crossroads units was from a non-regulated  
20 entity to GMO, Ms. Hardesty argues that no deferred taxes should be recognized in  
21 the purchase price. If Ms. Hardesty's proposed theory is adopted, an incentive and  
22 motivation would be created for utilities to transfer assets to a non-regulated

1 subsidiary prior to the sale of those assets to another regulated entity. The decision  
2 to include the deferred taxes in the purchase price should not be determined by an  
3 investigation into whether the customers are regulated or non-regulated. Ultimately,  
4 ratepayers would be affected even through a non-regulated subsidiary ownership.  
5 Ms. Hardesty is arguing a distinction here without a purpose.

6 In addition, Ms. Hardesty is inconsistent in her arguments since GMO's  
7 purchase price for the Crossroads units was at net book value. Net book value  
8 equals the gross asset value less the accumulated depreciation of that unit while it  
9 was in service. The purchase price that GMO paid recognized the accumulated  
10 depreciation reserve associated with that unit during the time it was in the ownership  
11 of the non-regulated subsidiary. Accumulated depreciation is the sum of monthly  
12 depreciation charges on the asset. Given Ms. Hardesty's argument, the accumulated  
13 depreciation balance should not be reflected in the sale price as non-regulated  
14 customers paid the depreciation expense. However, this is not part of Ms. Hardesty's  
15 argument. This is clearly an inconsistent approach.

16 **Q IS THERE ANY COMMISSION DIRECTIVES REGARDING COST**  
17 **DETERMINATION?**

18 **A** Yes. Commission Rule 4 CSR 240-20.010 prescribes the guidelines for utilities  
19 engaged in Affiliate Transactions. Within those rules, fully distributed cost is defined  
20 as:

21 “(F) Fully distributed cost (FDC) means a methodology that examines  
22 all costs of an enterprise in relation to all the goods and services that  
23 are produced. FDC requires recognition of all costs incurred directly or  
24 indirectly used to produce a good or service. Costs are assigned  
25 either through a direct or allocated approach. Costs that cannot be  
26 directly assigned or indirectly allocated (e.g., general and  
27 administrative) must also be included in the FDC calculation through a  
28 general allocation.”

1           Clearly from this definition, the inclusion of deferred taxes can be considered for  
2           purposes of asset sales. The Company has failed to adhere to the Commission's  
3           affiliate transaction rules in this instance.

4   **Q       DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5   **A       Yes, it does.**

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