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Property Tax Tracker
Renewable Energy Standards
Witness: *Karen Lyons*
Sponsoring Party: *MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KAREN LYONS

KCP&L GREATER MISSOURI OPERATIONS COMPANY
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0175

Jefferson City, Missouri
September 2012

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

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KCP&L GREATER MISSOURI OPERATION COMPANY
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0175

Q. Please state your name and business address.

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

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

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission" or "PSC").

Q. Are you the same Karen Lyons who has previously provided testimony in this case?

A. Yes. I previously contributed to Staff's Cost of Service Report in Case No. ER-2012-0175 dated August 9, 2012, for the KCP&L Greater Missouri Operations Company ("GMO" or "Company") rate case. I provided testimony on the Revenue annualization, Bad Debts (Uncollectibles), Forfeited Discounts (Late Payment Fees), Debit and Credit Card Acceptance Program, Maintenance, Iatan 2 O&M Expenses, Economic Relief Pilot Program, Demand Side Management Program, Accounting Authority Orders, Outsourced Meter Reading, and Renewable Energy Standards. On August 2, 2012, I also filed testimony in the Kansas City Power and Light Company (KCPL) rate case, Case No. ER-2012-0174, regarding Revenue annualization, Bad Debts, Forfeited Discounts (Late Payment Fees), Debit and Credit Card Acceptance Program, Maintenance, Wolf Creek Nuclear Refueling Outage, Nuclear Decommissioning, Iatan 2 O&M Expenses, Hawthorn 5 SCR and Transformer, Economic Relief Pilot Program, Demand Side Management Program and Renewable Energy Standards.

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

A. The purpose of my rebuttal testimony is to respond to GMO's inclusion of additional bad debt expense based on the requested revenue requirement that is in excess of the annualized level of bad debt expense included by both GMO and Staff in its calculation of the revenue requirement for each of GMO's rate districts, MPS and L&P. GMO and Staff use the same methodology to calculate an annualized level of bad debt expense to include in MPS and L&P's cost of service. However, in addition to the annualized level of bad debt expense, GMO requests to also include a level of bad debt expense based on the requested revenue requirement for each of its rate districts, MPS and L&P. This is referred to as the bad debt "factor-up." GMO and Staff disagree with the inclusion of this additional expense. I will also respond to the direct testimony of GMO witness Darrin R. Ives with the regard to a Property Tax Tracker and Harold "Steve" Smith's direct testimony addressing increased property taxes. Finally, I will discuss GMO's inclusion of Renewable Energy Standard costs in rate base and GMO's request to include RES costs beyond the true up period of August 31, 2012.

EXECUTIVE SUMMARY

Q. Please summarize Staff's position with regard to bad debt expense.

A. In this testimony, I respond to GMO's request to recover bad debt expense in excess of the annualized level of bad debt expense calculated in this case. I explain Staff's recommendation that GMO not be allowed to recover bad debt expense at a level which includes the full impact of the revenue requirement increase in this rate case for each rate district, MPS and L&P. GMO's request to include an adjustment for bad debt expense associated with the revenue requirement increase (or decrease) is commonly referred to as bad debt "factor up" or "gross up."

GMO's rationale for making this request is based on the assumption that any increase in revenue requirement for MPS and L&P granted by the Commission will cause bad debt expense to also directly increase proportionally. However, GMO has not demonstrated a direct correlation between the level of rates and the percentage of bad debts that would justify the reflection of the full impact of increased bad debt expense in rates. GMO's request is based upon an assumption that is speculative and is not based upon known and measurable changes. Staff has based its recommendation on actual historical levels of bad debt. Staff's analysis concludes that there is no direct correlation between bad debts and the level of rate increases, and even the level of revenue growth of the Company. Staff's analysis of examining the actual net write-offs to related revenues and displaying these in charts and graphs indicate the bad debt expense sometimes moves in the opposite direction or not in direct proportion when levels of rates and revenues increase. Please see attached Schedules KL-1A, KL-1B and KL-1C for MPS and L&P.

Staff recommends that the Commission deny GMO's request to adopt GMO's proposed bad debt "factor up" for bad debts. However, in the event that the Commission does grant GMO's request to "factor up" bad debt expense proportionate with an increase in revenue requirement, then Staff recommends to also reflect in the bad debt "factor-up" additional forfeited discounts (late payment fees) that will increase as a result of the rate increase. If the Commission concludes that it is reasonable and appropriate to "factor up" bad debt expense for purposes of setting rates, on the basis that GMO will experience a higher level of bad debts as a result of a rate increase, then it is reasonable to conclude that GMO will also experience a higher level of late payment revenue resulting from those higher rates.

Q. Please summarize Staff's position with regard to a Property Tax Tracker.

A. Property taxes are known and measurable costs that are included in the annualization process. Staff calculated property taxes using a tax ratio based on actual 2011 property tax payments compared to January 1, 2011 plant levels and applying the property tax ratio to January 1, 2012 plant.

GMO is requesting a property tax tracker for what Mr. Ives identifies in his direct testimony as escalating property taxes. GMO claims property taxes are increasing and consequently the increase will potentially be a detriment to the Company. Trackers are typically used for costs that are unpredictable or there are extraordinary circumstances surrounding the costs. Therefore, Staff disagrees with GMO that a property tax tracker is necessary to capture an appropriate level of property tax expense.

Over the last several years, GMO has had significant capital additions, including the acquisition of the Crossroads Energy Center and the addition of the Air Quality Control equipment at the Jeffery Energy Center, Iatan 1 Environmental equipment and Iatan 2 coal fired power plant. Consequently, these capital additions have resulted in an increase in property tax. The method used by Staff to calculate property tax accounts for these capital additions and is currently included in each of GMO's rate district, MPS and L&P's rates and paid by customers. Although Staff recognizes property taxes have increased over the past several years, by virtue of how Staff calculates an annualized level of property tax, GMO does not need a property tax tracker and therefore; a property tax tracker is not appropriate.

Q. Please summarize Staff's position with regard to Renewable Energy Standards (RES).

A. In this testimony, I respond to GMO's request to establish a tracker for the RES costs, include RES costs in rate base and include RES costs past the true up period in this case of August 31, 2012. In addition, I respond to Missouri Industrial Energy Consumers' (MIEC) and Midwest Energy Consumer Group's (MECG) witness Greg R. Meyer's opposition of the inclusion of any level of RES cost in base or permanent rates in this case.

On December 19, 2011, KCPL filed an AAO, Case No. EU-2012-0131, requesting recovery of expenses related to RES. The AAO application included GMO's rate districts, MPS and L&P. The Commission approved the Stipulation and Agreement authorizing KCPL and GMO recovery of RES costs including solar rebate, purchase renewable energy credits, and other related costs incurred as a result of KCPL's and GMO's compliance with the Missouri Renewable Energy Standard Law. In addition to the incurred costs, the Commission authorized KCPL and GMO to defer the costs in a regulatory asset, including carrying costs, based on the Companies' short term debt rate. GMO is requesting rate base treatment for the unamortized balances and recovery of these costs through December 2012. In addition, GMO is requesting that the Commission establish a tracker authorizing GMO to defer RES costs as a regulatory asset or liability for each of its rate districts, MPS and L&P.

Staff amortized MPS' and L&P's deferred RES costs from 2010 through March 31, 2012, the update period in this case and will update these costs through the true up period, August 31, 2012. Any cost recovery beyond this date is a violation of the concept of known and measurable costs. In addition, Staff recommends an annualized level based on the

12-month period ending March 31, 2012, and will review these costs during the true up period, August 31, 2012. Staff recommends an amortization of these costs over a 3 year period with no rate base treatment. The Commission ordered a true up period in this case of August 31, 2012, and as a result, Staff included all RES costs through this date. Any cost recovery past this date is a violation of the concept of known and measurable costs. Staff recommends the exclusion of any RES costs post August 31, 2012.

BAD DEBT EXPENSE

Q. Does Staff and GMO differ regarding the level of bad debt expense to reflect in MPS and L&P's rates?

A. Yes. GMO adjusted bad debt expense, for each of its rate districts, MPS and L&P, to include a portion for the requested revenue increase in this case, which is referred to as a bad debt "factor up" or "gross up." Staff has based its recommendation on the actual historical levels of bad debts.

Q. Does Staff believe that it is reasonable to assume that there will be bad debts associated with the revenue requirement increase granted in this rate case?

A. Theoretically, bad debts should increase as rates increase or as revenues increase. However, upon examining actual historical bad debts in relationship to revenues there is not a direct relationship of bad debts for increases in revenues. Thus, any increase in a Company's revenues will not automatically cause bad debt expense to directly increase proportionally, on a dollar-for-dollar basis. Staff's analysis demonstrates no evidence of this direct correlation and GMO has not produced any evidence of a direct correlation in its testimony or workpapers. In fact, at various times as revenues increased, bad debts have

<u>actually</u> declined. In other instances, when revenues decreased, bad debts increased. The conclusion is there is no direct relationship between bad debts and revenue increases.

Q. What is a bad debt "factor up" or "gross up"?

A. The justification for use of the bad debt "factor up" is the belief that it is necessary to match dollar-for-dollar the level of bad debt expense established in a rate case with the amount of additional revenue requirement increase approved by the Commission. This additional amount of bad debt expense, if the "factor up" is granted, will be calculated and added to the annualized and normalized level of bad debt expense found reasonable for inclusion in the utility's revenue requirement. The amount of any ordered bad debt "factor up" will be derived by applying the bad debt expense ratio to the expected revenue requirement increase to be granted by the Commission.

GMO's use of a bad debt "factor up" is based on the <u>assumption</u> that any amount of increased revenues resulting from this rate case will cause bad debt expense to increase directly proportional. In other words, GMO believes it is reasonable to assume that if some ratepayers are not able to pay their current utility bills when they become due, chances are that some of these same customers would not be able to pay their bills when the utility bills go up as a result of a rate increase.

While Staff believes that this generalized view may seem reasonable on a theoretical basis, Staff has found from looking at actual results, this assumption does not hold true. In other words, the use of bad debt "factor up" means it is a virtual certainty that with each rate increase bad debts will be increased using the same bad debt percentage. This is simply not the reality of what actually occurs, as evidence demonstrates there is no direct correlation between how bad debt responds to increases in revenues.

GMO has provided no evidence there is a direct correlation between revenue increases and bad debts. Staff's analysis concludes GMOs proposed bad debt "factor up" request should not be adopted in this case. Therefore, Staff recommends that the Commission does not adopt GMO's request.

Q. Does GMO's requested bad debt "factor up" work in the same way as an income tax "factor up"?

A. Yes. GMO's proposed bad debt "factor up" methodology is in essence the same as the income tax "factor up." However, it is improper to use this "factor up" method for bad debt because it assumes the same relationship exists as that of income taxes and increased revenues. This assumption is not supported by evidence for bad debt and revenues. The income tax factor assumes that for every increase in earnings to a utility resulting from a rate case there will be a <u>direct</u> and <u>absolute</u> proportional increase in income taxes. This is a well established relationship in ratemaking, and in this case both GMO and Staff have applied an income tax "factor up" to the additional revenue requirement calculation for MPS and L&P to determine the proper level of rate increase recommended in this case. If the Commission authorizes a rate increase in this proceeding, then a corresponding income tax amount will have to be added to the additional revenue requirement amount or MPS and L&P may not be able to recover the authorized amount of increase in revenue requirement. However, it is clear from the analysis conducted by Staff that no such direct and absolute relationship exists between increased rates and increased bad debt expenses.

Q. Why does Staff not recognize a proportionate increase as necessary for bad debt expense?

A. To recommend that any increase in bad debt levels be in proportion to an increase in revenue requirement levels would require a recognizable basis that the two have a direct relationship. While Staff acknowledges there may be some relationship between bad debt expense and increased revenues resulting from a rate case, when Staff has examined this relationship in rate cases for GMO and other utilities, Staff has generally determined that there is no direct correlation between bad debt and increased revenues. Staff's analysis of known and measurable bad debt expense and revenues indicate that rate increases do not always cause a proportional increase in bad debt expense, as GMO is suggesting in this case. And because there is no direct relationship between bad debts and revenues that will result in a proportional increase in bad debt expense, Staff recommends that the Commission deny GMO's request for a bad debt "factor up."

Q. Has Staff performed any analysis that would support the position that no direct relationship exists for bad debts relating to additional revenue requirement for both MPS and L&P?

A. Yes. Attached to this rebuttal testimony, as Schedule KL-1A, is a historical monthly analysis of MPS and L&P's bad debts and retail revenue levels. MPS and L&P's own historical data does not support the position that there is always a corresponding direct relationship between revenues and bad debt expense; whereby any rate increase will always result in an automatic increase in bad debt expense in the same magnitude and proportion.

Q. How did Staff review MPS and L&P's historical relationship of bad debt expense to sales revenue?

A. Staff reviewed historical revenues and bad debts over several years, yet none of those analyses produced any substantive support that a direct relationship exists between revenues and bad debts to justify inclusion of the bad debt "factor up" in this case. Staff utilized both numerical and graphical presentations in its review.

Q. What does Schedule KL-1A for MPS and L&P show?

A. The information shown in Schedule KL-1A clearly demonstrates there is no direct relationship between bad debts and increased revenues that would have to exist to justify a bad debt "factor up" calculation for both MPS and L&P.

Q. What are some historical examples specific to MPS and L&P when bad debts did not increase proportionately to increased revenues?

A. Using data provided by GMO, Staff reviewed the changes or variations that occurred between electric retail revenues and actual bad debt write-offs for an eleven-year period from January 2000 through September 2011 for MPS and ten-year period from January 2001 through September 2011 for L&P (see attached schedules).

About half of the data reviewed showed that there was no direct correlation or proportionate relationship. That is, while electric revenues increased (or decreased), actual bad debt write-offs tend to decrease (or increase) by different amounts and in different directions. In fact, for every year analyzed by Staff with the exception of 2004, for MPS only, there was at least one month each year where revenues and bad debts had an inverse relationship during MPS and L&P's summer peaking months[1]. Even in situations where revenues and bad debts tend to move in the same direction, Staff observed that they were either increased or decreased by different and disproportionate amounts. This situation does not, in any way, support the theory that bad debt write-offs have a proportional relationship to revenues. The following table identifies several examples during the peak summer months

[1] GMO Witness Burton L. Crawford identifies GMO peak load periods as June through September in his Direct Testimony in Case No. ER-2012-0175 on page 8, line 9.

that the increase and decrease in revenues is not consistent with the increase and decrease in bad debts.

Month/Year	**MPS Revenue % Increase/ (Decrease)**	**MPS Bad Debt % Increase/ (Decrease)**	**L&P Revenue % Increase/ (Decrease)**	**L&P Bad Debt % Increase/ (Decrease)**
June 2000	21.46%	(17.87%)		
June 2001	40.24%	(460.75%)	30.32%	(1089.54%)
July 2001			31.42%	(14.12%)
September 2001			(35.55%)	77.08%
July 2002	16.02%	(105.44%)	14.09%	(105.93%)
September 2002			(31.61%)	566.90%
June 2003	20.51%	(110.11%)	26.67%	(95.33%)
July 2003	43.50%	(514.07%)		
August 2003			(57.61%)	73.57%
July 2004			10.66%	(39.23%)
September 2004			(23.14%)	5.94%
June 2005	44.19%	(32.79%)	47.64%	(27.06%)
July 2005			11.61%	(50.11%)
August 2005			.79%	(60.18%)
September 2005			(5.08%)	121.38%
June 2006	28.66%	(20.26%)	21.21%	(53.32%)
July 2006	22.22%	(30.60%)		
August 2006	.15%	(72.96%)	2.69%	(82.81%)
September 2006	(40.74%)	34.67%	(37.07%)	20.84%
June 2007	45.81%	(38.90%)	46.20%	(41.16%)
July 2007	28.90%	(.04%)	20.93%	(2.92%)
August 2007	18.39%	(95.54%)	11.22%	(112.53%)
September 2007	(46.25)%	566.51%	(40.45%)	41.95%
August 2008	54.73%	(68.35%)	54.51%	(113.12%)
September 2008	(26.38%)	171.35%	(26.94%)	1095.68%
July 2009	2.45%	(57.44%)	1.66%	(3066.59%)
August 2009	3.00%	(78.49%)		
September 2009	(25.26%)	84.24%		
July 2010	9.80%	(13.26%)		
August 2010	2.54%	(49.66%)	2.91%	(71.25%)
June 2011	44.92%	(14.11%)	39.22%	(.07%)
July 2011	32.49%	(18.58%)	29.87%	(14.37%)

Q. What is the significance of the summer peaking months discussed above?

A. The summer peaking months of June through September represent the months MPS and L&P's revenues are its highest during a given year. For GMO's argument to hold true, bad debts would increase when revenues increased during its summer peaking months. Based on the table above, GMO's argument simply does not hold true.

Q. Did GMO include the bad debt "factor up" for both MPS and L&P in its initial rate filing request?

A. Yes. GMO has included a bad debt "factor up" adjustment for both MPS and L&P in this case.

Q. Did Staff include a bad debt "factor up" in its revenue requirement recommendation filed on August 9, 2012 for MPS and L&P?

A. No. Staff has not included any additional amount in rates for an increase in the level of bad debts proportionate to the increase in revenue requirement because there is no evidence to support a bad debt "factor up." Staff's position is based on its analysis of actual known and measurable data that was provided by GMO for each of its rate districts, MPS and L&P, which shows no direct correlation exists between additional revenue increases and increases in bad debt expense. Staff's analysis does not support GMO's request for an additional increase in bad debt expense for MPS and L&P, by using a "factor up" in proportion to the level of the requested rate increase.

Q. What are "forfeited discounts"?

A. Forfeited discounts also known as "late payment fees" and are fees that MPS and L&P charges its customers for making late payments of customer bills whenever they become due. The charges are assessed on the remainder of the unpaid bill.

Q. How are "forfeited discounts" or late payment fees booked by MPS and L&P?

A. Late fees payments are considered additional revenue and, as such, are booked as revenue by MPS and L&P.

Q. Did GMO propose to "factor up" late payment fees consistent with its requested bad debt "factor up" for revenue requirements increase for MPS and L&P?

A. No.

Q. Has Staff performed any analysis that would support there is a relationship between increased revenues and late payment fees?

A. Yes. Attached to this rebuttal testimony, as Schedules KL-1D and KL-1E, is a historical monthly analysis of late payment fees and retail revenue levels for MPS and L&P. Contrary to Staff's bad debt analysis, the relationship between late payment fees and increased revenues does exist. Although the relationship between late payment fees and increased revenues is not a perfect correlation, Staff's analysis indicates the relationship is <u>much closer</u> to a direct correlation than the relationship of bad debt expense to increased revenues rates as GMO would have the Commission believe.

Q. Is it consistent to treat forfeited discounts or late payment fees in the same manner as bad debt expense levels with respect to the "factor up" issue?

A. Yes. Staff recommends that if the Commission decides to grant GMO's request to increase bad debt expense proportionate to any increase in revenue requirement for both MPS and L&P, then it should also "factor up" late payment fees for the same reason. If the Commission concludes that GMO will experience a proportionately higher level of bad debt as a result of a rate increase for MPS and L&P, then it would follow that MPS and L&P will experience a higher level of late payment revenue as well.

PROPERTY TAX TRACKER

Q. How does the Company and Staff position differ with respect to GMO's requested property tax tracker?

A. GMO is requesting a property tax tracker for what they have identified as increasing property taxes for the MPS and L&P rate districts. GMO witness Darrin R. Ives states in his direct testimony at page 9 in this case, there are "potential detrimental property tax impacts to certain counties based on the State property tax assessment and county allocation process currently in place." In addition, GMO witness Harold "Steve" Smith states at page 4 of his direct testimony:

> Based on the prior four years, GMO's property tax expense has continued to increase; in 2008 GMO's total property tax expense was $14.2 million and in 2011 GMO's total property tax expense was $23.0 million. In each of the prior years the Company's total property tax expense has increased over the prior year…Based upon this history of increase in property tax expense in each of the last four years I expect property taxes to continue to increase during the next few years.

Although Staff recognizes property taxes have increased, Staff's method of calculating an annualized level of property taxes accounts for actual State property tax rates and plant additions which has primarily caused the increase in property tax expense. Therefore, the use of a property tax tracker is not necessary to ensure an appropriate level of property tax expense is included in the MPS and L&P cost of service calculations.

Q. What is a tracker?

A. A tracker is a unique regulatory tool used when it is difficult to determine a level of costs to include in rates. The amount set for rates would be tracked by the Company and any amount under or over the level of costs included in rates would be evaluated in the next rate case for future recovery. Trackers are used as a last resort when other techniques fail to capture costs in rates. Typically, Staff does not endorse the use of trackers in lieu of identifying costs of service calculations through the annualization and normalization process.

Q. Please explain why Staff believes a property tax tracker is inappropriate for ratemaking purposes.

A. First, a tracker should be used in rare circumstances where it is extremely difficult to identify an amount of costs to be included in rates. While trackers have been used in the past—and I have recommended the use of tracker in this case for operation and maintenance costs of Iatan 2—trackers should be used sparingly. By requesting a property tax tracker in this case, GMO has requested the Commission to single out one expense without taking into consideration all increases or decreases of GMO's expenses and revenues. GMO has not alleged or shown that property taxes are higher from one period to the next. As will be discussed later, property tax increases that GMO point to are attributable to the significant plant additions made by GMO over the past several years—first with Air Quality Control equipment at the Jeffery Energy Center in 2008 and again 2009, second, with the acquisition of the Crossroads Energy Center in 2008, third with the Iatan 1 complete environmental package for SCR, Baghouse, and scrubber in 2009, and then with the completion of Iatan 2 in August 2010. These items contributed to the significant increase in property taxes. Staff concludes that the increases in property taxes that GMO has experienced are related to plant additions.

Second, property taxes are known and measurable costs that are calculated using a ratio of actual property taxes paid to actual plant in service and applying the ratio to plant in service as of January 1. This method ensures that all actual plant additions and actual property tax rates as of January 1, 2012, will be included in Staff's annualized level of property tax expense and thus included in the MPS and L&P cost of service. Staff witness Patricia Gaskins discusses, in detail, how property taxes are calculated in Staff's Cost of Service Report and rebuttal testimony in this case. As discussed above, a tracker is a regulatory tool used when it is difficult to determine an appropriate level of costs. This is simply not the case for property taxes, since Staff uses actual property taxes paid and MPS and L&P's plant in service to calculate an annualized level of property taxes.

Q. Does Staff agree that GMO's total property tax costs increased in recent years?

A. Yes. GMO has had significant capital additions over the past several years which have lead to an increase in property taxes. A few examples include, but are not limited to, acquisition of the Crossroads Energy Center, the addition of Air Quality Control equipment at the Jeffery Energy Center, environmental equipment to the Iatan 1 generating unit, and the addition of the Iatan 2 coal fired generating unit to GMO's fleet. As a result of these additions as well as other plant additions, GMO's property taxes have increased. Staff has reflected those cost increases for property taxes in rates in previous GMO rate cases and in this rate case as those costs increased for plant additions.

Q. Did Staff perform any analysis to confirm that GMO's property taxes increased as a result of significant plant additions?

A. Yes. The following table identifies actual plant in service values and actual property taxes paid by GMO for both MPS and L&P rate districts in 2008-2011. It is clear MPS and L&P's Plant in Service has increased significantly since 2008. This is primarily due to the MPS and L&P's plant additions that include the installation of Air Quality Control equipment at the Jeffery Energy Center in 2008 and again in 2009, acquisition of the Crossroads Energy Center in 2008, Iatan 1 Environmental Equipment in 2009 and Iatan 2 in 2010. The Iatan 1 Environmental Equipment was placed in service April 2009 and first assessed for property taxes on January 1, 2010, with actual payment to the taxing authorities December 31, 2010. The significant increase in the plant in service balances for L&P in 2010 confirms the addition of the Iatan 1 Environmental Equipment. Likewise, Iatan 2 was placed in service in August 2010 and assessed for property taxes on January 1, 2011, with actual payment to the taxing authorities December 31, 2011. The 2011 increase in Plant in Service for MPS and L&P supports the addition of the Iatan 2 generating plant. Absent MPS and L&P's significant additions to its Plant in Service over the last several years, the increase to property taxes paid for the MPS and L&P rate districts would not have increased so dramatically.

Year	**MPS's Plant in Service as of January 1**[2]	**% Increase of Plant**	**MPS's Actual Property Taxes Paid**[3]	**% Increase of Property Taxes**
2008	$1,627,465,226	--	$9,804,826	--
2009	$1,821,964,040	11.95%	$11,522,173	17.52%
2010	$2,043,312,714	12.15%	$13,714,598	19.03%
2011	$2,206,343,125	7.98%	$17,037,598	24.23%

[2] Plant in Service values for MPS and L&P are from Company response to Data Request 27 in Case Nos. ER-2009-0090, ER-2010-0356, and ER-2012-0175. ECORP plant balances were allocated between MPS and L&P using 75% to MPS and 25% to L&P.
[3] 2009-2011Property Taxes from Company Workpaper CS-126 in Case No. Case No. ER-2012-0175. 2008 Property Taxes from Staff's Property Tax Workpaper in Case No. ER-2012-0175.

Year	L&P's Actual Plant in Service as of January 1	% Increase of Plant	L&P's Actual Property Taxes Paid	% Increase of Property Taxes
2008	$422,063,927	--	$12,411,181	--
2009	$442,389,277	4.82%	$14,890,247	19.97%
2010	$542,976,252	22.74%	$18,174,889	22.06%
2011	$653,492,627	20.35%	$22,530,307	23.96%

Q. Has GMO provided any analysis or support to justify an increase in property taxes?

A. GMO's witness Harold "Steve" Smith included a schedule in his Direct Testimony in this case that identified GMO's actual paid property taxes for the period of 2008 through 2011. He also stated, "Based upon this history of increase in property tax expense in each of the last five years I expect property taxes to continue to increase during the next few years."

Q. Does Staff agree with Mr. Smith's assumption?

A. No. Mr. Smith provided the historical property taxes paid by GMO, but did not provide any analysis to support the claim that property taxes will continue to increase. It is clear from the tables above, the reason property taxes have increased during the period of 2008-2011 is directly related to GMO plant additions during the same period. Any increase in property taxes was accounted for by Staff in Case Nos. ER-2009-0090 and ER-2010-0356.

Q. Is Staff aware of any plans by GMO to add plant in the next few years that would cause property tax to increase significantly?

A. No. Although Staff is aware that GMO has plans for environmental upgrades for Unit 1 of the Jeffery Energy Center, any property taxes associated with this upgrade will not impact property taxes in the next few years. Likewise, GMO has plans for environmental upgrades to Sibley, Unit 3[4]. The anticipated completion date of this project is 2017. The costs associated with these projects are significant and as with any significant plant additions, Staff would expect the Company to file a rate case to coincide with the environmental upgrades in service dates.

Q. What accounting treatment is GMO requesting associated with the property tax tracker?

A. According to GMO witness Darrin R. Ives, GMO is requesting carrying costs on property tax amounts not yet included in rates and any increase or decrease in property taxes to be amortized with the balance included in the costs of service in the next rate case and the unamortized balance to be included in rate base calculations for MPS and L&P.

Q. Does Staff agree with GMO's request to include carrying costs and rate base treatment?

A. No. Property taxes are known and measurable costs. Staff's method of calculating property taxes is an effective way to ensure an appropriate level of property taxes are included in the MPS and L&P cost of service in a timely manner. Therefore, there is no reason to support carrying costs or rate base treatment for a cost that is known and measurable.

[4] Great Plains Energy Inc. 10-Q Page 30.

RENEWABLE ENERGY STANDARDS

Q. Does Staff disagree with GMO's accounting treatment of the costs associated with the Missouri Renewable Energy Standards (RES)?

A. Yes, in part. Staff disagrees with GMO's: (1) inclusion of out of period RES costs in this case; (2) its request for rate base treatment of RES costs incurred from 2010 through 2012, less the costs that are currently in rates; and (3) GMO's request for a tracker of RES expenses.

Q. What is GMO's recommendation for the accounting treatment of RES costs through the end of 2012?

A. The Commission ordered a true up period in this case through August 31, 2012. GMO's proposal includes amounts for the RES costs through the end of the year in 2012, despite having a cut-off for true-up in this case of August 31, 2012. The inclusion of costs beyond the true-up date violates the concept of known and measurable costs and would also be considered an out of period adjustment. Therefore, these RES costs should not be included in the revenue requirement calculation for MPS and L&P in this case. Staff has included all of MPS' and L&P's RES costs through March 31, 2012, and will update the costs through the true up period, August 31, 2012.

Q. What is GMO's recommendation concerning rate base treatment of RES costs for MPS and L&P?

A. GMO recommends all RES costs incurred from 2010 through 2012, less the costs that are currently in rates, be included in rate base for both MPS and L&P.

Q. Why does Staff disagree with GMO's inclusion of RES costs in rate base for both MPS and L&P?

A. On December 19, 2011, KCPL filed an AAO, Case No. EU-2012-0131, requesting recovery of expenses related to RES. The AAO application included GMO's rate districts, MPS and L&P. On April 19, 2012, the Commission approved the Stipulation and Agreement which was filed on April 3, 2012. In its Order Approving and Incorporating Stipulation and Agreement (Order), the Commission stated the following:

> The Signatories to the Agreement request that the Commission issue an order authorizing both Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company to:
>
> (a) Record all incremental operating expenses associated with the cost of solar rebates, the cost to purchase renewable energy credits, the cost of the standard offer and other related costs incurred as result of compliance with Missouri's Renewable Energy Standard Law in USOA Account 182;
>
> (b) Include carrying costs based on the Companies' short term debt rate on the balances in those regulatory assets; and
>
> (c) Defer such amounts in a separate regulatory asset **with the disposition to be determined in the Companies' next general rate cases**.
>
> THE COMMISSION ORDERS THAT:
>
> …
>
> 1. The provisions of the Non-unanimous Stipulation and Agreement filed on April 3, 2012 are approved and incorporated into this order as if fully set forth herein. The Signatories shall comply with the terms of the Agreement.[5]

(emphasis added)

GMO has requested recovery of all expenses related to the RES program for MPS and L&P. GMO has included costs for solar rebates, costs to purchase renewable energy credits and other related costs incurred as a result of compliance with the RES. The Commission Order clearly states all deferred costs should include carrying costs based on GMO's short term debt rate. The Commission Order does not order GMO to include these costs in its rate

[5] Case No. EU-2012-0131, Order Approving and Incorporating Stipulation and Agreement.

base. Rate base treatment generally implies that the cost is an asset and therefore GMO should earn a return on the asset. All the costs GMO is requesting in its RES adjustment are expenses and not capital costs in nature. Consequently, GMO should not be allowed to earn a return on these expenses above those already permitted by the Commission through carrying costs based on GMO's short term debt rate.

Q. Did Staff and GMO include carrying costs for the deferred RES costs?

A. Yes. Both Staff and GMO calculated carrying costs for the deferred RES costs. However, GMO included costs and associated carrying costs for the deferred RES costs through December 31, 2012 for both MPS and L&P.

Q. Does Staff agree with GMO including RES costs and the carrying costs through December 31, 2012 for both MPS and L&P?

A. No, for the reasons previously explained above for out of period adjustments.

Q. Did any other party suggest rate base treatment of the RES costs?

A. Yes, Missouri Industrial Energy Consumers' (MIEC) and Midwest Energy Consumer Group's (MECG) witness, Mr. Greg R. Meyer, recommended that all prudently incurred RES costs through March 31, 2012 (in excess of the amount of solar rebate expense established in the last rate case, Case No. ER-2010-0355) be included in rate base, and that operating expenses reflect an amortization of this amount over a six-year period.[6]

Q. Does Staff agree with this treatment?

A. As explained above, Staff does not support rate base treatment of the RES costs. Additionally, Staff continues to support a three-year amortization period as described in its direct case.

[6] Greg R. Meyer, Direct Testimony in Case No ER-2012-0175, page 6.

Q. Does Staff agree with GMO's proposal

> …that new amounts added to the regulatory asset or liability after the effective date of rates in this case, including carrying costs, be amortized to cost of service in the Company's next rate proceeding over the same length of period as costs are accumulated, with the unamortized balance included in rate base...

as stated on page 17 of GMO witness Darrin R. Ives' Direct Testimony?

A. No, Staff does not agree with this proposal. Staff believes it is appropriate to determine treatment of future costs as part of the next rate case and not speculate on the proper treatment at this point in time.

Q. What is GMO's proposal regarding a tracker of RES costs?

A. In regard to GMO's proposal to include a tracker mechanism, GMO witness Darrin R. Ives requests on page 18 of his direct testimony that:

> …the Commission authorize an RES expense tracker authorizing GMO: (i) to defer and record as a regulatory asset in Account 182 or as a regulatory liability in Account 254 of the Uniform System of Accounts (USOA) certain incremental costs incurred by GMO above, or below, the base ongoing costs, as determined in the true-up process in this case…[and] (ii) to include carrying costs based on the Company's short-term debt rate on the balances in those regulatory assets or liabilities; and (iii) to defer such amounts in a separate…regulatory asset or liability with their disposition to be determined in the Company's next general rate case.

Q. Does the Staff support the use of a tracker for RES costs?

A. No, the Staff believes a tracker is not necessary due to the nature of the rule and an electric company's ability to defer costs for recovery in a later rate case.

Q. Please explain.

A. The Commission rule allows the Company to defer costs for future recovery in the Company's next rate case. An explanation of how these costs are treated under 4 CSR 240-20.100(6)(D) follows:

> Alternatively, an electric utility may recover RES compliance costs without use of the RESRAM procedure through rates established in a general rate proceeding. In the interim between general rate proceedings the electric utility may defer the costs in a regulatory asset account, and monthly calculate a carrying charge on the balance in that regulatory asset account equal to its short-term cost of borrowing. All questions pertaining to rate recovery of the RES compliance costs in a subsequent general rate proceeding will be reserved to that proceeding, including the prudence of the costs for which rate recover is sought and the period of time over which any costs allowed rate recover will be amortized.

Q. Finally, does any other party oppose GMO's and Staff's inclusion of a level of RES costs in base or permanent rates in this case?

A. Yes, MIEC's and MECG's witness, Mr. Meyer, opposes the inclusion of any level of RES cost in base or permanent rates in this case. Mr. Meyer argues GMO can only recover its RES costs through the use of a Renewable Energy Standard Rate Adjustment Mechanism (RESRAM) or an Accounting Authority Order (AAO).

Q. What is Staff's understanding of recovery under the rule?

A. Staff understands the rule to provide two alternatives for recovery of costs, the RESRAM and AAO, besides the standard inclusion of costs in base or permanent rates as part of a rate case. Based on the accounting treatment identified in the Commission rule 4 CSR 240-20.100(6)(D) and discussed above, "all questions pertaining to rate recovery of the RES compliance costs in a general rate proceeding will be reserved to that proceeding…" Although the rule does not specifically state the inclusion of any level of RES costs in base or permanent rates are allowed, Staff believes including a level of RES costs is appropriate.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service	))))	Case No. ER-2012-0175

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 24 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 Lyons

Karen Lyons

Subscribed and sworn to before me this 11th day of September, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

SCHEDULE KL-1A (MPS),
SCHEDULE KL-1B (MPS),
SCHEDULE KL-1C (MPS),
SCHEDULE KL-1A (LP),
SCHEDULE KL-1B (LP),
AND
SCHEDULE KL-1C (LP)

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

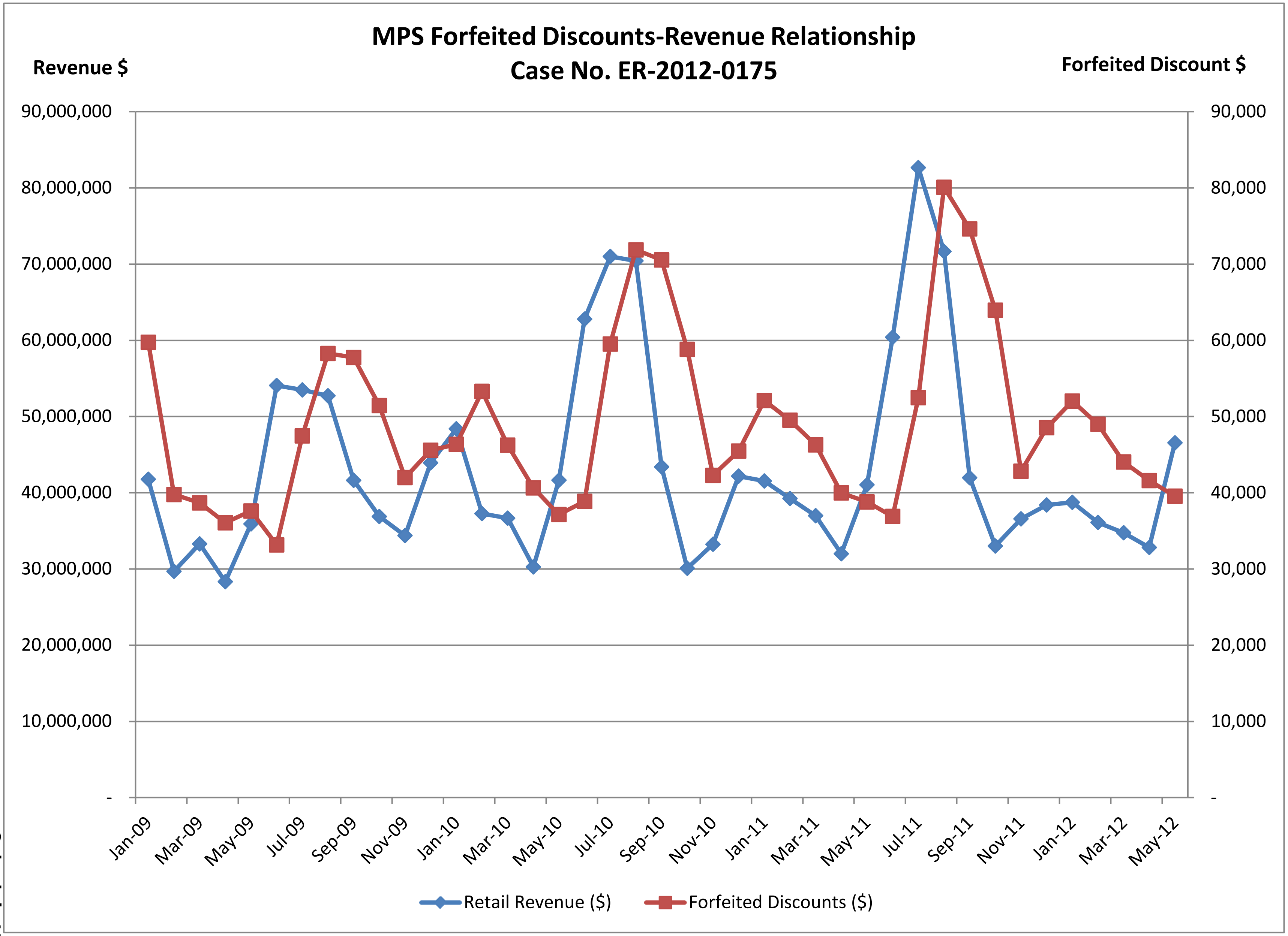
IN THEIR ENTIRETY

KCP&L Greater Missouri Operations Company- MPS
Case No. ER-2012-0175
Forfeited Discount (Late Payment Fees)

	Total Retail Revenue	Forfeited Discounts	Change in Forfeited Discounts %	Change in Revenues %
Jan-09	41,776,880	59,751		
Feb-09	29,693,309	39,774	-33.43%	-28.92%
Mar-09	33,294,600	38,678	-2.76%	12.13%
Apr-09	28,339,360	36,069	-6.75%	-14.88%
May-09	35,915,798	37,606	4.26%	26.73%
Jun-09	54,083,774	33,167	-11.80%	50.58%
Jul-09	53,499,969	47,472	43.13%	-1.08%
Aug-09	52,734,198	58,278	22.76%	-1.43%
Sep-09	41,631,791	57,743	-0.92%	-21.05%
Oct-09	36,886,404	51,442	-10.91%	-11.40%
Nov-09	34,388,610	41,998	-18.36%	-6.77%
Dec-09	43,931,839	45,578	8.52%	27.75%
Jan-10	48,398,718	46,357	1.71%	10.17%
Feb-10	37,269,534	53,316	15.01%	-22.99%
Mar-10	36,669,463	46,249	-13.25%	-1.61%
Apr-10	30,272,710	40,648	-12.11%	-17.44%
May-10	41,657,223	37,141	-8.63%	37.61%
Jun-10	62,793,394	38,870	4.66%	50.74%
Jul-10	71,014,969	59,521	53.13%	13.09%
Aug-10	70,431,382	71,876	20.76%	-0.82%
Sep-10	43,400,564	70,561	-1.83%	-38.38%
Oct-10	30,090,570	58,821	-16.64%	-30.67%
Nov-10	33,246,583	42,287	-28.11%	10.49%
Dec-10	42,189,598	45,467	7.52%	26.90%
Jan-11	41,549,641	52,118	14.63%	-1.52%
Feb-11	39,251,883	49,523	-4.98%	-5.53%
Mar-11	36,995,806	46,295	-6.52%	-5.75%
Apr-11	32,002,866	39,989	-13.62%	-13.50%
May-11	41,045,840	38,798	-2.98%	28.26%
Jun-11	60,412,253	36,899	-4.89%	47.18%
Jul-11	82,672,902	52,483	42.23%	36.85%
Aug-11	71,671,852	80,088	52.60%	-13.31%
Sep-11	41,981,438	74,632	-6.81%	-41.43%
Oct-11	33,016,473	63,955	-14.31%	-21.35%
Nov-11	36,579,951	42,833	-33.03%	10.79%
Dec-11	38,403,242	48,547	13.34%	4.98%
Jan-12	38,748,607	52,031	7.18%	0.90%
Feb-12	36,112,294	49,000	-5.83%	-6.80%
Mar-12	34,760,669	44,043	-10.12%	-3.74%
Apr-12	32,825,780	41,602	-5.54%	-5.57%
May-12	46,559,042	39,552	-4.93%	41.84%

Source: Company response to DR 91 in Case No ER-2012-0175

KCP&L Greater Missouri Operations Company
Case No. ER-2012-0175



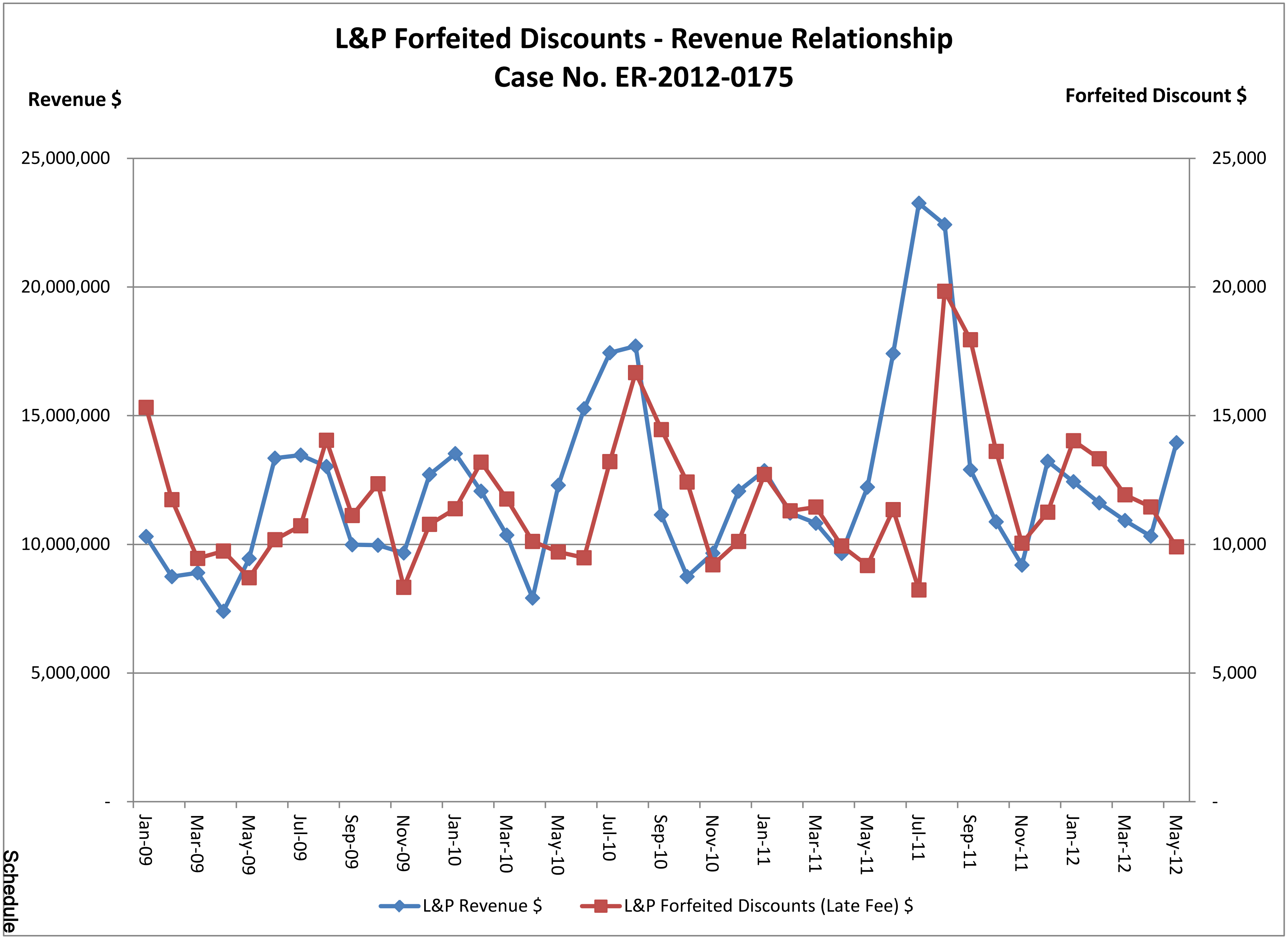
Schedule KL-1E-MPS

KCP&L Greater Missouri Operations Company- L&P
Case No. ER-2012-0175
Forfeited Discount (Late Payment Fees)

	Total Retail Revenue	Forfeited Discounts	Change in Forfeited Discounts %	Change in Revenues %
Jan-09	10,306,384	15,324		
Feb-09	8,746,353	11,738	-23.40%	-15.14%
Mar-09	8,897,993	9,455	-19.45%	1.73%
Apr-09	7,402,047	9,742	3.03%	-16.81%
May-09	9,446,720	8,705	-10.65%	27.62%
Jun-09	13,349,610	10,182	16.98%	41.31%
Jul-09	13,469,390	10,724	5.32%	0.90%
Aug-09	13,026,355	14,046	30.98%	-3.29%
Sep-09	9,984,346	11,123	-20.81%	-23.35%
Oct-09	9,966,483	12,355	11.08%	-0.18%
Nov-09	9,668,700	8,331	-32.57%	-2.99%
Dec-09	12,714,568	10,779	29.39%	31.50%
Jan-10	13,526,176	11,386	5.63%	6.38%
Feb-10	12,067,438	13,195	15.88%	-10.78%
Mar-10	10,360,211	11,764	-10.84%	-14.15%
Apr-10	7,915,615	10,115	-14.02%	-23.60%
May-10	12,296,144	9,707	-4.04%	55.34%
Jun-10	15,270,330	9,480	-2.33%	24.19%
Jul-10	17,445,598	13,216	39.41%	14.25%
Aug-10	17,706,745	16,674	26.17%	1.50%
Sep-10	11,148,075	14,460	-13.28%	-37.04%
Oct-10	8,747,681	12,423	-14.09%	-21.53%
Nov-10	9,658,835	9,207	-25.89%	10.42%
Dec-10	12,069,005	10,114	9.85%	24.95%
Jan-11	12,863,154	12,717	25.74%	6.58%
Feb-11	11,218,429	11,305	-11.10%	-12.79%
Mar-11	10,822,360	11,452	1.30%	-3.53%
Apr-11	9,650,772	9,940	-13.20%	-10.83%
May-11	12,224,504	9,178	-7.67%	26.67%
Jun-11	17,414,258	11,350	23.67%	42.45%
Jul-11	23,255,070	8,230	-27.49%	33.54%
Aug-11	22,423,739	19,835	141.01%	-3.57%
Sep-11	12,904,177	17,952	-9.49%	-42.45%
Oct-11	10,877,448	13,613	-24.17%	-15.71%
Nov-11	9,194,670	10,046	-26.20%	-15.47%
Dec-11	13,229,964	11,251	11.99%	43.89%
Jan-12	12,435,585	14,028	24.68%	-6.00%
Feb-12	11,612,752	13,328	-4.99%	-6.62%
Mar-12	10,927,642	11,927	-10.51%	-5.90%
Apr-12	10,319,086	11,456	-3.95%	-5.57%
May-12	13,950,169	9,905	-13.53%	35.19%

Source: Company response to DR 91 in Case No ER-2012-0175

KCP&L Greater Missouri Operations Company - MPS
Case No. ER-2012-0175



Schedule KL-1E (LP)

Schedule KL-1E (LP)