Exhibit No.:	
Issues:	*Bad Debt*
	Property Tax Tracker
	Renewable Energy Standards
Witness:	*Karen Lyons*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*ER-2012-0174*
Date Testimony Prepared:	*September 5, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KAREN LYONS

KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0174

Jefferson City, Missouri
September 2012

****Denotes Highly Confidential Information****

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KAREN LYONS

KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0174

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-2012-0174 dated August 2, 2012, for the Kansas City Power & Light Company ("KCPL") rate case. I provided testimony on the Revenue annualization, Bad Debts (Uncollectibles), 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. On August 9, 2012, I also filed testimony in the KCP&L Greater Missouri Operations Company (GMO) rate case addressing the rate districts GMO-MPS and GMO-L&P in Case No. ER-2012-0175, regarding Revenue annualization, Bad Debts, Forfeited Discounts (Late Payment Fees), Debit and Credit Card Acceptance Program, Maintenance, Iatan 2 O&M Expenses, Economic Relief Pilot Program, Accounting Authority Orders, Outsourced Meter Reading, 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 KCPL'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 KCPL and Staff in its calculation of the revenue requirement. KCPL and Staff use the same methodology to calculate an annualized level of bad debt expense to include in KCPL's cost of service. However, in addition to the annualized level of bad debt expense, KCPL requests to also include a level of bad debt expense based on the requested revenue requirement. This is referred to as the bad debt "factor-up." KCPL and Staff disagree with the inclusion of this additional expense. I will also respond to the direct testimony of KCPL 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 KCPL's inclusion of Renewable Energy Standard costs in rate base and KCPL's request to RES costs beyond the true up period of August 31, 2012.

<u>EXECUTIVE SUMMARY</u>

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

A. In this testimony, I respond to KCPL'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 KCPL 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. KCPL'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."

KCPL's rationale for making this request is based on the assumption that any increase in revenue requirement granted by the Commission will cause bad debt expense to also directly increase proportionally. However, KCPL 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. KCPL'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.

Staff recommends that the Commission deny KCPL's request to adopt KCPL's proposed bad debt "factor up" for bad debts. However, in the event that the Commission does grant KCPL'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 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 KCPL will experience a higher level of bad debts as a result of a rate increase, then it is reasonable to conclude that KCPL 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 calculates 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.

KCPL is requesting a property tax tracker for what Mr. Ives identifies in his direct testimony as escalating property taxes. KCPL 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 KCPL that a property tax tracker is necessary to capture an appropriate level of property tax expense.

Over the last several years, KCPL has had significant capital additions, including 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 KCPL's rates and paid by KCPL 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, KCPL does not need a property tax tracker and 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 KCPL'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 MIEC's and MECG's witness Greg R. Meyer 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 Commission approved the Stipulation and Agreement authorizing KCPL and GMO recovery of RES costs including solar rebate, purchase renewable energy crests, and other related costs incurred as a result of KCPL 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. KCPL is requesting rate base treatment for the unamortized balances and recovery of these costs through December 2012. In addition, KCPL is requesting that the Commission establish a tracker authorizing KCPL and GMO to defer RES costs as a regulatory asset or liability.

Staff amortized KCPL'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.

<u>BAD DEBT EXPENSE</u>

Q. Does Staff and KCPL differ regarding the level of bad debt expense to reflect in KCPL rates?

A. Yes. KCPL adjusted bad debt expense 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 KCPL 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.

KCPL’s use of a bad debt “factor up” is based on the assumption that any amount of increased revenues resulting from this rate case will cause bad debt expense to increase directly proportional. In other words, KCPL 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.

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

Q. Does KCPL’s requested bad debt “factor up” work in the same way as an income tax “factor up”?

A. Yes. KCPL'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 direct and <u>absolute</u> proportional increase in income taxes. This is a well established relationship in ratemaking, and in this case both KCPL and Staff have applied an income tax "factor up" to the additional revenue requirement calculation 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 KCPL 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 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 KCPL 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 KCPL 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 KCPL'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 KCPL?

A. Yes. Attached to this rebuttal testimony, as Schedule KL-1A, is a historical monthly analysis of KCPL's bad debts and retail revenue levels for KCPL. KPCL'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 KCPL'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 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.

Q. What are some historical examples specific to KCPL when bad debts did not increase proportionately to increased revenues?

A. The Staff reviewed the changes or variations that occurred between electric retail revenues and actual bad debt write-offs for a seven-year period from January 2005 through December 2011 (see attached schedules). In other words, using KCPL's data, Staff reviewed how bad debts varied in relation to revenues for that seven-year period (84-month period).

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, during KCPL's summer peaking months[1] there was at least one month each year where revenues and bad debts had an inverse relationship beginning January 2007 through December 2011. 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 that the increase and decrease in revenues is not consistent with the increase and decrease in bad debts.

continued on next page

[1] KCPL Witness Burton L. Crawford identifies KCPL peak load periods as June through September in his Direct Testimony in Case No. ER-2012-0174 on page 8, line 16.

Month/Year	Revenue Percentage Increase/(Decrease)	Bad Debt Percentage Increase/(Decrease)
June 2007	21.84%	(15.35%)
August 2007	12.46%	(32.38%)
September 2007	(29.50)%	54.24%
July 2008	16.06%	(28.04%)
September 2008	(28.02%)	19.34%
July 2009	19.03%	(43.34%)
September 2009	(14.75%)	91.60%
June 2010	38.62%	(11.71%)
August 2010	.13%	(63.04)
September 2010	(31.56%)	97.45%
July 2011	21.98%	(4.84%)

Q. What is the significance of the January 2007 date and the summer peaking months discussed above?

A. January 2007 represents the effective date of rates of the first of four KCPL rate cases. Beginning January 1, 2007, KCPL customers have experienced four rate increases as a result of the 2005 Regulatory Plan. The summer peaking months of June through September represent the months KCPL revenues are its highest during a given year. For KCPL's argument to hold true, bad debts would increase when revenues increased beginning with the first rate increase effective January 1, 2007, and during its summer peaking months. Based on the table above, KCPL's argument simply does not hold true.

Q. Did KCPL include the bad debt "factor up" in its initial rate filing request?

A. Yes. KCPL has included a bad debt "factor up" adjustment in this case.

Q. Did Staff include a bad debt "factor up" in its revenue requirement recommendation filed on August 2, 2012?

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 KCPL, which shows no direct correlation exists between additional revenue increases and increases in bad debt expense. Staff’s analysis does not support KCPL’s request for an additional increase in bad debt expense 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 KCPL 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 KCPL?

A. Late fees payments are considered additional revenue and, as such, are booked as revenue by KCPL.

Q. Did KCPL propose to “factor up” late payment fees consistent with its requested bad debt “factor up” for revenue requirements increase?

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 KCPL’s late payment fees and retail revenue levels for KCPL. 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 KCPL 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's recommends that if the Commission decides to grant KCPL's request to increase bad debt expense proportionate to any increase in revenue requirement, then it should also "factor up" late payment fees for the same reason. If the Commission concludes that KCPL will experience a proportionately higher level of bad debt as a result of a rate increase then it would follow that KCPL will experience a higher level of late payment revenue as well.

<u>PROPERTY TAX TRACKER</u>

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

A. KCPL is requesting a property tax tracker for what they have identified as increasing property taxes. KCPL witness Darrin R. Ives states in his direct testimony at page 11 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, KCPL witness Harold "Steve" Smith states at page 4 of his direct testimony:

> Based on the prior five years, KCP&L's property tax expense has continued to increase; in 2007 KCP&L's total property tax expense was $60.9 million and in 2011 KCPL's total property tax expense was $75.3 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 five 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 KCPL's cost of service.

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, KCPL has requested the Commission to single out one expense without taking into consideration all increases or decreases of KCPL's expenses and revenues. KCPL has not alleged or shown that property taxes are higher from one period to the next. As will be discussed later, increases that KCPL point to are attributable to the significant plant additions made by KCPL over the past several years—first with LaCygne's 1 SCR, then with

Iatan 1 complete environmental package for SCR, Baghouse, and scrubber, and finally 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 KCPL 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 KCPL's 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 KCPL's plant in service to calculate an annualized level of property taxes.

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

A. Yes. KCPL 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, the addition of environmental equipment to the Iatan 1 generating unit and the addition of the Iatan 2 coal fired generating unit to KCPL's fleet. As a result of these additions as well as other plant additions, KCPL's property taxes have increased. Staff has reflected those costs increases for property taxes in rates in previous KCPL rate cases and in this rate case as those costs increased for plant additions.

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

A. Yes. Using the same methodology as described above, Staff calculated property taxes by excluding the plant balances for the Iatan 1 Environmental Equipment and Iatan 2. Based on the analysis, Staff calculated KCPL's property taxes of approximately $60,034,899 for 2010, $58,193,109 for 2011 and $60,907,106 for 2012.

Q. How does this compare to the property taxes paid by KCPL?

A. The following table identifies actual plant in service values and actual property taxes paid by KCPL in 2007-2011. In addition, Staff has calculated an approximate value of property taxes excluding taxes associated with the Iatan 1 Environmental Equipment and Iatan 2. It is clear KCPL's Plant in Service has increased significantly since 2007. This is primarily due to the plant additions resulting from the 2005 Regulatory Plan. 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 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 supports the addition of the Iatan 2 generating plant. The last column in the chart identifies an approximate value of property taxes excluding Iatan 1 Environmental Equipment and Iatan 2 for the years the units would be assessed and KCPL would be required to pay property taxes. Absent KCPL's additions to its Plant in Service over the last several years property taxes paid by KCPL would not have increased.

Year	KCPL's Actual Plant in Service as of January 1	% Increase of Plant	KCPL's Actual Property Taxes Paid	% Increase of Property Taxes	Property Taxes Excluding Iatan 1 Environmental Equipment and Iatan 2[2]
2007	$5,061,323,400	--	$60,950,669	--	
2008	$5,240,188,598	3.5%	$66,967,333	9.9%	
2009	$5,435,737,055	3.73%	$67,244,975	0.4%	
2010	$6,006,147,368	10.5%	$72,311,320	7.5%	$68,886,185
2011	$7,179,632,212	19.5%	$75,303,149	4.1%	$68,721,154

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

A. KCPL's witness Harold "Steve" Smith included a schedule in his Direct Testimony in this case that identified KCPL's actual paid property taxes for the period of 2007 through 2011, which is also shown in the table above. 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 KCPL, but did not provide any analysis to support the claim that property taxes will continue to increase. It is clear from the table above, the reason property taxes have increased during the period of 2007-2011 is directly related to KCPL plant additions during the same period. Any increase in property taxes was accounted for by Staff in Case Nos. ER-2009-0089 and ER-2010-0355.

[2] Staff calculated property taxes for the Iatan 1 Environmental Equipment and Iatan 2 Generating Unit by developing a ratio using actual property taxes paid for Platte County and Total Iatan facility plant in service.

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

A. Staff is aware that KCPL has plans for environmental upgrades for the LaCygne generating unit expected to be completed sometime in 2015. However, Staff's understanding is that KCPL will time a rate case to coincide with the environmental upgrades in service date. Consequently, property taxes associated with the environmental upgrades would be evaluated during that rate case.

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

A. According to KCPL witness Darrin R. Ives, KCPL 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.

Q. Does Staff agree with KCPL'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 KCPL's 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.

<u>RENEWABLE ENERGY STANDARDS</u>

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

A. Yes, in part. Staff disagrees with KCPL'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) KCPL's request for a tracker of RES expenses.

Q. What is KCPL'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. KCPL's proposal includes amounts for the RES credits 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 in this case. Staff has included all of KCPL's RES cost of service through March 31, 2012 and will update the costs through the true up period, August 31, 2012.

Q. What is KCPL's recommendation concerning rate base treatment of RES costs?

A. KCPL recommends all RES costs incurred from 2010 through 2012, less the costs that are currently in rates, be included in rate base.

Q. Why does Staff disagree with KCPL's inclusion of RES costs in rate base?

A. On December 19, 2011, KCPL filed an AAO, Case No. EU-2012-0131, requesting recovery of expenses related to RES. 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.[3]

(emphasis added)

KCPL has requested recovery of all expenses related to the RES program. KCPL 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 KCPL's short term debt rate. The Commission order does not order KCPL to include these costs in its rate base. Rate base treatment generally implies that the cost is an asset and therefore KCPL should earn a return on the asset. All the costs KCPL is requesting in its RES adjustment are expenses and not capital costs in nature. Consequently, KCPL should not be allowed to earn a return on these

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

expenses above those already permitted by the Commission through carrying costs based on KCPL's short term debt rate.

Q. Are there costs incurred by KCPL for the RES program other than those described above that would be considered an asset?

A. Yes. KCPL must meet certain requirements regarding the use of renewable energy. One of those requirements is to purchase renewable energy credits. KCPL utilized its own wind generating facility, Spearville Wind Energy Facility, to meet this requirement. The Spearville Wind Energy Facility is currently in KCPL's plant in service and as a result, KCPL is earning a return of through depreciation and a return on through the rate of return for this facility.

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

A. Yes. Both Staff and KCPL calculated carrying costs for the deferred RES costs. However, KCPL included costs and associated carrying costs for the deferred RES costs through December 31, 2012.

Q. Does Staff agree with KCPL including RES costs and the carrying costs through December 31, 2012?

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.[4]

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.

Q. Does Staff agree with KCPL's proposal:

> …that any 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 19 of KCPL 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 KCPL's proposal regarding a tracker of RES costs?

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

> …the Commission authorize an RES expense tracker authorizing KCP&L: (i) to defer and record as a regulatory asset in Account 182 or as a regulatory liability in Account 254 of the USOA certain incremental costs incurred by KCP&L 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.

[4] Greg R. Meyer, Direct Testimony in Case No ER-2012-0174, page 7.

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 KCPL'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 KCPL 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 Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2012-0174

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 5th 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,

SCHEDULE KL-1B,

& SCHEDULE KL-1C,

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY

Kansas City Power & Light Company
Case No. ER-2012-0174

Missouri Forfeited Discounts - January 2005 thru December 2008

	MO Total Retail Revenue	MO Forfeited Discounts	Change in Forfeited Discounts %	Change in Revenues %	No. of Occurence**
Jan-05	$ 38,832,192	$ 99,464			
Feb-05	34,205,072	99,068	-0.40%	-11.92%	
Mar-05	36,452,702	91,310	-7.83%	6.57%	1
Apr-05	33,467,075	91,610	0.33%	-8.19%	2
May-05	41,124,531	99,293	8.39%	22.88%	
Jun-05	56,078,592	90,424	-8.93%	36.36%	3
Jul-05	63,423,544	120,039	32.75%	13.10%	
Aug-05	62,123,258	154,009	28.30%	-2.05%	4
Sep-05	49,914,183	141,496	-8.12%	-19.65%	
Oct-05	36,995,007	127,606	-9.82%	-25.88%	
Nov-05	33,911,260	90,274	-29.26%	-8.34%	
Dec-05	39,541,375	95,977	6.32%	16.60%	
Jan-06	36,303,519	110,064	14.68%	-8.19%	5
Feb-06	36,046,531	107,946	-1.92%	-0.71%	
Mar-06	36,885,006	91,305	-15.42%	2.33%	6
Apr-06	35,031,829	104,904	14.89%	-5.02%	7
May-06	43,795,018	101,807	-2.95%	25.01%	8
Jun-06	56,669,012	101,042	-0.75%	29.40%	9
Jul-06	66,884,748	137,870	36.45%	18.03%	
Aug-06	65,319,637	166,145	20.51%	-2.34%	10
Sep-06	44,499,438	147,033	-11.50%	-31.87%	
Oct-06	37,763,280	130,900	-10.97%	-15.14%	
Nov-06	34,841,131	106,639	-18.53%	-7.74%	
Dec-06	37,743,640	100,214	-6.03%	8.33%	11
Jan-07	44,261,292	137,840	37.55%	17.27%	
Feb-07	40,958,135	123,878	-10.13%	-7.46%	
Mar-07	40,012,229	129,576	4.60%	-2.31%	12
Apr-07	38,409,071	122,114	-5.76%	-4.01%	
May-07	48,099,820	124,347	1.83%	25.23%	
Jun-07	58,882,700	118,484	-4.72%	22.42%	13
Jul-07	68,723,789	149,411	26.10%	16.71%	
Aug-07	77,114,245	178,036	19.16%	12.21%	
Sep-07	55,747,736	144,756	-18.69%	-27.71%	
Oct-07	41,202,044	162,957	12.57%	-26.09%	14
Nov-07	38,859,081	127,986	-21.46%	-5.69%	
Dec-07	43,701,227	115,639	-9.65%	12.46%	15
Jan-08	45,710,932	144,412	24.88%	4.60%	
Feb-08	46,959,039	129,995	-9.98%	2.73%	16
Mar-08	43,052,464	117,191	-9.85%	-8.32%	
Apr-08	42,131,310	108,632	-7.30%	-2.14%	
May-08	48,483,145	113,720	4.68%	15.08%	
Jun-08	62,732,154	126,975	11.66%	29.39%	
Jul-08	72,765,270	158,805	25.07%	15.99%	
Aug-08	71,909,598	178,529	12.42%	-1.18%	17
Sep-08	52,639,422	208,799	16.96%	-26.80%	18
Oct-08	43,725,874	175,683	-15.86%	-16.93%	
Nov-08	41,514,659	96,750	-44.93%	-5.06%	
Dec-08	46,692,657	184,379	90.57%	12.47%	

Note: Prior to Case No ER-2012-0174 % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year). Revenue and Forfeited Discounts are net of GRT from October 20120 through March 2012.

** This shows the number of times Revenue and Forfeited Discounts moved in different directions. Based on change on Sales and change in Forfeited Discounts.

Kansas City Power & Light Company
Case No. ER-2012-0174

Missouri Forfeited Discounts - January 2009 thru March 2012

	MO Total Retail Revenue	MO Forfeited Discounts	Change in Forfeited Discounts %	Change in Revenues %	No. of Occurence**
Jan-09	47,737,364	158,946	-13.79%	2.24%	19
Feb-09	41,383,277	127,116	-20.03%	-13.31%	
Mar-09	45,155,064	100,034	-21.30%	9.11%	21
Apr-09	41,657,762	112,652	12.61%	-7.75%	22
May-09	46,511,598	121,955	8.26%	11.65%	
Jun-09	62,916,870	113,737	-6.74%	35.27%	23
Jul-09	69,202,559	146,391	28.71%	9.99%	
Aug-09	66,643,608	173,689	18.65%	-3.70%	24
Sep-09	57,399,681	140,392	-19.17%	-13.87%	
Oct-09	52,378,254	152,904	8.91%	-8.75%	25
Nov-09	45,218,105	116,222	-23.99%	-13.67%	
Dec-09	56,481,043	133,384	14.77%	24.91%	
Jan-10	50,506,211	156,355	17.22%	-10.58%	26
Feb-10	57,857,901	143,772	-8.05%	14.56%	27
Mar-10	52,164,805	145,993	1.54%	-9.84%	28
Apr-10	48,628,159	126,156	-13.59%	-6.78%	
May-10	56,672,729	111,026	-11.99%	16.54%	29
Jun-10	78,801,677	126,582	14.01%	39.05%	
Jul-10	88,699,315	173,783	37.29%	12.56%	
Aug-10	89,281,470	204,270	17.54%	0.66%	
Sep-10	62,370,429	204,688	0.20%	-30.14%	30
Oct-10	50,800,101	149,219	-27.10%	-18.55%	
Nov-10	48,311,802	131,231	-12.05%	-4.90%	
Dec-10	47,333,176	112,638	-14.17%	-2.03%	
Jan-11	44,125,154	117,665	4.46%	-6.78%	31
Feb-11	52,756,789	107,420	-8.71%	19.56%	32
Mar-11	78,844,733	116,480	8.43%	49.45%	
Apr-11	97,157,128	154,325	32.49%	23.23%	
May-11	86,527,615	219,685	42.35%	-10.94%	33
Jun-11	54,497,521	210,091	-4.37%	-37.02%	
Jul-11	42,450,899	145,651	-30.67%	-22.10%	
Aug-11	42,186,437	96,647	-33.64%	-0.62%	
Sep-11	48,758,524	107,275	11.00%	15.58%	
Oct-11	52,241,107	163,163	52.10%	7.14%	
Nov-11	47,324,234	111,927	-31.40%	-9.41%	
Dec-11	50,793,196	110,917	-0.90%	7.33%	34
Jan-12	50,289,339	136,233	22.82%	-0.99%	35
Feb-12	48,596,289	124,800	-8.39%	-3.37%	
Mar-12	49,063,322	114,981	-7.87%	0.96%	36

Note: Prior to Case No ER-2012-0174 % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year). Revenue and Forfeited Discounts are net of GRT from October 20120 through March 2012.

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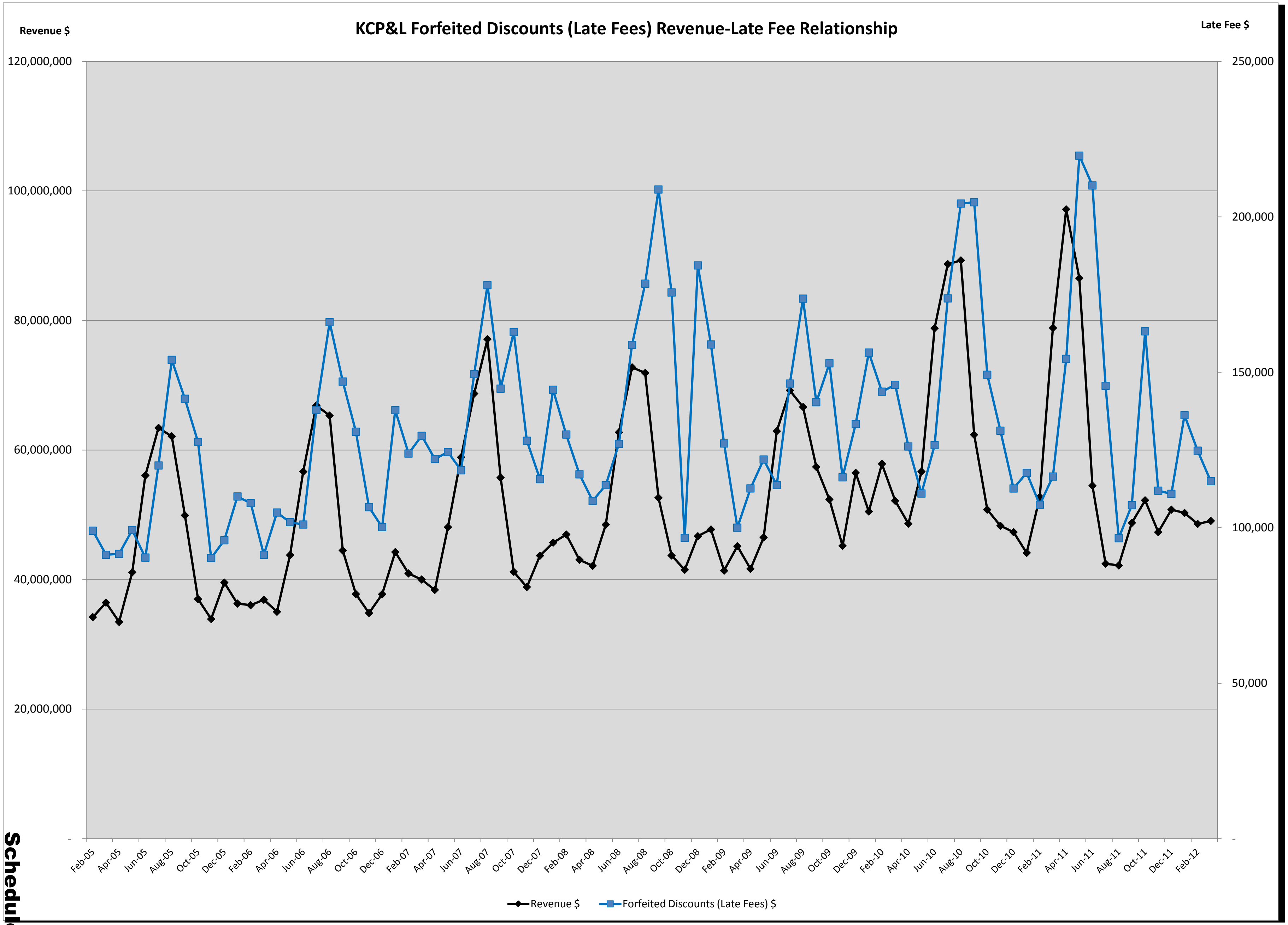
Kansas City Power & Light Company
Case No. ER-2012-0174



Schedule KL-1E

Schedule KL-1E