Exhibit No.:	
Issue:	*Bad Debt Gross-Up Factor* *Forfeited Discount Gross-Up Factor*
Witness:	*"Kofi" A. Boateng*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2009-0090*
Date Testimony Prepared:	*April 09, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

"KOFI" AGYENIM BOATENG

Great Plains Energy, Incorporated
GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND GMO-L&P ELECTRIC

CASE NO. ER-2009-0090

Jefferson City, Missouri
April 2009

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CASE NO. ER-2009-0090

Q. Please state your name and business address.

A. "Kofi" Agyenim Boateng, Governor Office Building, P. O. Box 360, Jefferson City, Missouri 65102.

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

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

Q. Are you the same Kofi A. Boateng who has previously contributed to the Staff Report on Cost of Service in Case No. ER-2009-0090 for KCPL Greater Missouri Operations Company (GMO or Company)?

A. Yes, I am. In addition, I contributed to the Staff's Cost of Service Report filed on February 11, 2009 for Kansas City Power & Light Company (KCPL).

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of GMO witness Ronald A. Klote with regard to bad debt expense, also frequently referred to as "uncollectible" expense.

EXECUTIVE SUMMARY

Q. Please summarize your Surrebuttal Testimony pertaining to this rate case.

A. In this testimony, I will explain why Staff is recommending that GMO should not be allowed to include in rates an adjustment for bad debt expense associated with the revenue requirement increase (or decrease) that will be determined in this rate case. The Company proposes that the bad debt write-off ratio used to calculate the normalized bad debt expense be applied to the revenue requirement increase expected to be calculated in this rate case.

The Company's arguments for requesting this measure is based on a common belief, yet unsupported position that any increase in revenue requirement will proportionally cause bad debt expense to also increase. Additionally, GMO cites the Commission's Report and Order in KCPL's Case No. ER-2006-0314, in which the Commission allowed KCPL to match bad debt with the revenue requirement increase in that case as a rationale for its request.

While the Company's initial proposal for this request may be reasonable from a common sense basis, Staff believes that there is not a direct correlation for the need to reflect increased bad debts associated with the additional increase in rates from this case. In analyzing the data for bad debts there is not a sufficient relationship to support the proposal made by GMO. Secondly, Staff believes that any decision of the Commission relating to whether to grant or disallow any particular adjustment in a rate case should be based on merits of the case presented, rather than based on wholesale application of how an issue was decided in a another case. The fact that the Commission allowed KCPL to match bad debts with revenue increases should not be the basis for every utility company to make such a request without sufficient justification.

However, Staff's position is that if the Commission decides to grant the Company’s request by matching bad debts with an increase in revenue requirement, then it will also be reasonable and appropriate to gross-up forfeited discounts (late payment fees) for the same reason. If the Company believes that it will experience a higher level of bad debt as a result of a rate increase, then it would be logical to assert that it would also experience a higher level of late payment revenue resulting from those higher rates.

<u>BAD DEBT GROSS-UP FACTOR</u>

Q. On page 9 of Company witness Klote’s rebuttal testimony, he indicates that "errors were discovered and discussed with Staff associated with the Accounting Schedules filed with Staff’s Cost of Service Report." Further, Mr. Klote alleges that these errors included one associated with bad debt expense. Does Staff agree with this assessment?

A. No. It is apparent from reviewing Mr. Klote's rebuttal testimony that GMO believes that the exclusion of the bad debt factor-up in the Staff’s case was an oversight by Staff. To the contrary, Staff purposefully excluded a bad debt factor-up in its case because Staff does not believe there is direct relationship between any additional revenue requirement determined by the Commission in this case with a corresponding increase to bad debts. It was no "error" associated with Staff’s normalized bad debt expense to exclude the bad debt factor-up from the revenue requirement calculation.

Q. Referring to the supposed error associated with bad debt expense, on page 9 of his rebuttal Mr. Klote claims that the Company made the “same error” as Staff in its direct filing. Did Staff make the same mistake as the Company regarding bad debt factor-up?

A. No. As previously mentioned, Staff made a deliberate decision to not include the bad debt factor-up in its direct filing. Therefore, Mr. Klote's statement that the Company committed the "same error" as Staff in its direct filing is not correct. Interestingly, while Mr. Klote claims that GMO made the same error as Staff, in another instance, he hinted that Staff may not consider the exclusion of the bad debt factor-up to be an error (Klote rebuttal page 9, line 20).

Q. What is a bad debt "factor up" or "gross up", and what is the rationale behind its use?

A. The usual justification for use of the bad debt factor up is the belief that it is necessary to properly match level of bad debt expense established in a rate case with the amount of revenue requirement increase that will be determined by the Commission in that case. 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 proposed 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 proportionally as well, all things being equal. In other words, the Company 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. However, while Staff believes that this view may seem reasonable on a theoretical basis, Staff has found from a practical point of view that this theory does not always hold true in reality. In other words, use of bad debt factor-up means it is a virtual certainty that with each rate increase bad debts will go up. This is not a realistic view. In order for the GMO proposal to use a bad debt factor-up to be justified, an analysis would be needed to demonstrate a correlation between revenue levels and bad debt levels.

Q. At page 10 of Mr. Klote's rebuttal testimony he stated that bad debt expense is expected to "increase proportionately as the revenue requirement increase…". Does Staff agree with this assertion by Mr. Klote?

A. No. Staff does not agree with Mr. Klote’s statement. The Encarta Dictionary defines “in proportion” as something having the correct relationship of size, quantity, or degree to something else, or remaining in the same relationship when things change. While Staff believes there may be some relationship between bad debt expense and increased revenues resulting from a rate case, when it has examined this relationship in rate cases for other utilities in general and GMO in particular, Staff has generally found that rate increases do not cause a proportional increase in bad debt expense, as GMO is suggesting in this case. It is not accurate to suggest that an increase in revenue requirement should or will result in a proportional increase in bad debt expense.

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 GMO?

A. Yes. Attached to this surrebuttal testimony as Schedule KAB-1 is a historical analysis of the Company’s bad debts and retail revenue levels for GMO’s MPS and L&P. In each case, the schedules demonstrates that the Company’s own historical data does not support its position that there is always a corresponding relationship between revenues and bad debt expense; whereby any revenue increase will always result in an automatic increase in bad debt expense in the same magnitude and proportion.

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

A. Staff reviewed how actual bad debt write offs varied in relation to revenues for a 36-month period from April 2005 through March 2008 for both MPS and L&P. See Schedule KAB-1.

For MPS, out of the thirty-six month data reviewed, twenty-six (26) of them indicated no relationship. In many instances, while electric revenues increased (or decreased), actual bad debt write-offs tend to decrease (or increase) by different amounts. In August 2005, retail revenues experienced an increase of 4.47%, while bad debt write-off decreased by 142.42% for the same time period. In June 2006, revenues increased by 62.53%, while bad debt write-offs decreased by 20.26%. In November 2006, revenues decreased by 2.02%, and bad debt write-offs increased by 178.65%. In September 2007, revenues decreased by 18.80%, but bad debt write-offs increased by 566.49%. These are just a few examples to demonstrate that bad debt write-offs do not have a direct association with revenues. This analysis shows that revenues and bad debts may tend to move in opposite directions with an increase (or decrease) in the other. Even in the few occasions that they tend to move in the same direction, Staff observed that they were either increased or decreased by different amounts. This, therefore, support Staff's position that an increase in revenue may not necessarily result in proportionate increase in bad debt expense.

In the case of L&P, twenty-five of the 36-month period data reviewed showed no relationship. That is, revenue and bad debt write-off operated in different directions;

when one increased, the other decreased. For instance, in May 2005, revenues increased by 49.29%, but bad debt write-offs decreased by 27.06% for the same time period. In October 2006, revenues decreased by 39.59%, but bad debt write-offs increased by 61.94%. In March 2008, revenues decreased by 9.59%, and bad debt write-offs increased by 95.84%. Again these are just examples of how these two items might not in practical terms relate to each other with an increase (or decrease) in the other. In November 2007, while both revenues and bad debts moved in the same direction, revenues experienced an increased by 1.93%, but bad debt on the other hand was increased by 175.23%, refuting the Company's argument that an increase in revenue will be associated with proportionate increase in bad debt expense.

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

A. Staff employed various methods of data analysis in its review, yet none of those methods produced any substantive evidence to support the direct relationship that must exist between the two items to justify inclusion of a bad debt gross up in this case. Staff utilized both numerical and graphical presentations in its review.

Q. What does Schedule KAB-1 show?

A. Staff believes the information shown in Schedule KAB-1 for MPS and L&P clearly demonstrates that 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. Does the bad debt factor-up proposed by the Company work in the same way as an income tax factor-up?

A. Yes. 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 absolute proportional increase in income taxes. This is a well known and established relationship, and in this case both Company 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 may have to be added to the additional revenue requirement amount or the Company 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 expense for either MPS or L&P.

Q. Does the Company acknowledge that there is not a direct relationship between bad debts and increasing rates?

A. Yes. Mr. Klote states at page 10 of his rebuttal testimony that "although the amount cannot be exactly calculated with the implications of income taxes associated with the calculation, a reasonable approximation of the revenue requirement increase can be made and should have the bad debt expense ratio applied to it" (page 10, line 14 through 17).

Q. Did GMO include the bad debt factor up in its initial rate filing?

A. No. The Company’s initial rate increase filing on September 5, 2008 did not include a bad debt factor up request. Even when the Company provided its work papers for its updated September 30, 2008 case in December 2008, it did not include the bad debt gross up in its calculations. However, the Company did update its normalized bad debt expense recommendation in its updated case. The Company did not present its request for use of a bad debt factor up in this case until its rebuttal filling.

Q. In Staff's opinion, what are the Company's reasons for proposing a bad debt factor up in this rate case?

A. In the rebuttal testimony of Mr. Klote, the Company provided two reasons why it is proposing use of the gross-up factor. First, they argued that any rate increase that will be determined in this rate case should be added to the normalized and annualized retail revenues upon which the usual, normalized bad debt expense was calculated and collected from customers, because any revenue increase will result in a proportionate increase in bad debt expense. Mr. Klote's other stated reason is that in KCPL's previous rate case, Case No. ER-2006-0314, the Commission in its Report and Order concluded that KCPL should be allowed to include some additional amount for bad debt expense as a result of the revenue requirement increase ordered in that rate case.

Q. How does Staff respond to the second argument?

A. Staff believes that any decision of the Commission should be based solely on the merits of the issue involved, rather than based on a wholesale application. The fact that the Commission allowed KCPL to match bad debts with revenues in its 2006 rate case does not mean that the circumstances warrant the same treatment in this case. The question of the existence of a direct relationship between revenues and bad debts is best reviewed by on a case-by-case basis.

Q. Does Staff believe that GMO should also be allowed to include the bad debt factor-up in this case?

A. No. As indicated above, Staff does not believe that the Commission should include a bad debt factor-up in this case because the circumstances do not warrant such an adjustment. So far, the Company has not provided sufficient data that supports its request to match bad debts with the increased revenues.

Q. What are the expected value of this issue between Staff and Company for MPS and L&P?

A. Based upon the Staff’s Accounting Schedules revised on February 26, 2009, the issue is worth $235,007 for MPS and $79,951 for L&P, based on Staff’s projected revenue requirement increase of $43.7 million and approximately $15.7 million, for MPS and L&P, respectively.

FORFEITED DISCOUNT GROSS-UP FACTOR

Q. What are “forfeited discounts”?

A. Forfeited discounts also known as “late payment fees” are charges that MPS and L&P charge their customers for non-payment of customer bills in a timely manner. The charges are assessed on the remaining balance of the unpaid bill.

Q. Did the Company propose to gross-up forfeited discount (late payment fees) the same way that it is proposing bad debt gross up for revenue requirements increases?

A. No. One would have thought that since the Company is requesting for an addition to bad debt as a result of revenue requirement increase, it would have been reasonable to propose the same treatment for forfeited discounts.

Q. Should forfeited discounts be included in the bad debt factor-up issue?

A. Yes. Staff’s position is that if the Commission decides to grant the Company’s request by matching bad debts with an increase in revenue requirement, then it will also be reasonable and appropriate to gross-up forfeited discounts (late payment fees) for the same reason. Because if the Company believes that it will experience a higher level of bad debt as a result of a rate increase, then it would be logical to assert that it should also experience a higher level of late payment revenue. GMO did not consider such an off-set, and is therefore, inconsistent with its approach in this case for these two issues.

Q. Should forfeited discounts be included in the bad debt factor-up issue?

A. Yes. Staff's position is that if the Commission decides to grant the Company’s request by matching bad debts with an increase in revenue requirement, then it will also be reasonable and appropriate to gross-up forfeited discount (late payment fees) for the same reason. Because if the Company believes that it will experience a higher level of bad debt as a result of a rate increase, then it would be logical to assert that it would also experience a higher level of late payment revenue resulting from those higher rates.

Q. What is the value of including forfeited discounts in the bad debt factor up calculation?

This issue is worth $49,787 for MPS and $17,048 for L&P, based on Staff’s projected revenue requirement increase of $43.7 million and approximately $15.7 million, for MPS and L&P, respectively.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service.	))))	Case No. ER-2009-0090

AFFIDAVIT OF "KOFI" A. BOATENG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

"Kofi" A. Boateng, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

"Kofi" A. Boateng

Subscribed and sworn to before me this 8th day of April, 2009.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Notary Public

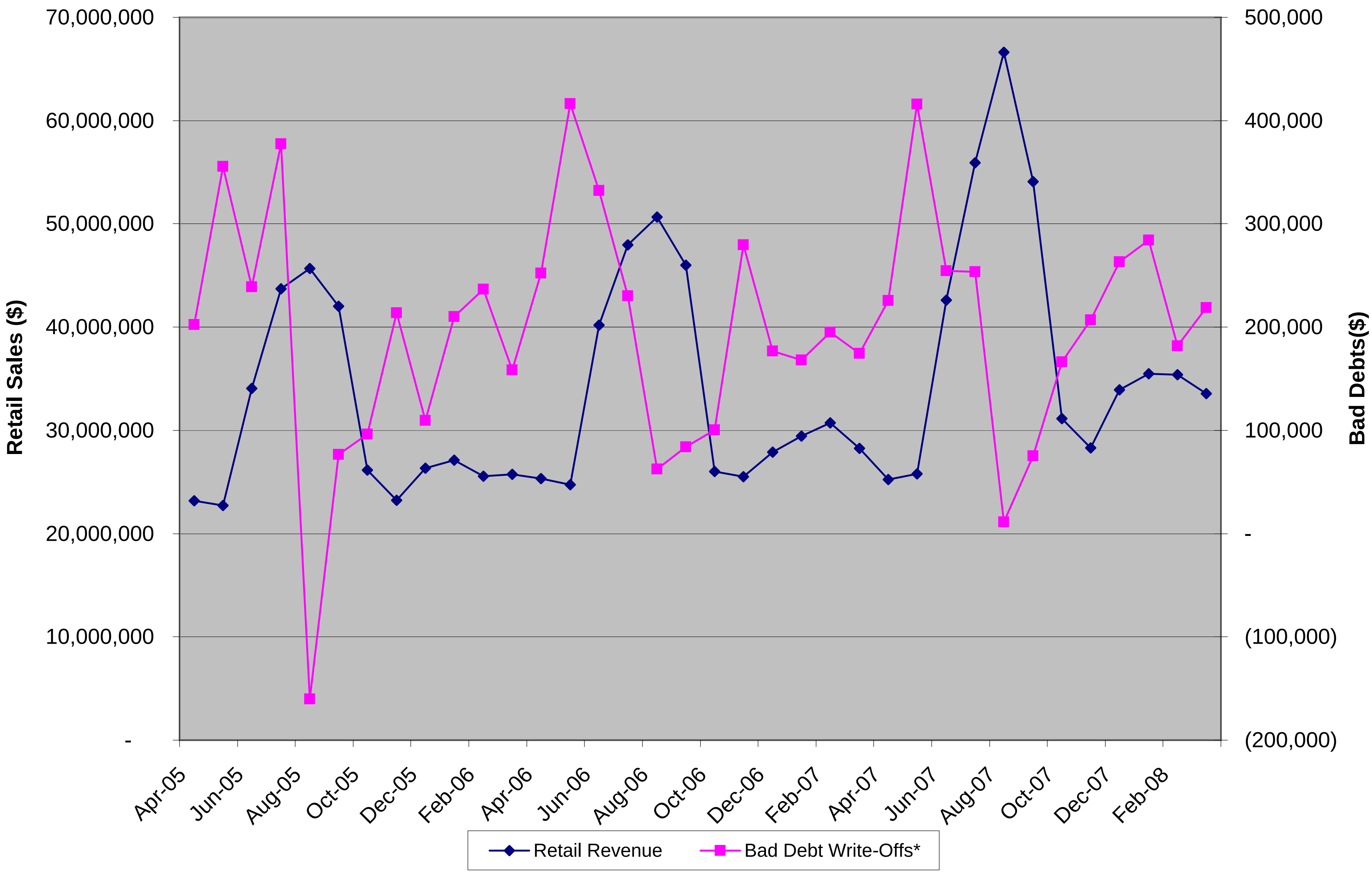
Aquila, Inc. dba KCP&L Greater Missouri Operations Company
Case No. ER-2009-0090
MPS Retail Sales Revenue vs. Bad Debt Write-off
Prepared By: Kofi A. Boateng, MPSC

		MPS			
	Monthly Retail Revenue	Monthly Bad Debt Write-Offs*	Change in Sales Revenues	Change in Bad Debt Write-offs	No. of Occurrence**
Apr-05	23,176,008	202,159			
May-05	22,737,093	355,660	-1.89%	75.93%	1
Jun-05	34,053,763	239,022	49.77%	-32.79%	2
Jul-05	43,705,431	377,301	28.34%	57.85%	
Aug-05	45,656,962	(160,052)	4.47%	-142.42%	3
Sep-05	42,022,618	76,485	-7.96%	-147.79%	
Oct-05	26,149,471	96,203	-37.77%	25.78%	4
Nov-05	23,220,114	213,954	-11.20%	122.40%	5
Dec-05	26,322,790	109,324	13.36%	-48.90%	6
Jan-06	27,132,298	209,948	3.08%	92.04%	
Feb-06	25,566,739	236,750	-5.77%	12.77%	7
Mar-06	25,720,921	158,415	0.60%	-33.09%	8
Apr-06	25,321,997	252,128	-1.55%	59.16%	9
May-06	24,731,885	416,358	-2.33%	65.14%	10
Jun-06	40,197,333	332,023	62.53%	-20.26%	11
Jul-06	47,939,910	230,414	19.26%	-30.60%	12
Aug-06	50,679,655	62,308	5.71%	-72.96%	13
Sep-06	46,012,650	83,910	-9.21%	34.67%	14
Oct-06	26,025,610	100,381	-43.44%	19.63%	15
Nov-06	25,499,045	279,717	-2.02%	178.65%	16
Dec-06	27,895,873	176,876	9.40%	-36.77%	17
Jan-07	29,451,085	167,931	5.58%	-5.06%	18
Feb-07	30,704,259	195,217	4.26%	16.25%	
Mar-07	28,265,365	174,601	-7.94%	-10.56%	
Apr-07	25,259,881	225,803	-10.63%	29.33%	19
May-07	25,783,311	415,904	2.07%	84.19%	
Jun-07	42,618,668	254,507	65.30%	-38.81%	20
Jul-07	55,933,136	253,685	31.24%	-0.32%	21
Aug-07	66,634,739	11,323	19.13%	-95.54%	22
Sep-07	54,109,013	75,469	-18.80%	566.49%	23
Oct-07	31,134,939	166,238	-42.46%	120.27%	24
Nov-07	28,306,368	207,021	-9.08%	24.53%	25
Dec-07	33,929,536	263,082	19.87%	27.08%	
Jan-08	35,474,390	284,315	4.55%	8.07%	
Feb-08	35,395,315	181,974	-0.22%	-36.00%	
Mar-08	33,552,339	218,876	-5.21%	20.28%	26

* Based on 6-month lag.
** This shows the number of times Revenues and Bad Debts moved in different directions. Based on change in Sales and change in Bad Debt Write-offs.

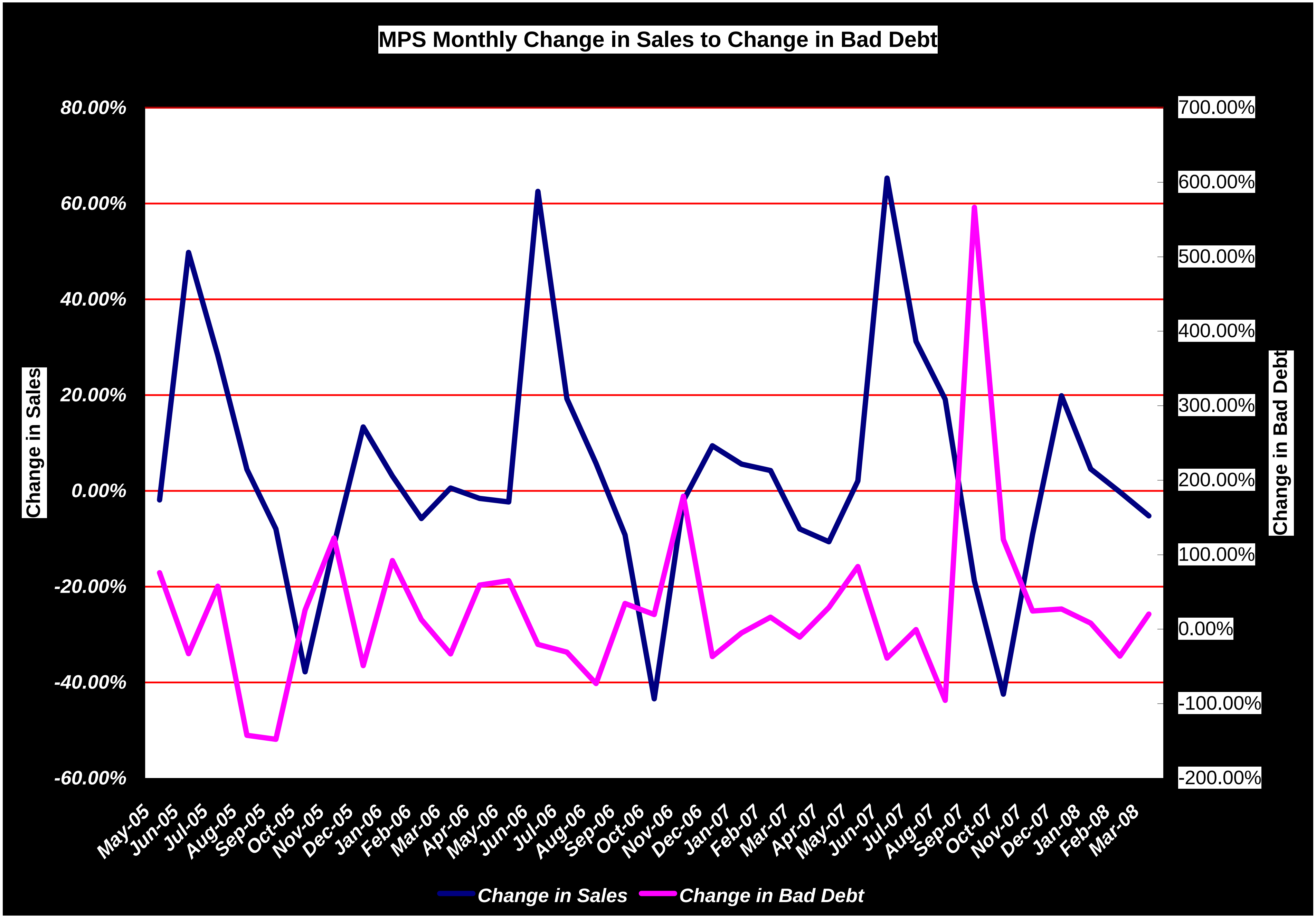
KCPL Greater Missouri Operations Company - MPS
Case No. ER-2009-0090

MPS Monthly Sales Revenue vs. Bad Debt



Schedule KAB-1B (MPS)

KCPL Greater Missouri Operations Company - MPS
Case No. ER-2009-0090



Schedule KAB-1C (MPS)

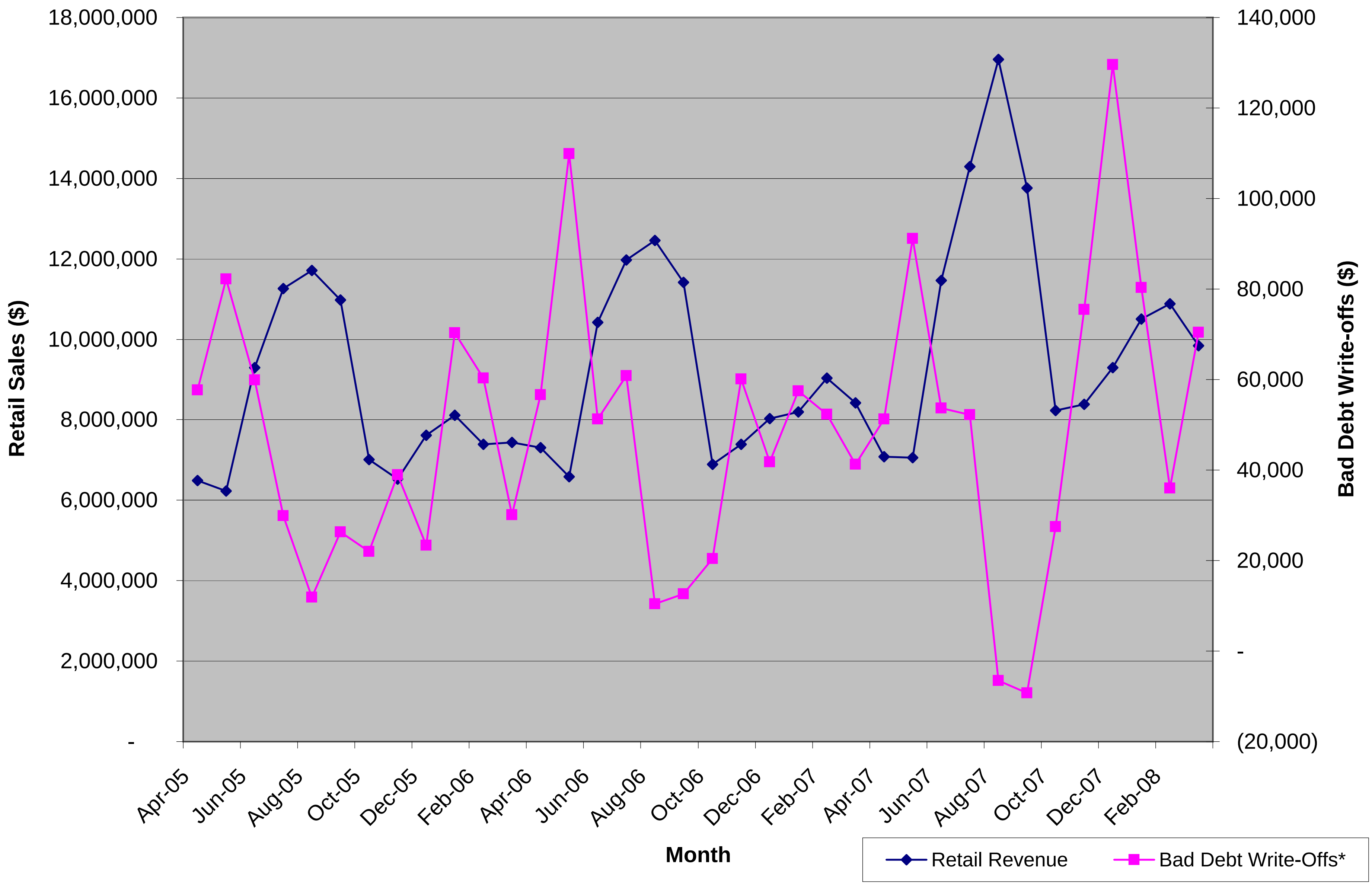
Aquila, Inc. dba KCP&L Greater Missouri Operations Company
Case No. ER-2009-0090
L&P Retail Sales Revenue vs. Bad Debt Write-off
Prepared By: Kofi A. Boateng, MPSC

		L&P			
	Monthly Retail Revenue	**Monthly Bad Debt Write-Offs***	**Change in Sales Revenues**	**Change in Bad Debt Write-offs**	**No. of Occurrence****
Apr-05	6,492,642	57,658			
May-05	6,224,196	82,177	-4.13%	42.52%	1
Jun-05	9,292,159	59,941	49.29%	-27.06%	2
Jul-05	11,258,038	29,904	21.16%	-50.11%	3
Aug-05	11,713,328	11,907	4.04%	-60.18%	4
Sep-05	10,976,110	26,359	-6.29%	121.38%	5
Oct-05	7,013,655	22,048	-36.10%	-16.35%	
Nov-05	6,528,113	38,910	-6.92%	76.48%	6
Dec-05	7,614,952	23,347	16.65%	-40.00%	7
Jan-06	8,111,935	70,298	6.53%	201.11%	
Feb-06	7,390,113	60,314	-8.90%	-14.20%	
Mar-06	7,437,589	30,082	0.64%	-50.12%	8
Apr-06	7,308,202	56,625	-1.74%	88.23%	9
May-06	6,580,098	109,896	-9.96%	94.08%	10
Jun-06	10,423,508	51,297	58.41%	-53.32%	11
Jul-06	11,966,748	60,810	14.81%	18.54%	
Aug-06	12,453,885	10,456	4.07%	-82.81%	12
Sep-06	11,416,271	12,634	-8.33%	20.84%	13
Oct-06	6,896,425	20,460	-39.59%	61.94%	14
Nov-06	7,390,065	60,093	7.16%	193.71%	
Dec-06	8,033,082	41,810	8.70%	-30.42%	15
Jan-07	8,193,171	57,516	1.99%	37.56%	
Feb-07	9,035,776	52,322	10.28%	-9.03%	16
Mar-07	8,414,339	41,285	-6.88%	-21.09%	
Apr-07	7,087,229	51,273	-15.77%	24.19%	17
May-07	7,056,093	91,117	-0.44%	77.71%	18
Jun-07	11,460,760	53,715	62.42%	-41.05%	19
Jul-07	14,287,709	52,172	24.67%	-2.87%	20
Aug-07	16,955,170	(6,538)	18.67%	-112.53%	21
Sep-07	13,764,451	(9,281)	-18.82%	41.96%	22
Oct-07	8,225,628	27,428	-40.24%	-395.52%	
Nov-07	8,384,105	75,490	1.93%	175.23%	
Dec-07	9,301,649	129,597	10.94%	71.67%	
Jan-08	10,499,955	80,278	12.88%	-38.06%	23
Feb-08	10,879,353	35,959	3.61%	-55.21%	24
Mar-08	9,835,735	70,421	-9.59%	95.84%	25

* Based on 6-month lag.
** This shows the number of times Revenues and Bad Debts moved in different directions. Based on change in Sales and change in Bad Debt Write-offs.

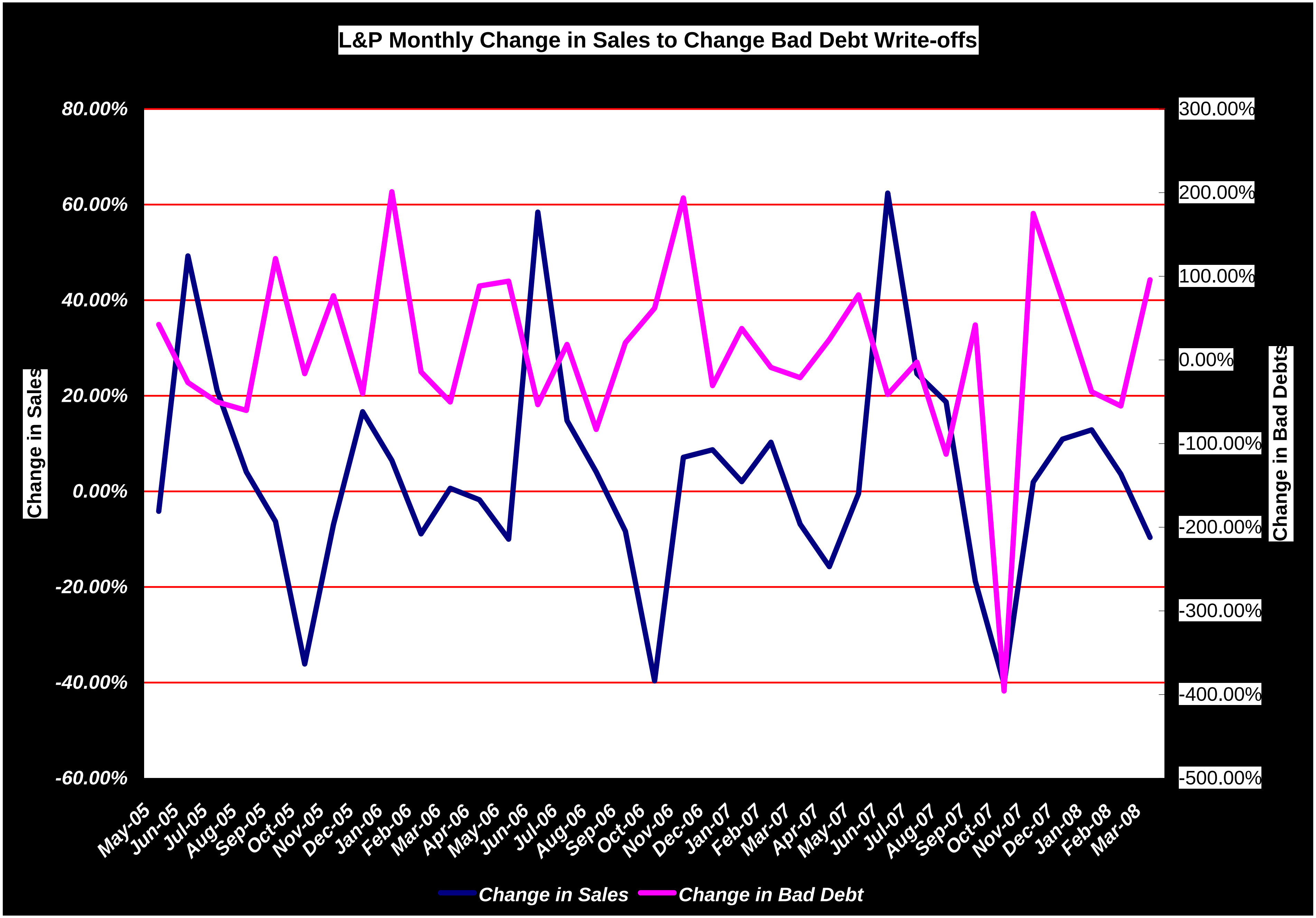
KCPL Greater Missouri Operations Company - LP
Case No. ER-2009-0090

L&P Monthly Sales Revenue vs. Bad Debt



Schedule KAB-1B (L&P)

KCPL Greater Missouri Operations Company - LP
Case No. ER-2009-0090



Schedule KAB-1C (L&P)