Exhibit No.:	
Issues:	*Accounts Receivables*
	Sales
Witness:	*Bret G. Prenger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2009-0090*
Date Testimony Prepared:	*April 9, 20099*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

BRET G. PRENGER

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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Q. Please state your name and business address.

A. Bret G. Prenger, Fletcher Daniels State Office Building, Room G8, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Bret G. Prenger who previously provided information in Staff's Cost of Service Report in this proceeding?

A. Yes. I provided input into the Staff's Cost of Service Report filed in this case and in Case No. HR-2009-0092 on February 13, 2009. I also provided input into the Staff Cost of Service Report filed in the Kansas City Power & Light Company case on February 11, 2009.

Q. Are you sponsoring the section of the Cost of Service Report on accounts receivable sales program in the discussion of cash working capital?

A. Yes. Accounts receivable sales are addressed on pages 115 and 116 of this Report.

EXECUTIVE SUMMARY

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

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Michael Cline and Ronald Klote in regard to Accounts Receivable Sales (A/R Sales). Company and Staff disagree on A/R sales and whether the program should be imputed for KPC&L Greater Missouri Operations Company (GMO). I will discuss why Staff feels that the Program should be imputed for the benefit of the ratepayer and why Company feels the Staff should not attribute such a program in this case, Case No. ER-2009-0090.

ACCOUNTS RECEIVABLES SALES

Q. What is an Accounts Receivable Sales Program (Program)?

A. An A/R Sales program is a way to enhance cash flow and reduce a Company's need for short-term loans from investors, banks and other financial institutions. Depending on the amount of accounts receivable sold, the Program produces an immediate influx of cash to the Company.

Q. Would you please summarize GMO's position with regard to Staff's position to impute Account Receivable Sales?

A. Yes. However, a better understanding of the cash working capital concept is necessary to understand the affect on the Company and the ratepayer. Please reference Karen Herrington's surrebuttal testimony of Gross Receipts Taxes (GRT) for a detailed explanation of cash working capital (CWC), pages 10 through 16. According to Company witness Mr. Cline in his rebuttal testimony on page 11, the Account Receivable Sales Program imputed by Staff is based on a hypothetical situation. Mr. Cline further states Staff's position would force any regulated utility to implement a program such as the one that existed in 2002 for GMO to reduce rates. The last concern raised by Mr. Cline in his rebuttal testimony at page 12 concerns Staff's inclusion of the Accounts Receivable Sales because of the acquisition of GMO by Great Plains Energy in 2008.

Q. Did Staff perform a lead/lag study in this case?

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

Q. Is the method you used to calculate the GMO-MPS and GMO-L&P CWC requirements the same method the Staff has used in previous rate cases?

A. Yes. The lead/lag method has been used by the Staff and adopted by the Commission in numerous rate proceedings dating back to the 1970s, including GMO's most recent rate cases (Case Nos. ER-2005-0436 and ER-2007-0004).

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

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

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

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

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

Q. What is "revenue lag"?

A. Revenue lag is the amount of time between the day the GMO-MPS and GMO-L&P provide the service to customers, and when they receives payment from those customers for that service. The overall revenue lag in this case is the sum of three subcomponent lags. They are as follows:

1) Usage Lag: The midpoint of average time elapsed from the beginning of the first day of a service period through the last day of that service period;

2) Billing Lag: The period of time between the last day of the service period, the day the meter is read, and the day the bill is placed in the mail by the company;

3) Collection Lag: The period of time between the day the bill is placed in the mail by the company and the day the company receives payment from the ratepayer for services performed.

Q. Did MPS and L&P use the same three subcomponent lags discussed above in developing the total revenue lag for each?

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

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

Q. Please explain how usage lag was determined.

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

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

A. The billing lag is the time it takes between when GMO-MPS and GMO-L&P read the meter and when the bills are subsequently mailed to the customer. Staff accepted the Company's proposed billing lag of two days.

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

A. The collection lag is the average number of days that elapse between the day that the bill was mailed and the day when GMO-MPS and GMO-L&P receive payment for that bill. The Staff calculated the collection lag by determining an Accounts Receivable Turnover Ratio (the ratio equals 23.56) and multiplying that ratio by the percentage of Accounts Receivable not sold (which equals 42.63%). The collection lag is considerably larger than most typical collection lags because of the lack of the sale of the Company's accounts receivable, which will be discussed later in this testimony. The calculated total revenue lag was 29.03 days.

Q. Does Staff agree with Mr. Cline's position?

A. No. As Mr. Cline states on page 11, lines 21-23, the Staff has presented this issue for the last three rate cases. This statement alone refutes his last argument that Staff imputed the Program due to Great Plains Energy acquisition of GMO in 2008. One of the reasons Staff did decide to include the effect of the accounts receivable sales on CWC is that KCPL had a sales program already in place and the Company can modify that program to include the GMO entities. But the primary reason Staff decided to impute the accounts receivable program was related to the poor financial decisions GMO made with its non-regulated business when it was named Aquila, Inc.

Q. Please explain the history associated with this issue.

A. In the late 1980's, GMO implemented the accounts receivable sales program to increase immediate cash flow. Depending upon cash needs, GMO sold to Ciesco , an affiliate of Citibank, its' accounts receivable, less uncollectibles. Also included in the Program was payment of interest and administrative fees. Basically, the Program is a loan from a third party backed by GMO's accounts receivables. Initially the predecessor of GMO did not include GMO-L&P and so from Missouri regulated operations only what is now GMO-MPS' accounts receivable were sold until after a GMO predecessor merged with St. Joseph Light and Power Company in 2001, which created what is now GMO-L&P. After that merger, both GMO-MPS and GMO-L&P receivables were subsequently sold.

The Program was phased out through September and October of 2002 and was terminated on November 1, 2002.

Q. Why was the Program terminated?

A. GMO experienced a severe decline in its credit rating to non-investment grade. Ciesco was no longer able to fund the Program because of the inability to issue commercial paper.

In rate cases filed by the former Aquila entities, the Staff attempted to isolate adverse costs impacts associated with the financial condition arising from GMO's non-regulated ventures. Several Company witnesses in Case No. ER-2004-0034 (Aquila's 2004 rate case) and Case No. EF-2003-0465 testified that the Company would attempt to isolate the impact of GMO's financial condition. Mr. Keith G. Stamm, then Aquila's Vice President and Chief Operating Officer, states on page 2, line 19 though page 3, line 3 of his direct testimony:

> There is likely to be a presumption on the part of some of our constituents that this is an attempt to take advantage of our customers and restore financial viability that has been threatened as a result of our investments outside of the utility sector. However, this is simply not the case. This request for rate relief stands on the merits of the need of Missouri regulated operations alone, isolated and insulated from the impacts of our non-regulated activities.

Mr. Dobson, in his direct testimony in Case No. EF-2003-0465, page 9, states "First, we had to continue to maintain a focus on providing service to our utility customers, and ensure that the steps we take to restore Aquila's [(GMO's)] financial stability would not have any adverse impact on the utility business or its customers."

In addition to this statement, Mr. Jon R. Empson, Senior Vice President of Regulated Operations, in his rebuttal testimony in Case No. ER-2004-0034 testified:

> Q. When Aquila prepared the rate cases that were filed with the Commission, what guidance did you give the regulatory team?
>
> A. There were two basic principles that we made a concerted effort to apply to a review of our rate case filing. First, our utility customers should not bear any of the costs associated with Aquila's exiting or winding down of our non-regulated and international businesses. In other words, as stated by Aquila witness Beverlee Agut in her direct testimony, our intention and desire was to <u>insulate the customer from these activities and not include these costs in the cost of service in this case</u>…

Mr. Empson also made similar comments in Case No. EF-2003-0465, when he states, "However, while Aquila accepts full responsibility for its past strategy, Aquila is also taking full responsibility for restoring financial stability without adversely impacting the customer."

Q. How does the ratepayer and the Company benefit from the accounts receivable program?

A. The ratepayers benefit from a reduced revenue lag in the cash working capital calculation thereby decreasing the amount of funds that the ratepayer must contribute to cash working capital. The Company benefits from the accounts receivable program by receiving immediate funds at a cost less than a financial institution might charge.

Q. During the time of Aquila's financial troubles, how did Staff treat the accounts receivable program?

A. Staff continued to include the accounts receivable program as if it was still available to GMO. The termination of the program was ultimately a negative result derived from the problems that GMO faced in its non-regulated ventures. GMO personnel clearly indicated that their faults would not impact GMO's ratepayers. According to Mr. Klote on page 16, lines 7-9 of his rebuttal testimony, "the imputation of a hypothetical accounts receivable program that has not been in place in over six years does not represent a reasonable ratemaking treatment for the Company." The Staff has taken the position that had GMO made sound financial decisions in the past, the program would still be in place and thus benefiting GMO's customers. Prior to the termination of the program, the revenue lag for GMO in 2000 was 21.59 days. The current revenue lag reported in GMO's Case No. ER-2009-0090 is 39.71 days. Although it has been six years since the poor financial decisions were made, the repercussions of this decision can still be seen.

Q. How does the ratepayer and the Company benefit from the accounts receivable program?

A. The ratepayers benefit from a reduced revenue lag in the cash working capital calculation thereby decreasing the amount of funds that the ratepayer must contribute to cash working capital. The Company benefits from the Program by receiving immediate funds at a cost less than a financial institution might charge.

Q. Did Mr. Cline have additional arguments against the Staff's testimony?

A. Yes. Mr. Cline stated on page12 lines 6-9 of his rebuttal testimony, Staff's argument would force any regulated entity to implement an Accounts Receivable Program.

Q. Does Staff agree with Mr. Cline's statement?

A. No. Staff does not attempt to make management decisions for regulated utilities. However, in this instance, GMO's affiliate KCPL already has an accounts receivable sales program in place and clearly has an opportunity to include the GMO entities in this program. KCPL and GMO have an opportunity to increase the cash of the Great Plains Energy (GPE) entities and should do so. If the GPE entities have an opportunity to reduce revenue requirement impacts particularly during a time of significant pressure to increase rates the Company should pursue such opportunities. Staff is perplexed by GPE's reluctance to institute such a program knowing it provides benefits to the Company and benefits to the its customers.

Q. Does Mr. Klote offer additional arguments against Staff’s position?

A. Yes. In fact, Mr. Klote and Mr. Cline bring up an error in Ms. Herrington’s original testimony. Her testimony implies that KCPL’s current accounts receivable include GMO-MPS and GMO-LP. This statement is an error. KCPL currently sells approximately 57% of only its accounts receivables which do not include GMO MPS and L&P. Ms. Herrington used this percentage and applied it to GMO-MPS and GMO-LP accounts receivable.

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 BRET G. PRENGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Bret G. Prenger, 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 10 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.

Bret G. Prenger

Subscribed and sworn to before me this 9th day of April, 2009.

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

Nikki Senn
Notary Public