Exhibit No.:	
Issues:	*Accounts Receivables Sale* *Economic Relief Pilot Program* *"Clarification"*
Witness:	*Bret G. Prenger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
File No.:	*ER-2010-0356*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

BRET G. PRENGER

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

FILE NO. ER-2010-0356

Jefferson City, Missouri
January, 2011

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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 (Staff Report)?

A. Yes. I provided input into the Staff' Report filed on November 17, 2010. I also provided input into the Staff Cost of Service Report filed on November 10, 2010, in the Kansas City Power & Light Company (KCPL) case, File No. ER-2010-0355.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my testimony is to respond to issues contained in the Rebuttal Testimonies of Company witnesses Michael W. Cline, Jimmy Alberts and John P. Weisensee. These issues include Bank fees/Accounts Receivables Sales Program (A/R Sales Program), the Economic Relief Pilot Program (ERPP), and certain “Clarifications” of Staff’s position.

<u>ACCOUNTS RECEIVABLE SALES PROGRAM</u>

Q. What is an A/R Sales 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. Typically, a bank purchases the Company's accounts receivables under agreement providing a discounted cash amount to the utility. In exchange, when the utility collects revenues from its customers—the accounts receivables—the Company will remit the collected funds to the banking institution. Depending on the amount of accounts receivable sold, an A/R Sales Program will generally produce an immediate influx of cash to the company.

Q. Would you please summarize KCP&L Greater Missouri Operations Company's ("GMO" or "Company") response to Staff's position to impute an A/R Sales Program?

A. Yes. However, a better understanding of the cash working capital (CWC) concept is necessary to understand the effect on the Company and its ratepayers. In short, an A/R Sales Program reduces the overall revenue lag and is beneficial to ratepayers. For a detailed explanation of CWC please reference Staff witness Karen Lyons' portion (pages 47 through 50) of the Staff Report regarding CWC. According to the Company, the A/R Sales Program imputed by Staff is based on a hypothetical situation. The Company feels Staff's position would force any regulated utility to implement a program such as the one that GMO administered in 2002. The Company states that it has tried on two occasions to set up an A/R Sales Program, but has been unable to do so due to lack of a sufficient standalone accounts receivable history.

Q. Do the ratepayers and the Company benefit from an A/R Sales Program and how?

A. Yes, both the Company and its customers benefit from such a program. The ratepayers benefit from a reduced revenue lag in the CWC calculation, thereby decreasing the amount of funds that the ratepayer must contribute to the Company. The Company benefits from the accounts receivable program by receiving immediate funds at a cost less than a financial institution might charge for a short-term debt loan.

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

A. Yes. The lead/lag method has been used by the Staff and adopted by the Missouri Public Service Commission ("Commission") in numerous rate proceedings dating back to the late 1980's, when GMO then named Aquila, Inc. ("Aquila"), the predecessor company to GMO first introduced such a program. These rate proceedings include a number of GMO's recent rate cases (Case Nos. ER-2005-0436, ER-2007-0004, and ER-2009-0090).

Q. How did Staff develop its proposed revenue lag for GMO?

A. Staff used Kansas City Power and Light's (KCPL) A/R Sales Program as a basis for GMO. The weighting between receivables sold versus unsold for KCPL's residential customers was applied to GMO. The A/R amount sold to the banking institution on a daily basis identified a percentage which was then used for the GMO A/R Sales.

Q. Does Staff agree with the Company's position?

A. No. Staff has presented this issue in the last three GMO rate cases. The primary reason Staff decided to impute the A/R Sales Program is related to the poor financial decisions GMO made with its non-regulated business when it was named Aquila, Inc. Another important reason Staff decided to include the effect of the accounts receivable sales on CWC is that KCPL has a sales program already in place and can therefore easily modify that program to include GMO.

Q. Please explain the history associated with this issue.

A. In the late 1980's, GMO implemented an A/R 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 A/R Sales Program was payment of interest and administrative fees. Basically, the program served as a means to attain a loan from a third party backed by GMO's accounts receivables. Initially, GMO (Aquila, Inc.) did not include what is now L&P and therefore only what is now GMO's accounts receivables for MPS were sold until after Aquila merged with St. Joseph Light and Power Company in 2001 and created what is now called L&P. After that merger, both MPS and L&P receivables were sold. This previous program was phased-out through September and October of 2002, and was terminated on November 1, 2002.

Q. Why was that program terminated?

A. GMO experienced a severe decline in its credit rating. Ciesco was no longer able to fund the program because of GMO's in-ability to issue commercial paper.

Q. If the Aquila A/R Program was discontinued then why has Staff included this program in its current GMO case?

A. In rate cases filed by Aquila, both Aquila and Staff attempted to isolate adverse costs associated with financial conditions arising from GMO's prior non-regulated ventures. Several Company witnesses in Case Nos. ER-2004-0034 (Aquila's 2004 rate case) and EF-2003-0465 testified that the Company would attempt to isolate the impact of GMO's non-regulated ventures on the Company's financial condition. Mr. Keith G. Stamm, then

Aquila's Vice President and Chief Operating Officer, stated on page 2, line 19 though page 3, line 3 of his Direct Testimony in Cae No. ER-2004-0034:

> 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. (**Emphasis added)

Mr. Rick Dobson, then Senior Vice President and Interim Chief Financial Officer of Aquila, Inc., in his direct testimony in Case No. EF-2003-0465, page 9, emphasizes the Company's commitment to "…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." Similarly, Mr. Jon R. Empson, Senior Vice President of Regulated Operations, testified in his rebuttal testimony in Case No. ER-2004-0034 as follows:

> 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>…(Emphasis added)

Mr. Empson also made similar comments in Case No. EF-2003-0465 (Direct Testimony, page 7), when he stated, "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. Did the former Aquila have a "plan" to protect its customers from financial impacts resulting from non-regulated activities?

A. Yes. Mr. Empson said on page 2 of his rebuttal testimony in Case No. EF-2003-0465 that the Company would protect utility customers by maintaining the Aquila capital allocation process that utilizes "hypothetical" capital structures and long-term debt assignments. Also, Aquila would price new and replacement debt to utility divisions (MPS and L&P) at comparable BBB credit ratings. The intent of Aquila had always been to financially "ring fence" the utility operations from the non-utility business. The use of the "hypothetical" capital and debt structures was approved by both the Kansas Corporation in Docket 02-UTCG-701-GIG and by the Missouri Public Service Commission in Case No. ER-2004-0034. So, it is not unheard of for the Commission to agree to "hypothetical" inclusions, especially when customer detriment is involved.

Q. What does the term "ring-fencing" mean?

A. This is a reference to the concept of protecting the regulated operations of the utility from any adverse affects of non-regulated operations of the company or its affiliates. In the case of Aquila and its affiliates, Staff closely examined the regulated operations to ensure there were no affects non-regulated failures of Aquila passed on to its regulated customers. In every instance, but the A/R Sales Program Aquila removed the non-regulated failures as well—thus, the Company "ring-fenced" its regulated operations from its failed non-regulated operations.

Q. Did the "ring-fencing" of the utility operations from the non-utility operations methodology extend beyond Case No. ER-2004-0034?

A. Yes. In the joint application of Great Plains Energy ("Great Plains") and Aquila regarding the acquisition of the Missouri electric operations of Aquila, Great Plains withdrew its initial request to recover actual debt costs of GMO in future rate cases. This was consistent with prior commitments made by Aquila. The Report and Order for Case No. EM-2007-0374 identified this change in position by Great Plains to reflect debt costs of a company with a higher credit rating than GMO because of the effects of the non-regulated operations of Aquila. Both GMO and Staff have reflected in the post acquisition rate cases debt costs for GMO of a less risky company to insulate the current GMO customers from any lingering effects of the former Aquila non-regulated operations. The Commission addressed the use of hypothetical debt costs at page 156 of its Report and Order in File No. EM-2007-0374.

Q. What are the Company's arguments against the imputation of an A/R Sales Program?

A. These arguments are presented by Company witness Michael W. Cline on pages 17-19 of his rebuttal testimony. First, Mr. Cline argues that Staff's position would force any regulated entity to implement an A/R Sales Program. Mr. Cline also says that the Company has attempted to create a program with two financial institutions and that Staff chooses to ignore that fact.

Q. Do you agree that Staff's position essentially forces every utility to impute a similar program?

A. No. Staff has not proposed to implement (force) utilities to pursue an A/R Sales program where they have not had them previously. While companies should always look for ways to make their operations more efficient and cut costs where appropriate, Staff leaves managerial decisions to the utility. However, when a company like Aquila has such an A/R Sales program and is forced to discontinue it because of the failures of its non-regulated operations, then Staff would examine this issue based on the merits of it once having the program but losing it and, thus, causing higher costs to its regulated operations. Staff certainly would examine other regulated utilities to see if there is opportunity for those entities to implement such a program. Staff believes there are benefits to such programs in that they offer to both ratepayers and companies opportunities to lower costs. To the extent costs would be lowered, then Staff believes those companies should implement an A/R Sales Program.

Q. Did Staff ignore the fact that the Company has tried to establish the program without success?

A. No. Mr. Cline states on page 18 of his Rebuttal Testimony that "GMO will continue to explore this option. Based upon feedback received from financial institutions during our due diligence efforts in 2009, we do not believe that such a program would be feasible until mid-2011 at the earliest." While the reason why Staff has included the A/R Sales in its case is based solely on the fact former Aquila had such a program and was unable to continue it because of Aquila's non-regulated operations, it is noteworthy that the Company is going to continue to examine the possibility of implementing a new A/R Sales program as early as mid-2011.

Q. Please summarize your surrebuttal testimony on the A/R Sales Progarm.

A. In conclusion, 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 File No. ER-2010-0356 is 24.45 days.

In comparison, the Company proposes a revenue lag of 43.937 days. Although it has been roughly nine years since the poor financial decisions were made, the repercussions of this decision can still be seen and should be isolated.

ECONOMIC RELIEF PILOT PROGRAM (ERPP)

Q. Does Staff agree with the Company's proposal to recover costs associated with the ERPP?

A. Yes, Staff believes that the Company should receive the projected on-going level of program expenses, as well as 1 year of the 3-year amortization of the deferred costs of the program.

Q. Does the Company agree with this position?

A. No. The Company has requested it receive the projected on-going level of expenses, with the 1 year amortization of the deferred costs plus an additional unamortized balance of deferred costs to be given rate base treatment (inclusion in Rate Base).

Q. Why is Staff opposed to rate base treatment for the unamortized balance of deferred costs of the program?

A. Staff is opposed to this treatment because the Non-Unanimous Stipulation and Agreement in Case No. ER-2009-0090 clearly states that "The Signatory Parties agree that this [ERPP] program should be implemented, but that it should not be considered a demand side management program (DSM)." GMO is requesting rate base treatment of its DSM programs in this case, and given the language of the prior stipulation, the ERPP is not considered a DSM Program.

Q. Why has Staff not given the unamortized balance rate base treatment?

A Traditionally, items that are included in rate base are related more to investments made by the Company over a longer life than one year. Staff views the Program as more of a period cost or ongoing operational cost versus a Company investment and thus shouldn't be afforded rate base treatment.

<u>CLARIFICATION</u>

Q. Mr. Weisensee states on page 10 of his Rebuttal Testimony that you indicated that the Company had included gross receipts taxes (GRT) in prepayments. Did the Company do this?

A. No. It was stated on page 51 of the Staff Report that GRT was included by the Company in prepayments; however, they were not included in prepayments.

Q. Please explain the payroll clarification described by Company witness Weisensee on page 10 of his Rebuttal Testimony.

A. Page 111 of the Staff Cost of Service Report Staff states that "Great Plains Energy (GPE) has minuscule labor costs that are to be annualized using current employee levels and current salaries. GPE provides common services such as accounting, tax consolidation, corporate legal, and governance to GPE entities…" These duties were transferred to KCPL in 2009 and are now allocated to other GPE companies. They are no longer handled by GPE and this was misstated in the Cost of Service Report.

Q. Does this correction have any financial impact?

A. No, this is simply written incorrectly. The financial impact was handled correctly in the Staff Accounting Schedules.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

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	))))	File No. ER-2010-0356

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

Bret G. Prenger

Subscribed and sworn to before me this 12th day of January, 2011.

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