

Exhibit No.:  
Issue: Revenue Requirement Schedules;  
Test Year; Utility Allocations;  
Accounting Adjustments  
Witness: Ronald A. Klote  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Aquila, Inc. dba KCP&L Greater  
Missouri Operations Company  
Case No.: HR-2009-\_\_\_\_  
Date Testimony Prepared: September 5, 2008

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: HR-2009-\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**RONALD A. KLOTE**

**ON BEHALF OF**

**AQUILA, INC. dba  
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
September 2008**

**TABLE OF CONTENTS**  
**DIRECT TESTIMONY OF**  
**RONALD A. KLOTE**

**KANSAS CITY POWER & LIGHT GREATER MISSOURI OPERATIONS COMPANY**

**CASE NO. HR – 2009 - \_\_\_\_\_**

INTRODUCTION .....	4
SCHEDULES .....	5
TEST YEAR.....	6
UTILITY ALLOCATIONS.....	7
PLANT IN SERVICE.....	9
RB-25 ENVIRONMENTAL UPGRADES & OTHER CAPITAL ADDITIONS.....	10
ACCUMULATED RESERVE FOR DEPRECIATION.....	11
RB-35 ACCUMULATED RESERVE THROUGH 3-31-09.....	11
RBO-30 ACCUMULATED DEFERRED INCOME TAXES .....	12
RBO-100 REGULATORY LIABILITY ERISA TRACKER .....	14
WC-21 PREPAYMENTS – PENSION.....	15
WC-30 FUEL INVENTORIES.....	16
WC-50 CASH WORKING CAPITAL CALCULATION .....	17
CS-5 PAYROLL.....	20
CS-11 BENEFITS SUMMARY SCHEDULE .....	22
CS-12 BENEFITS – MEDICAL, DENTAL AND VISION .....	23
CS-13 BENEFITS – PENSION.....	24
CS-13A BENEFITS – ERISA TRACKER AMORTIZATION .....	25
CS-14 BENEFITS – OTHER POST EMPLOYMENT BENEFITS .....	26
CS-15 BENEFITS – 401K.....	29
CS-18 BENEFITS – SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN.....	30
CS-21 INSURANCE .....	30
CS-30 INJURIES AND DAMAGES.....	31
CS-40 PSC ASSESSMENT.....	32
CS-50 RATE CASE EXPENSE .....	33
CS-83 MISCELLANEOUS TEST YEAR ADJUSTMENTS .....	33
CS-85 PAYROLL TAXES .....	34
CS-90 PROPERTY TAXES .....	36
CS-95 DEPRECIATION EXPENSE.....	36
TAX-1 CURRENT AND DEFERRED INCOME TAX CALCULATION .....	37
CAPITALIZATION RATIO .....	39

**DIRECT TESTIMONY**

**OF**

**RONALD A. KLOTE**

**Case No. HR-2009-\_\_\_\_\_**

1 **Q: Please state your name and business address.**

2 A: My name is Ronald A. Klotz. My business address is 1201 Walnut, Kansas City,  
3 Missouri 64106.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Senior Manager,  
6 Regulatory Accounting.

7 **Q. What are your responsibilities?**

8 A. My responsibilities include the preparation and review of accounting exhibits and schedules  
9 associated with regulatory filings in KCP&L and Aquila, Inc. dba KCP&L Greater Missouri  
10 Operations Company (“Company” or “GMO Steam”) territory. I also have responsibility for  
11 the completion and filing of certain regulatory reports to the Federal Energy Regulatory  
12 Commission (“FERC”) and Department of Energy, among others.

13 **Q. Please describe your education, experience and employment history.**

14 A.. In 1992, I received a Bachelor of Science Degree in Accountancy from the University of  
15 Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State  
16 of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of  
17 increasing responsibilities in the auditing division. I conducted and led various auditing  
18 engagements of company financial statements. In 1995, I joined Water District No. 1 of  
19 Johnson County as a Senior Accountant. This position involved extensive operational

1 and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as  
2 a Senior Consultant. This position involved special accounting and auditing projects in  
3 the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila  
4 holding various positions within the Regulatory department until 2004 when I became  
5 Director of Regulatory Accounting Services. This position was primarily responsible for  
6 the planning and preparation of all accounting adjustments associated with regulatory  
7 filings in the electric jurisdictions. In July, 2008, I began my employment with KCP&L.

8  
9 **Q. Have you previously testified in a proceeding at the Missouri Public Service  
10 Commission or before any other utility regulatory agency?**

11 A. Yes. I have testified before the California Public Utilities Commission, the Public  
12 Utilities Commission of Colorado and the Missouri Public Service Commission.

13 **Q. What is the purpose of your direct testimony in this case before the Missouri Public  
14 Service Commission (“Commission”)?**

15 A. The purpose of my direct testimony is to present certain schedules and to describe  
16 various accounting adjustments made to GMO Steam rate case filing.

17 **SCHEDULES**

18 **Q. Have you included Schedule’s RAK-1 through RAK-5 for GMO Steam in your  
19 direct testimony?**

20 A. Yes. Schedules RAK-1 through RAK-5 constitute the accounting schedules summarizing  
21 the GMO Steam rate filing and are attached to my direct testimony.

22 **Q. Please describe Schedule RAK-1.**

1 A. Schedule RAK-1 represents the revenue deficiency calculated with a return on equity of  
2 10.75%. GMO Steam witness Samuel C. Hadaway supports the return on equity.

3 **Q. What information is included on Schedule RAK-2?**

4 A. This schedule illustrates the detailed components of rate base. Rate base represents  
5 GMO Steam investment to provide safe and reliable service to GMO Steam customers.

6 **Q. Please describe Schedule RAK-3.**

7 A. Schedule RAK-3 is the adjusted income statement, which reflects net income available to  
8 GMO Steam after all known and measurable changes have been made.

9 **Q. What is the purpose of RAK-4?**

10 A. Schedule RAK-4 is an explanation of all adjustments to test-year revenues and expenses.

11 **Q. Are you sponsoring all of the adjustments on Schedule RAK-4?**

12 A. No. There will be other GMO Steam witnesses sponsoring adjustments in Schedule  
13 RAK-4.

14 **Q. Please describe Schedule RAK-5.**

15 A. Schedule RAK-5 is the Cash Working Capital schedule.

16 **TEST YEAR**

17 **Q. What historical test year did the GMO Steam jurisdiction use in determining rate  
18 base and operating income?**

19 A. GMO Steam used the test year ending December 31, 2007 for the purposes of its rate  
20 case filing.

21 **Q. Please explain the period used to make adjustments to reflect known and  
22 measurable changes that have been identified since the end of the historical test year  
23 end.**

1 A. Adjustments are made to reflect changes in the level of revenue, expenses and rate base  
2 that either have occurred or are expected to occur by the time of the April 30, 2009 true-  
3 up in this rate case. We used March 31, 2009 as a proxy since that is a quarter-end  
4 reporting period and we do not expect any major changes from March to April. We will  
5 true up actuals as part of the true-up process.

6 **JURISDICTIONAL AND UTILITY ALLOCATIONS**

7 **Q. Have utility allocation factors been developed for the GMO Steam jurisdiction?**

8 A. Yes. The Company's operations include costs associated with the provision of electric  
9 service and steam service. As such, allocation factors have been developed to separate  
10 costs between the two utility services.

11 **Q. Please describe the GMO Steam operations at its Lake Road generation facility?**

12 A. Two separate products are produced at the Company's Lake Road Station: electricity for  
13 Aquila, Inc. dba KCP&L Greater Missouri Operations Company electric power grid, and  
14 process steam (referred to as "Industrial Steam") delivered to industrial customers  
15 located near the Lake Road Station. The two business operations are referred to as the  
16 electric and steam jurisdictions.

17 **Q. Briefly describe each allocation factor used in the current rate case to separate the  
18 Company's rate base and cost of service between electric and steam products.**

19 A. The allocation factors are:

20 1. Allocated Plant Base Factor – this is the ratio of all allocated steam plant to total  
21 regulated electric and steam plant.

- 1           2. Land Factor, Structures Factor, Access Electric Equipment Factor, Electric/Steam  
2           Plant Factor (FERC 310, 311, 315, 341-346)– this is the ratio of all allocated steam  
3           production plant to total electric and steam production plant.
- 4           3. Boiler Plant Factor (FERC 312) – this is the ratio of all allocated steam boiler plant  
5           equipment to total regulated electric and steam boiler plant equipment.
- 6           4. Turbogenerators (“turbogen”) Factor (FERC 314) – this is the ratio of all allocated  
7           steam turbogen units to total regulated electric and steam turbogen units.
- 8           5. 900# Steam Demand Factor - this is used in steam production allocation calculations,  
9           and Miscellaneous Steam Gen Equipment Factor (FERC 316) – this is the weighted ratio  
10          of the highest maximum steam coincident peaks over the previous three years and the  
11          total highest maximum coincident peaks over the previous three years.
- 12          6. Electric after Steam operation and maintenance (“O&M”) allocation (O&M Factor) –  
13          this is the ratio of allocated payroll applicable to steam business to the total generation  
14          payroll charged to O&M. The allocated payroll applicable to steam business is  
15          calculated using the ratio of the previous three years of steam coal burn to total Lake  
16          Road coal burn applied against total Lake Road payroll charged to O&M.
- 17          7. Electric after Steam administrative and general (“A&G”) allocation (A&G Factor) –  
18          this factor is comprised of the sum of a 50% weighting of steam O&M to total O&M  
19          from Annual Report Form 1, page 323 and a 50% weighting of total allocated steam plant  
20          to total steam and electric plant.

21   **Q.    Will the Company continue to allocate the cost of Lake Road operations?**

22    A.    Yes. In Case No. HR-2005-0450, it was stipulated that “Aquila will continue to allocate  
23          the cost of Lake Road operations between steam and electric in the Aquila Networks - L&P

1 division.” The Company plans to continue to allocate costs between the electric and steam  
2 businesses.

### 3 **PLANT IN SERVICE**

4 **Q. Please explain how plant in service was derived.**

5 A. The GMO Steam plant in service includes plant that is directly assigned and allocated to  
6 the GMO Steam jurisdiction and corporate common plant that is allocated to the GMO  
7 Steam jurisdictions.

8 **Q. Explain what is meant by direct plant in service.**

9 A. Direct plant in service represents assets that specifically relate to the GMO Steam  
10 jurisdiction and provide use to the entity in order to serve their respective customers with  
11 steam utility operations.

12 **Q. How are the direct plant in service balances derived?**

13 A. The GMO Steam direct plant in service balances are obtained from the December 31,  
14 2007 fixed asset subledger system, which provides asset detail by FERC plant account.

15 **Q. Explain what is meant by allocated corporate common plant in service.**

16 A. Allocated corporate common plant in service assets includes assets that support the  
17 Company’s overall infrastructure. These assets include items such as the general ledger  
18 system and billing system.

19 **Q. Are any other allocations employed?**

20 A. Yes. As previously discussed in my testimony, utility allocation factors are applied to  
21 direct and common plant. An allocation methodology is applied to the electric generation  
22 assets in an effort to segregate and allocate appropriately the portion of generation plant  
23 used in both the production of electricity and the production of industrial steam.



1 **Q. What is the amount of jurisdictional direct and allocated plant in service for GMO**  
2 **Steam filed in this rate case?**

3 A. Please see accounting schedule RAK-2 included in this direct testimony for the GMO  
4 Steam and allocated plant in service balances that have been included in this rate filing.

5 **Q. Explain any adjustments made to the plant in service balances as of December 31,**  
6 **2007.**

7 A. The following adjustment has been made to December 31, 2007 plant balances:

- 8 • RB – 25 To record Environmental Upgrades directly assigned to electric operations  
9 and Other Capital Additions to Plant and Reserve. The Other Capital Additions are  
10 discussed later in my testimony.

11 **RB-25 ENVIRONMENTAL UPGRADES & OTHER CAPITAL ADDITIONS**

12 **Q. What is the purpose of adjustment RB-25?**

13 A. Adjustment RB-25 is made of two components. First, the Company is making significant  
14 capital additions to its power plant location at Iatan 1 which is directly assigned to  
15 electric operations. Second, miscellaneous capital additions that are budgeted through  
16 March 31, 2009, have been included in plant in service. Amounts associated with these  
17 capital additions have been added to plant-in-service FERC accounts as of December 31,  
18 2007. Amounts recorded in common electric and steam FERC accounts are allocated to  
19 GMO Steam operations using the previously discussed utility allocation factors.

20 **ACCUMULATED RESERVE FOR DEPRECIATION**

21 **RB-35 ACCUMULATED RESERVE THROUGH MARCH 31, 2009**

22 **Q. Please explain how the accumulated reserve for depreciation was derived.**

1 A. The test year ending December 31, 2007, end of period balances were adjusted for  
2 projected increases in the reserves through March 31, 2009.

3 **Q. Does the accumulated reserve for depreciation follow the same reporting  
4 methodology as the gross plant in service?**

5 A. Yes, it does.

6 **Q. Does the reserve also follow the utility allocation methods used in deriving gross  
7 plant in service?**

8 A. Yes.

9 **Q. Are you proposing to use a forecasted accumulated reserve balance in the final  
10 revenue requirement calculation?**

11 A. No. GMO Steam's proposed position is to update the accumulated reserve with actual  
12 recorded per book numbers at April 30, 2009, once these are known, and include these in  
13 the final revenue requirement calculation.

14 **Q. What adjustment have you made in this direct filing to project the increase in the  
15 reserves through March 31, 2009?**

16 A. The addition to accumulated reserves is calculated by applying appropriate annual  
17 depreciation rates to each plant account adjusted ending balance, both direct and allocated, at  
18 December 31, 2007, and extending them for an additional 15 months.

19 **Q. What depreciation rates are used in your reserve addition calculation?**

20 A. The rates used for the reserve addition calculation are the same as those used in the  
21 depreciation annualization calculations for GMO Steam direct plant in adjustment CS-95.

22 **Q. What is the jurisdictional direct and allocated accumulated reserve for depreciation  
23 for GMO Steam?**

1 A. Please see accounting schedule RAK-2 included in my direct testimony.

2 **RBO-30 ACCUMULATED DEFERRED INCOME TAXES**

3 **Q. Please describe the accumulated deferred income tax offset to rate base.**

4 A. The accumulated deferred income tax offset to rate base includes the accumulation of tax  
5 effected timing differences between the general ledger and tax accounting records. These  
6 items are known as Schedule M's in the Company's annual tax return. The majority of  
7 timing differences included in this filing are from general ledger accounts that include  
8 timing differences associated with plant activity. They include the Companies directly  
9 assigned timing differences, as well as corporate common timing differences which are  
10 common to all jurisdictions.

11 **Q. What time period was used for accumulated deferred income taxes?**

12 A. Accumulated deferred income taxes are based on actual and estimated timing differences  
13 through December 31, 2007.

14 **Q. Please explain how the accumulated deferred income tax amount was computed.**

15 A. The accumulated deferred income tax amount includes the following components:

- 16 • Accumulated deferred income taxes include timing differences recorded in the  
17 Companies FERC Accounts 190, 282 and 283. Balances in FERC Accounts 190, 282  
18 and 283 at December 31, 2007, include timing differences based on the actual tax  
19 return filings through December 31, 2006 and estimates for the period ending  
20 December 31, 2007.
- 21 • Accumulated deferred income taxes include the Company's allocable share of  
22 applicable balances recorded in corporate common FERC Accounts 190, 282 and  
23 283. As described above, these corporate FERC accounts include timing differences

1 based on actual tax return filings through December 31, 2006 and estimates for the  
2 period ending December 31, 2007.

- 3 • A utility allocation factor was applied to the resulting accumulated deferred income  
4 tax balances to arrive at accumulated deferred income tax balances for the GMO  
5 Steam jurisdiction.

6 **Q. Please describe the adjustment made to the Schedule M timing differences**  
7 **described above?**

8 A. Based on the Unanimous Stipulation and Agreement in Case Nos. ER-2004-0034 and  
9 HR-2004-0024, all parties agreed to establishing a prepaid pension amount and  
10 amortizing this prepaid amount over a nine and one-quarter year period for the Company.  
11 In order to compute the tax versus book timing difference associated with the pension  
12 Schedule M, the prepaid pension amount granted in Case No. HR-2004-0024 was  
13 amortized through December 31, 2007. The applicable tax rate of 38.39 percent was then  
14 applied to the unamortized balance to compute the deferred taxes associated with the  
15 pension Schedule M.

16 **Q. Why were accumulated deferred income taxes not projected to March 31, 2009 for**  
17 **this rate case filing?**

18 A. During 2008, increases in estimated accumulated deferred income taxes recorded on  
19 existing plant at December 31, 2007 were offset by results of an IRS audit which reduced  
20 some accelerated depreciation deductions. This had the effect of negating any additional  
21 accumulated deferred income taxes that will be recorded through March 31, 2009.  
22 Accumulated deferred income taxes are expected to be trued-up as of April 30, 2009 to  
23 match plant-in-service balances trued-up through that date.

1 **Q. What is the total accumulated deferred income tax rate base offset for GMO**  
2 **Steam?**

3 A. Please refer to Schedule RAK-2 for the GMO Steam accumulated deferred income tax rate  
4 base offset amounts.

5 **RBO-100 REGULATORY LIABILITY ERISA TRACKER**

6 **Q. Please explain what the Unanimous Stipulation and Agreement in Rate Case No.**  
7 **HR-2004-0024 states concerning the Regulatory Liability ERISA Tracker.**

8 A. As stated in the Unanimous Stipulation and Agreement (page 9):

9 *Company is authorized to reflect pension cost equal to this provision for the*  
10 *ERISA minimum and record the difference between the ERISA minimum and the*  
11 *annual provision for pension cost as a regulatory asset or liability. This*  
12 *regulatory asset and/or liability is intended to track the difference between the*  
13 *provision for the ERISA minimum contribution included in cost of service in this*  
14 *case, and the Company's actual ERISA minimum contributions made after the*  
15 *effective date of rates established in this case. The regulatory asset and/or*  
16 *liability will be included in rate base in the Company's next rate case and*  
17 *amortized over a five (5) year period.*

18  
19 As such, the Company has collected in rates certain amounts for pension expenditures.  
20 These collections are compared to actual contributions. The difference between these  
21 amounts are treated as regulatory assets or liabilities.

22 **Q. Has the Company complied with the prior Stipulation and Agreement in this rate**  
23 **case filing?**

24 A. Yes. The Company has been recording the pension cost collections as a regulatory  
25 liability.

26 **Q. On March 31, 2009, will the tracking mechanism described above be a regulatory**  
27 **asset or liability?**

1 A. For GMO Steam, a regulatory liability will exist and is reflected in rate base offset  
2 adjustment RBO-100.

3 **Q. What is the Regulatory Liability ERISA Tracker rate base components for GMO  
4 Steam?**

5 A. Please see Schedule RAK-2 for the rate base totals.

6 **WC-21 PREPAYMENTS – PENSION**

7 **Q. What does Case No. HR-2004-0024 provide in regard to prepaid pension amounts.**

8 A. The Unanimous Stipulation and Agreement in Case No. HR-2004-0024 provides the  
9 following at pages 9 - 10:

10 *L&P rates include a \$3,352,742 annual provision, prior to capitalization, for*  
11 *L&P electric prepaid pension amortization and that L&P steam rates include*  
12 *\$98,687 annual provision, prior to capitalization, for L&P steam prepaid pension*  
13 *amortization. This amortization will be in effect for a nine and one-quarter (9.25)*  
14 *year period beginning with the effective date of rates established in this case.*

15  
16 **Q. Has the Company included a prepaid pension amount in rate base consistent with  
17 the amount in the Unanimous Stipulation and Agreement in Case No. HR-2004-  
18 0024?**

19 A. Yes. The Company has included a rate base addition for the unamortized portion of  
20 prepaid pension amounts as of March 31, 2009.

21 **Q. What were the prepaid pension components of rate base for GMO Steam?**

22 A. Please see Schedule RAK-2 for the rate base totals.

23 **WC-30 FUEL INVENTORIES**

24 **Q. Please explain the purpose of adjustment WC-30 Fuel Inventories for GMO Steam.**

25 A. Fuel inventories are properly includable in the working capital computation. A utility  
26 must carry the appropriate level of fuel stock to ensure that customer service is not

1 interrupted. As a result of maintaining minimum levels of fuel stock, the utility incurs  
2 carrying costs. By including fuel stock in rate base, the utility is appropriately allowed to  
3 earn a return on those fuel inventory levels.

4 **Q. How were the annualized levels of fuel inventory for coal calculated for inclusion in**  
5 **rate base?**

6 A. The Company's recommendation in this case for coal inventory levels at Lake Road is  
7 equivalent to a 75-day burn. To determine the inventory level, the annualized fuel price  
8 per unit is computed multiplied by the tons per day quantity to arrive at the annualized  
9 amount of fuel inventory for Lake Road steam.

10 **Q. Please explain why a 75-day supply of coal for Lake Road was chosen as target**  
11 **levels of coal inventory to include in rate base.**

12 A. The 75-day coal inventory level for Lake Road is consistent with the levels used by both  
13 Aquila and the Staff in the Company's last three electric rate proceedings, Case Nos. ER-  
14 2004-0034, ER-2005-0436, and ER-2007-0004.

15 **Q. What level of total fuel inventory has GMO Steam included in rate base for purposes**  
16 **of this proceeding?**

17 A. The total level of fuel inventory included in this case as a component of rate base is  
18 provided in Schedule RAK-2.

19 **WC-50 CASH WORKING CAPITAL CALCULATION**

20 **Q. What is cash working capital?**

21 A. Cash working capital ("CWC") is the amount of cash necessary for the Company to pay the  
22 day-to-day expenses incurred to provide service to their customers.

1 **Q. Is the method used in the current rate case to calculate GMO Steam's CWC**  
2 **requirements the same method that has been used in previous cases?**

3 A. Yes. The method has been used by the Commission Staff in numerous electric and steam  
4 rate proceedings including Case Nos. ER-99-0247, ER-2001-0672, ER-2004-0034, ER-  
5 2005-0436, HR-2005-0450 and ER-2007-0004.

6 **Q. Please explain this method.**

7 A. A lead/lag study determines the amount of cash that is necessary on a day-to-day basis to  
8 provide energy services to customers. A lead/lag study analyzes the cash flows related to the  
9 payments received from its customers for the provision of electric service and the  
10 disbursements made by the Company to its suppliers and vendors of goods and services  
11 necessary to provide the energy services. A lead/lag study determines the number of days  
12 the Company has to make payments after receiving goods or services from a vendor and is  
13 compared with the number of days it takes to receive payment for the energy services  
14 provided to its customers.

15 **Q. What are the sources of CWC?**

16 A. Ultimately, shareholders and ratepayers provide all sources of cash working capital.

17 **Q. How do shareholders supply CWC?**

18 A. When the Company expends funds to pay for an expense before the ratepayers provide the  
19 cash through rates, the shareholders are the source of the funds. This cash represents a  
20 portion of the shareholders' total investment in the Company. The shareholders are  
21 compensated for the CWC funds they provided by the inclusion of these funds in rate base.  
22 By including these funds in rate base, the shareholders earn a return on the funds they have  
23 invested.



1 **Q. How do ratepayers provide CWC?**

2 A. Ratepayers supply CWC when they pay for energy services received before the Company  
3 pays expenses incurred to provide that service. Ratepayers are compensated for the CWC  
4 that they provide by reducing rate base by the amount of CWC the ratepayers provide.

5 **Q. How is the amount of CWC provided by both the ratepayers and shareholders  
6 generally determined?**

7 A. A lead/lag study is performed.

8 **Q. How are lead/lag study results interpreted?**

9 A. A positive CWC requirement indicates that, in the aggregate, the shareholders provided the  
10 CWC for the test year. This means that, on average, the Company paid the expenses  
11 incurred to provide the energy service to the ratepayers before the ratepayers paid the  
12 Company for the provision of utility service. A negative requirement indicates that, in  
13 aggregate, the ratepayers provided the CWC during the test year. This means that, on  
14 average, the ratepayers paid for their electric service before the utility paid the expense  
15 incurred to provide those services.

16 **Q. Was there a lead/lag study prepared for the Company for this rate case proceeding?**

17 A. Yes. The computed lead / lag days in this rate filing have been updated with 2007 data.

18 **Q. What was the result of the lead / lag update?**

19 A. The results of the lead / lag study demonstrate that in the aggregate shareholders have  
20 supplied funds to the utility to pay for expenses prior to the ratepayers having paid the  
21 Company for the provision of utility service. As such, an increase to rate base has been  
22 included in this rate case filing.

23 **Q. Where can the CWC calculation be found?**

1 A. Please see Schedule RAK – 5 attached to my testimony which details the calculation of the  
2 CWC rate base addition for GMO Steam. Included within the calculation are the computed  
3 lead / lag days which were updated for the 2007 test year.

4 **Q. Please explain the components of the calculation of CWC that appears on Schedule**  
5 **RAK- 5.**

6 A. The components of the calculation are as follows:

- 7 1) Column A (Account Description) lists the types of significant cash expenditures that the  
8 Company pays on a day-to-day basis.
- 9 2) Column B (Test Year Expense) provides the amount of annualized expense included in  
10 the cost of service. It shows the dollars associated with the items listed in column A on  
11 an adjusted Missouri jurisdictional basis.
- 12 3) Column C (Revenue Lag) indicates the number of days between the midpoint of the  
13 provision of service by the Company and the payment for the service by the ratepayer.
- 14 4) Column D (Expense Lead) indicates the number of days between the receipt of and the  
15 payment for the goods and services (i.e. cash expenditures) used to provide service to the  
16 ratepayers.
- 17 5) Column E (Net Lag) results from the subtraction of the Expense Lead (column D) from  
18 the Revenue Lag (column C).
- 19 6) Column F (Factor) expresses the CWC lag in days as a fraction of the total days in the  
20 test year. This is accomplished by dividing the Net Lags in column E by 365 days.
- 21 7) Column G (CWC Requirement) reflects the average amount of cash necessary to provide  
22 service to the ratepayer. This is computed by multiplying the Test Year Expenses  
23 (column B) by the CWC Factor (column F).

1 CS-5 PAYROLL

2 **Q. Please explain the payroll annualization adjustment.**

3 A. The payroll annualization adjustment includes employee headcount and wage levels that  
4 are known and measurable as of June 1, 2008.

5 **Q. Please explain how the adjustment was calculated.**

6 A. Base salaries and wages, as of June 1, 2008, were obtained for all departments directly  
7 charging the Company's jurisdiction and departments that are allocated to the Company's  
8 jurisdiction. The base salaries and wages represent the annual salaries of all applicable  
9 full-time and part-time employees.

10 **Q. Why were June 1, 2008, employee salary and wage levels selected to annualize  
11 payroll costs?**

12 A. In order to allow for proper analysis and preparation of the payroll annualization  
13 adjustment, data was required to be selected from a period in advance of the actual rate  
14 case filing. Employee data from June 1, 2008, was the most current available at the time  
15 of my analysis.

16 **Q. Please continue with your explanation of the payroll annualization adjustment.**

17 A. Base salaries and wages were added to "Other Than Standard" earnings that were  
18 actually paid during the test period January 1, 2007 to December 31, 2007, resulting in  
19 total payroll before allocations.

20 **Q. What are examples of "Other Than Standard" earnings?**

21 A. "Other Than Standard" earnings categorize labor costs that are price extras on an employee's  
22 standard pay. Examples include shift differential, overtime and call out pay.

23 **Q. Please continue with your explanation.**

1 A. In addition, departmental payroll was analyzed to identify any direct charge-ins or charge-  
2 outs to other departments. Payroll amounts were then directly assigned to the GMO  
3 jurisdiction where possible. When it was not possible to directly assign these costs, cost  
4 assignments were made based upon December 2007 corporate cost allocation factors. In  
5 addition, merit increases effective through March 31, 2009 that were anticipated as of the  
6 June 1, 2008 payroll analysis were included for each union and non-union employee.  
7 Finally, all open actively recruited positions at June 1, 2008 provided by human resources  
8 were included. The resulting amount is the total payroll annualization for the Company's  
9 jurisdiction. The appropriate steam utility allocation factors were applied to these totals.

10 **Q. Please continue with your explanation of the payroll annualization calculation.**

11 A. Per book payroll amounts recorded as of December 31, 2007 were subtracted from this  
12 annualized amount to arrive at the payroll annualization adjustment. At this point,  
13 amounts were subtracted that represent the amount of payroll costs that will be  
14 capitalized or recorded to below the line accounts. The payroll annualization adjustment  
15 was then spread to FERC accounts based on the percentage of test year per book payroll  
16 costs by FERC account to total payroll costs.

17 **Q. What were the payroll annualization adjustments for GMO Steam?**

18 A. Please see Schedule RAK-4 for the adjustment totals.

19 **CS-11 BENEFITS SUMMARY SCHEDULE**

20 **Q. Please explain the Benefits Summary Schedule.**

21 A. This schedule is the accumulation of several benefits adjustments included in this rate  
22 case filing. They include the following adjustments which are explained in more detail  
23 later in my testimony:

- 1 • CS-12 Medical, Dental and Vision;
- 2 • CS-13 Pension Expense;
- 3 • CS-13a Pension Costs - ERISA Tracker Amortization;
- 4 • CS-14 Statement of Financial Accounting Standards (“SFAS”) 106 Other Post
- 5 Employment Benefits (“OPEB”);
- 6 • CS-15 401(k); and
- 7 • CS-18 Supplemental Executive Retirement Plan (“SERP”).

8 **CS-12 BENEFITS – MEDICAL, DENTAL AND VISION**

9 **Q. Please explain the adjustment made to the medical, dental and vision benefits.**

10 A. The medical, dental and vision benefits adjustment is broken into two parts: self-insured  
11 coverage and premium-based coverage.

12 **Q. Please explain the calculation for premium based coverage.**

13 A. To calculate the annualized accrual for the premium based insurance, the April 2008  
14 elections report was obtained from our outside administrator, Hewitt. The annualized  
15 accrual, net of employee contributions, was multiplied by the percentage of premium  
16 based coverage from the per book amounts to determine the annualized premium based  
17 coverage level. This amount was compared to the per book amount associated with  
18 premium based coverage. The capitalization ratio and appropriate utility allocator were  
19 applied to the resulting amount to arrive at the annualized level impacting operation and  
20 maintenance expenses.

21 **Q. Please explain the self-insured portion of medical, dental and vision benefits.**

22 A. To calculate the self-insured portion of the claim payments, the total of actual claims paid  
23 during the test year 2007 was obtained. In addition, any claims incurred in 2007 but not

1 yet paid were included. This total was decreased by the percentage of employee  
2 contributions calculated from the per book amounts to determine the employer portion of  
3 actual claims paid. The resulting amount was deducted from the employer portion of  
4 actual claims paid for 2007 to compute the annualized level of medical, dental and vision  
5 expense. The per book medical, dental and vision costs covering self insured claims was  
6 then subtracted from the annualized level to arrive at the adjustment amount. The  
7 capitalization ratio and appropriate utility allocator were then applied to the adjustment  
8 amount.

9 **Q. What amount should be used in the true-up of this case to calculate medical, dental  
10 and vision costs?**

11 A. It is anticipated that prior to the true-up date in this case, the Company will make a  
12 contribution to the Voluntary Employee Beneficiary Association (“VEBA”) trust  
13 covering all health and welfare plans for claims incurred but not reported. As such, the  
14 Company medical benefit cost will be on a premium basis to the trust. The amount the  
15 company contributes will be based on actuarial valuations using prior claim experience  
16 and investment income and interest. It is anticipated that at the time of the true-up in this  
17 case, April 30, 2009, all medical, dental and vision plan costs will be funded through the  
18 VEBA. As such, the true-up calculations should reflect these premium based costs into  
19 the trust.

20 **Q. What were the medical, dental, and vision adjustments for GMO Steam?**

21 A. Please see Schedule RAK-4 for the adjustment totals.

22 **CS-13 BENEFITS – PENSION**

23 **Q. Please explain how Adjustment No. CS-13 Pension Expense was calculated.**

1 A. Included as part of the Unanimous Stipulation and Agreement in Case No. HR-2004-  
2 0024, Staff and Company agreed to a five-year average of actual contributions to the  
3 pension plan, either directly assigned or allocated to the Company. The pension costs for  
4 this rate case filing have been computed in a manner consistent with the Unanimous  
5 Stipulation and Agreement mentioned above. The five-year average includes directly  
6 assigned contributions made in the period from 2004 to 2008. The last pension  
7 contribution assigned to the Company was made in 2005. The five-year average was  
8 compared to the per book expense amount recorded during the test year. The  
9 capitalization rate was applied to the resulting amount followed by the appropriate utility  
10 factor.

11 **Q. What were the pension expense adjustments for GMO Steam?**

12 A. Please see Schedule RAK-4 for the adjustment totals.

13 **CS-13a BENEFITS - ERISA TRACKER AMORTIZATION**

14 **Q. Please explain the ERISA minimum tracker amortization adjustment.**

15 A. As discussed above under the stated Unanimous Stipulation and Agreement in case No.  
16 HR-2004-0024 (Page 9):

17 *Company is authorized to reflect pension cost equal to this provision for the*  
18 *ERISA minimum and record the difference between the ERISA minimum and the*  
19 *annual provision for pension cost as a regulatory asset or liability. This*  
20 *regulatory asset and/or liability is intended to track the difference between the*  
21 *provision for the ERISA minimum contribution included in cost of service in this*  
22 *case, and the Company's actual ERISA minimum contributions made after the*  
23 *effective date of rates established in this case. The regulatory asset and/or*  
24 *liability will be included in rate base in the Company's next rate case and*  
25 *amortized over a five (5) year period.*  
26

1 As such, the Company has collected in rates certain amounts for pension costs during the  
2 test period. These collections are compared to actual contributions. The difference  
3 between these amounts is treated as a regulatory asset or liability.

4 **Q. What period of time did the Unanimous Stipulation and Agreement require**  
5 **amounts to be amortized?**

6 A. The Stipulation and Agreement provided for a five-year amortization.

7 **Q. Did the company comply with the Unanimous Stipulation and Agreement in this**  
8 **rate case filing?**

9 A. Yes. The Company has been recording the collections as a regulatory liability.

10 **Q. At March 31, 2009, will the tracking mechanism described above be a regulatory**  
11 **asset or liability?**

12 A. A regulatory liability will exist and is reflected in rate base offset adjustment RBO-100.

13 **Q. How were the ERISA tracker amortization adjustments calculated?**

14 A. The regulatory liability balance as of March 31, 2009 was obtained and amortized over  
15 five years. The capitalization rate was applied. This amortization was a reduction to  
16 GMO Steam's cost of service.

17 **Q. What was the ERISA tracker amortization adjustment for GMO Steam?**

18 A. Please see Schedule RAK-4 for the adjustment total.

19 **CS-14 BENEFITS – OTHER POST EMPLOYMENT BENEFITS (“OPEB”)**

20 **Q. Please explain the components of the SFAS 106 Other Post-Employment Benefits**  
21 **adjustment.**



1 A. The annual OPEB expense under the SFAS 106 calculation is provided by our actuary  
2 Hewitt. The calculation of post retirement benefit cost includes the following  
3 components:

- 4 • Service cost;
- 5 • Interest cost;
- 6 • Expected return on assets;
- 7 • Prior service cost amortization;
- 8 • Transition obligation amortization;
- 9 • Gain / loss amortization; and
- 10 • Regulatory adjustment.

11 These components are defined as follows: The employee service costs are defined as the  
12 estimated costs of benefits paid in the future, discounted to the present year. The interest  
13 cost is the increase in the projected benefit obligation due to the passage of time. The  
14 expected return on assets represents the increase in funds from interest, dividends, and  
15 realized and unrealized changes in the fair market value of the plan in the year. The prior  
16 service cost component results from amendments to the pension plan. The transition  
17 obligation is the under funded and unrecognized accumulated post-employment benefit  
18 obligation for all plan participants at the date SFAS 106 is adopted. Differences between  
19 the actuarial assumptions and actual experience, the gains/losses, are amortized over five  
20 years. Regulatory adjustment includes an adjustment to the Missouri jurisdictions for the  
21 prescribed method for recognizing actuarial gains and losses.

22 **Q. How were the components used in calculating the OPEB adjustment?**

1 A. The following components were added together: service cost, interest cost, amortization  
2 of transition amount, amortization of gain/loss, and amortization of prior service cost.  
3 The expected return on assets was then subtracted out of this calculation to derive the  
4 estimated OPEB expense. The direct and allocated portions of this expense were totaled  
5 to arrive at a 2008 annualized OPEB amount for the Company. In addition, a 5 year  
6 amortization of the impact of SFAS statement No. 158 required re-measurement date has  
7 been added to annual expense amounts. This is discussed further below. The difference  
8 between the 2008 annualized OPEB amount and the amount recorded on the books as of  
9 December 31, 2007, was used to calculate the adjustment. The adjustment was then  
10 multiplied by a capitalization factor to eliminate OPEB costs that are capitalized. An  
11 appropriate utility factor was applied to the resulting amount.

12 **Q. Has the Company met its obligation concerning OPEB contributions as defined in**  
13 **the Stipulation and Agreement from Case No. ER-2007-0004?**

14 A. Yes. Per the Stipulation and Agreement from Case No. ER-2007-0004 at page 3:

15 *“Aquila agrees to make at least one payment per year equal to the current year*  
16 *FAS-106 calculation.”*

17 Aquila generally funded the FAS-106 contributions at the end of the second or third  
18 quarters. A contribution was made for 2007.

19 **Q. Please explain SFAS No. 158 and its effect on the OPEB adjustment?**

20 A. This pronouncement requires the company to change its measurement date from  
21 September 30 to December 31, 2008. Therefore, an additional three months of expense  
22 will need to be reflected during the 2008 fiscal year to capture this change in  
23 measurement date. The OPEB adjustment in this rate case includes a 5 year amortization  
24 of that additional three months of FAS 106 expense required to be recorded during 2008.

1 **Q. What were the OPEB adjustments for GMO Steam?**

2 A. Please see Schedule RAK-4 for the adjustment totals.

3 **CS-15 BENEFITS – 401K**

4 **Q. Please describe the 401(k) plan.**

5 A. The Company provides its employees with an optional benefit known as the 401(k) plan.  
6 The 401(k) plan is a retirement savings program that allows employees to invest a  
7 percentage of their salary for retirement.

8 **Q. Is there a portion that is matched by the Company?**

9 A. Yes. The Company matches a portion of the funds invested by employees up to 6% of  
10 base salary and wages.

11 **Q. Describe the adjustment made to cost of service for 401(k) expense on adjustment**  
12 **CS-15.**

13 A. The 6% matched portion, called 401(k) Employer Share, was calculated by taking the  
14 401(k) balance for test year end December 31, 2007, and dividing it by the per books  
15 base pay, excluding incentives, for the same period to arrive at the overall percentage of  
16 base pay matched by the Company. This percentage was then multiplied by the  
17 annualized payroll amount as calculated in adjustment CS-5 to arrive at the annualized  
18 401(k) cost. To calculate the 401(k) adjustment, per book 401(k) amounts were deducted  
19 from the annualized 401(k) cost. This difference was then multiplied by the  
20 capitalization ratio to eliminate any costs that are capitalized from the adjustment. An  
21 appropriate utility factor was applied to the resulting amount.

22 **Q. Why is the percentage not simply six percent of base salaries and wages?**

1 A. Some employees choose not to participate in the full six percent match for various  
2 reasons, which has the effect of drawing down the overall percentage.

3 **Q. What were the 401k adjustments for GMO Steam?**

4 A. Please see Schedule RAK-4 for the adjustment totals.

5 **CS-18 BENEFITS – SUPPLEMENTAL EXECUTIVE RETIREMENT**

6 **PLAN (“SERP”)**

7 **Q. Please explain Adjustment No. CS-18, SERP.**

8 A. The SERP adjustment was completed to record the annual level of SERP payments that  
9 were paid during the test year. Adjustment No. CS-18 calculates the amount of payments  
10 made under the SERP plan for the Company during the test year, and allocates a portion  
11 of these costs to GMO Steam using the appropriate utility factor.

12 **Q. What were the SERP adjustments for GMO Steam?**

13 A. Please see Schedule RAK-4 for the adjustment totals.

14 **CS-21 INSURANCE**

15 **Q. Please explain cost of service Adjustment No. CS-21, Insurance.**

16 A. This adjustment annualizes insurance costs based on current policy premiums, which are  
17 renewed at various times throughout the year. These premiums include the following  
18 types of coverage: property, general liability, directors and officers, workers’  
19 compensation, aviation, fiduciary liability, excess liability, professional liability, crime,  
20 employment practices, auto liability, and surplus lines tax. The premiums were directly  
21 assigned to the Company based on the Company’s insurance assignment methodology  
22 developed at the beginning of 2008. Additionally, cost assignments were made based  
23 upon December 2007 corporate cost allocation factors for some of the premiums, which

1 were assigned to a corporate allocated department. The adjustment was calculated by  
2 taking the annualized direct and allocated premium costs, less the per book amount for  
3 2007. The appropriate utility factor was applied to the resulting adjustment.

4 **Q. What was the GMO Steam CS-21 Insurance adjustment?**

5 A. Please see Schedule RAK-4 for the adjustment totals.

6 **CS-30 INJURIES AND DAMAGES**

7 **Q. Please explain the costs included as injuries and damages in Adjustment No. CS-30.**

8 A. The injuries and damages (“I&D”) liability reserve FERC Account 228.2 consists of four  
9 major areas:

- 10 • General liability;
- 11 • Worker’s compensation;
- 12 • Property damage; and
- 13 • Auto liability.

14 The liability reserve houses all accrued claims expensed in FERC Account 925, I&D  
15 expense. The liability reserve is relieved when payment of I&D claims under the four  
16 categories listed above takes place.

17 **Q. Please explain how Adjustment No. CS-30, I&D expense, was calculated for GMO’s  
18 Steam operations for purposes of this rate proceeding.**

19 A. First, a three-year payout history was obtained from FERC Account 228.2 that shows the  
20 payout history for I&D. From this payout history, a three-year average was calculated on  
21 actual claims paid for the 12 months ended December 31, 2005, 2006, and 2007.

1 **Q. Were there any adjustments made to actual electric paid claims for the test year**  
2 **ended December 31, 2007, that has been included in the three-year average**  
3 **calculation?**

4 A. No. After calculating the Company's three-year average claim payout, an appropriate utility  
5 allocation factor was applied to the three-year average to determine GMO Steam's  
6 annualized level of I&D expense.

7 **Q. Please continue explaining how the I&D expense adjustment was completed.**

8 A. The annualized level of I&D expense for GMO's Steam operations was then compared to  
9 the steam claim accruals recorded in FERC account 925000 during the test year ended  
10 December 31, 2007.

11 **Q. What was the amount of the GMO Steam Adjustment No. 30, I&D expense for this**  
12 **rate case proceeding?**

13 A. Please refer to Schedule RAK-4 attached to my direct testimony for the adjustment totals.

14 **CS-40 PSC ASSESSMENT**

15 **Q. Please explain the purpose of Adjustment No. CS-40.**

16 A. Adjustment No. CS-40 annualizes the Commission's assessment for the fiscal year  
17 beginning July 1, 2008 through June 30, 2009.

18 **Q. How was the annualized assessment computed?**

19 A. The actual assessment for the fiscal year beginning July 1, 2008 was obtained from the  
20 Commission's letter of assessment notice. The total steam assessment, as stated on the  
21 letter of assessment notice, was compared to per books data for the test year. Since it is  
22 known that this cost will be incurred, an adjustment was made for the difference to

1 account for the increase over the prior year's assessment. Current assessments are known  
2 and measurable and should be reflected in the rates established in this case.

3 **Q. What is the adjustment amount in this case for the PSC Assessment?**

4 A. Please see Schedule RAK-4 for the adjustment totals.

5 **CS-50 RATE CASE EXPENSE**

6 **Q. Please explain Adjustment No. CS-50.**

7 A. This adjustment is an estimate of rate case expense that GMO Steam expects to incur during  
8 this rate proceeding. The estimate is based on the level of actual expenses incurred in the  
9 Company's three prior rate cases and expenses anticipated in the current case. The total  
10 Company's estimate was allocated to steam operations using an appropriate utility allocation  
11 factor. The estimated amount is amortized over a two year period.

12 **Q. What was the total Rate Case Expense adjustment for GMO Steam?**

13 A. Please see Schedule RAK-4 for the adjustment totals.

14 **CS-83 MISCELLANEOUS TEST YEAR ADJUSTMENTS**

15 **Q. Please explain Adjustment No. CS-83, Miscellaneous Test Year Adjustments.**

16 A. Adjustment No. CS-83 includes miscellaneous adjustments to eliminate certain  
17 transactions recorded during the test year from the cost of service filing in this rate case.  
18 An appropriate utility factor was applied to each adjustment amount. The following is a  
19 detailed listing of each adjustment:

- 20 • **Discretionary Bonuses:** Includes the elimination of certain bonus transactions.  
21 The bonus transactions that were eliminated relate to merger activity, asset sales,  
22 and California litigation that should not be charged to regulated operations.

- 1 • **Duplicate Payment Coding:** Includes the elimination of a duplicate payment  
2 that was reversed during the test year to FERC Account 930.2, but should have  
3 been reversed to a below-the-line account.
- 4 • **750 Building Lease Payments:** Includes the elimination of any lease payments  
5 that were made during the test year for the 750 building in Raytown. This lease  
6 was terminated during the test year, and therefore, no longer a part of ongoing  
7 operations.
- 8 • **Allocations Review Process:** Includes the elimination of any transactions that  
9 were discovered during the corporate cost allocations analysis that should not be  
10 charged to regulated operations. This review is conducted of retained costs held  
11 at the corporate level, as well as charges allocated to regulated operations.

12 **Q. What was the amount of Adjustment No. CS-83, Miscellaneous Test Year**  
13 **Adjustments for GMO Steam?**

14 A. Please see Schedule RAK-4 for the adjustment total.

#### 15 **CS-85 PAYROLL TAXES**

16 **Q. What types of payroll taxes are included in the payroll tax adjustment, Adjustment**  
17 **No. CS-85?**

18 A. The payroll tax adjustment includes Social Security Tax (“SS”) and Medicare taxes.

19 **Q. How was the payroll tax adjustment calculated?**

#### 20 **SS**

21 A. During 2008, the first \$102,000 of an employee’s compensation will be taxed at the SS  
22 tax rate of 6.2%. Therefore, SS payroll tax ratios had to be computed and applied to the  
23 total annualized payroll. The SS ratios were computed by using the salary and wage



1 database as of June 1, 2008. All salary and wage costs up to a limit of \$102,000 were  
2 totaled and divided by the total salary and wage costs to obtain the SS payroll tax ratios.  
3 The ratios computed were applied to the annualized payroll amounts to compute an  
4 annualized SS tax amount. The SS tax adjustments are the differences between the  
5 annualized SS taxes and the per book test year SS taxes. The capitalization rate was then  
6 applied to the adjustment total to eliminate that portion of the SS tax adjustment that  
7 pertains to non-operating expenses. In addition, the appropriate utility factors were  
8 applied to the resulting adjustment.

### 9 MEDICARE

10 A. Unlike the SS tax rate, the Medicare tax rate of 1.45% does not contain a payroll dollar  
11 ceiling. Therefore, the 1.45% was directly applied to total annualized payroll. The result  
12 was compared to the Medicare tax per book amount for the 12 months ending December  
13 31, 2007. The difference between the annualized level of Medicare tax and the per book  
14 Medicare tax represents the adjustment to Medicare taxes. The capitalization ratio is  
15 applied to the adjustment amount to exclude the payroll taxes that are capitalized.  
16 Finally, the appropriate utility factor amount was applied to the result.

17 **Q. What was the Payroll Tax adjustment for GMO Steam?**

18 A. Please see Schedule RAK-4 for the adjustment totals.

### 19 CS-90 PROPERTY TAXES

20 **Q. Please describe Adjustment No. CS-90, Property Taxes.**

21 A. This adjustment annualizes property tax expense associated with plant-in-service as of December  
22 31, 2007. The amount of property tax expense attributable to steam operations for the test year  
23 2007 was obtained from property tax records and included in this rate case filing.

24 **Q. What was the total property tax expense adjustment for GMO Steam?**

1 A. Please see Schedule RAK-4 for the adjustment totals.

2 **CS-95 DEPRECIATION EXPENSE**

3 **Q. Please explain the CS-95, depreciation expense adjustment.**

4 A. This adjustment computes the annualized depreciation expense on the GMO Steam plant in  
5 service for both direct and allocated plant at March 31, 2009. Earlier in my testimony, I  
6 discussed the definition of direct and allocated plant.

7 **Q. How was the plant-in-service computed for the depreciation calculation?**

8 A. The plant-in-service for the depreciation calculation is calculated using the adjusted ending  
9 balance of electric gross plant, both direct and allocated, at December 31, 2007 plus any  
10 projected capital additions between January 1, 2008 and March 31, 2009.

11 **Q. What depreciation rates are used in your depreciation calculation?**

12 A. The rates used for depreciation annualization calculations for the Company's electric direct  
13 plant and for corporate allocated assets are the depreciation rates in the last steam rate case,  
14 Case No. HR-2005-0450.

15 **Q. What were the total depreciation expenses included in this rate filing?**

16 A. Please see Schedule RAK-4 for the adjustment totals.

17 **TAX-1 CURRENT AND DEFERRED INCOME TAX CALCULATION**

18 **Q. Please explain the current income tax expense adjustments calculated in Schedule 8**  
19 **of GMO's Steam revenue requirement models.**

20 A. Certain adjustments are made to net income to compute the current provision for income  
21 tax expense. These adjustments begin by taking adjusted net income and applying  
22 various adjustments which are either added to or subtracted from net income to obtain net  
23 taxable income for ratemaking. The adjustments are the result of various book versus tax

1 timing differences and their implementation under separate tax methods: flow-through  
2 versus normalization. The resulting net taxable income for ratemaking is then multiplied  
3 by the appropriate federal and state tax rates to obtain the current provision for income  
4 taxes. A federal tax rate of 35 percent and a state income tax rate of 6.25 percent were  
5 used in this calculation. The difference between the calculated current income tax  
6 provision and the per book income tax provision is the current income tax provision  
7 adjustment.

8 **Q. Please describe the adjustments to net income before taxes.**

9 A. The following are adjustments made to net income before taxes:

- 10 • Book depreciation expense is added to net income. This amount is added back to net  
11 income to avoid deducting depreciation amounts for income tax purposes. Tax  
12 straight-line depreciation replaces book depreciation as a deduction from income for  
13 the income tax calculation.
- 14 • Interest expense is subtracted from net income before taxes. It is calculated by  
15 multiplying net rate base by the weighted average cost of debt proposed in this  
16 proceeding. This interest synchronization technique ensures the interest deduction in  
17 the income tax expense calculation equals the interest expense provided in rates.
- 18 • Tax straight-line depreciation represents book depreciation expense restated to reflect  
19 the tax basis of plant in service. No deferred taxes are provided for tax straight-line  
20 depreciation; thus it can be considered a flow through item.

21 **Q. Please explain how the tax straight-line depreciation amount was computed in this**  
22 **rate case filing for GMO Steam.**

1 A. As stated in Appendix E of the Unanimous Stipulation and Agreement in Case Nos. ER-  
2 2004-0034 and HR-2004-0024, the Company agreed to complete a formal tax study to  
3 develop the best methodology for computing regulated income tax expense for Missouri  
4 Public Service jurisdiction. In particular, the study is to develop a mutually agreeable  
5 basis for computing a tax deduction associated with depreciation expense for ratemaking  
6 purposes. As such, the Company has agreed to the following:

7 *The Staff method used to calculate the tax deduction for book depreciation in the*  
8 *calculation of regulated income tax expense in this case will continue to be used*  
9 *in future rate cases until this study is completed or another method is mutually*  
10 *agreed upon.*

11 As such, the method proposed by Staff in Case No. ER-2004-0034 and HR-2004-0024  
12 has been used to compute the tax straight-line depreciation amount for this rate case  
13 filing.

14 **Q. What was the amount of the GMO Steam current income tax expense adjustment**  
15 **for this rate case proceeding?**

16 A. Please see Schedule RAK-4 for the adjustment totals.

17 **CAPITALIZATION RATIO**

18 **Q. What is the capitalization ratio?**

19 A. The capitalization ratio represents the portion of cost that is not operational or maintenance  
20 in nature. Among those items not considered operational are all capital and balance sheet  
21 accounts and other income/deduction “below-the-line” accounts. Since a portion of these  
22 labor dollars are capitalized, the adjustment is decreased by a factor of one minus the  
23 capitalization rate to arrive at only the portion of benefits that should be expensed in the test  
24 year. The capitalization ratio is included in various cost of service adjustments previously  
25 discussed in my testimony.

1 Q. Does this conclude your Direct Testimony?

2 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Aquila, Inc. dba             )  
KCP&L Greater Missouri Operations Company to             ) Case No. HR-2009-\_\_\_\_  
Modify Its Steam Tariffs to Effectuate a Rate Increase    )

**AFFIDAVIT OF RONALD A. KLOTE**

**STATE OF MISSOURI    )**  
                                          ) ss  
**COUNTY OF JACKSON   )**

Ronald A. Klote, being first duly sworn on his oath, states:

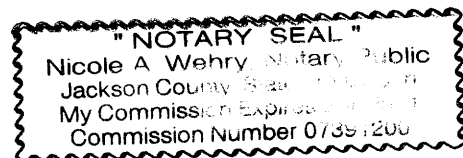
1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Regulatory Accounting.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Aquila, Inc. dba KCP&L Greater Missouri Operations Company consisting of thirty-five (35) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ronald A. Klote  
Ronald A. Klote

Subscribed and sworn before me this 5<sup>th</sup> September day of ~~August~~ 2008.

Nicole A. Wehry  
Notary Public

My commission expires: Feb 4, 2011



**GMO - Steam  
Case No. HR-  
Twelve Months Ended December 31, 2007**

**Revenue Requirement**

<b>Line</b>		<b>9.287% Return</b>
(a)	(b)	(c)
1	Net Orig Cost of Rate Base (Sch 2)	\$ 14,557,093
2	Rate of Return	<u>9.287%</u>
3	Net Operating Income Requirement	\$ 1,351,946
4	Net Income Available (Sch 7)	<u>\$ 553,147</u>
5	Additional NOIBT Needed	798,800
6	Additional Current Tax Required	<u>\$ 497,732</u>
7	Gross Revenue Requirement	<u><u>1,296,532</u></u>

**GMO - Steam  
Case No. HR-  
Twelve Months Ended December 31, 2007**

**Rate Base**

Line No.	Line Description	Amount
(a)	(b)	(c)
<b>Total Plant :</b>		
1	Total Plant in Service-L&P Only (Sch 3)	23,478,195
1a	Total Plant in Service-L&P' Share of Corp (Sch 3a)	3,622,819
	<b>Total Plant</b>	<u>27,101,014</u>
<b>Subtract from Total Plant:</b>		
2	Depr Reserve-L&P & Corp Share (Sch 5)	<u>12,556,513</u>
	<b>Total Depreciation Reserve</b>	<u>12,556,513</u>
	<b>Net (Plant in Service)</b>	<u>14,544,501</u>
<b>Add to Net Plant:</b>		
3	Cash Working Capital	101,524
4	Materials and Supplies	-
5	Prepayments	-
6	Prepayments - Pension	425,176
7	Fuel Inventory - Oil & Propane	-
8	Fuel Inventory - Coal	1,146,107
<b>Subtract from Net Plant:</b>		
9	Customer Deposits	-
10	Deferred Income Taxes	1,655,790
11	Regulatory Liability - ERISA Minimum Tracker	4,425
	<b>Total Rate Base</b>	<u><u>14,557,093</u></u>



**GMO - Steam  
Case No. HR-  
Twelve Months Ended December 31, 2007**

**Income Statement**

<b>Line No.</b>	<b>Description</b>	<b>Total Steam</b>	<b>Adjustment</b>	<b>Jurisdictional As Adjusted</b>
(a)	(b)	(c)	(d)	(e)
1	Operating Revenue	16,781,086	4,627,237	21,408,323
2	Operating & Maintenance Expenses:			
3	Production	14,697,591	3,644,610	18,342,201
4	Transmission	-	-	-
5	Distribution	193,692	5,438	199,130
6	Customer Accounting	-	-	-
7	Customer Services	-	-	-
8	Sales	-	-	-
9	A & G Expenses	1,546,709	(194,778)	1,351,931
10	Total O & M Expenses	16,437,992	3,455,270	19,893,262
11	Depreciation Expense	119,150	692,895	812,045
12	Amortization Expense	-	-	-
13	Taxes other than Income Tax	-	99,789	99,789
14	Net Operating Income before Tax	223,944	379,283	603,227
15	Income Taxes	-	50,080	50,080
16	Income Taxes Deferred	-	-	-
17	Investment Tax Credit	-	-	-
18	Total Taxes	-	50,080	50,080
19	Total Net Operating Income	223,944	329,203	553,147

**GMO - Steam  
Case No. HR-  
Description of Adjustments to Net Operating Income  
Twelve Months Ended December 31, 2007**

Adj No.	Description of Adjustment	Witness	Increase (Decrease)
(a)	(b)	(c)	(d)
R-50	<b>Annualization of Steam Revenue</b> Annualize AGP's steam (credit) revenue for the test year.	T. Rush	\$ 420,000
R-51	<b>Annualization of Steam Revenue</b> Annualize steam revenue for changes in load.	T. Rush	\$ 5,804,234
R-52	<b>Elimination of QCA Revenues</b> Elimination of QCA revenues from the test year.	T. Rush	\$ (1,596,997)
FPP-10	<b>Fuel and Purchased Power Energy</b> This adjustment annualizes fuel expense for the test year.	D. Rooney T. Nelson	\$ 3,607,690
CS-5	<b>Payroll</b> This adjustment annualizes payroll expense for the test year.	R. Klote	\$ 62,413
CS-11	<b>Benefits</b> This adjustment annualizes benefits for the test year.	R. Klote	\$ 44,231
	CS-12 - Medical, Dental & Vision		34,180
	CS-13 - Pension		(1,392)
	CS-13a - Pension Costs - Annual provision and ERISA minimum		(3,055)
	CS-14 - OPEB SFAS 106		(11,277)
	CS-15 - 401 (k)		3,110
	CS-16 - ESOP Contribution		N/A
	CS-17 - LTIP		N/A
	CS-18 - SERP		22,665
CS-21	<b>Insurance</b> This adjustment annualizes insurance for the test year.	R. Klote	\$ (3,643)
CS-30	<b>Injuries and Damages</b> This adjustment annualizes injuries and damages for the test year.	R. Klote	\$ 7,733
CS-40	<b>PSC Assessment</b> This adjustment annualizes the PSC assessment to the most current assessment received.	R. Klote	\$ 25,272
CS-50	<b>Rate Case Expense</b> This adjustment annualizes the expense related to the preparation of the rate case and amortizes it over 2 years.	R. Klote	\$ 1,288
CS-78	<b>Merger Effects</b> This adjustment adjusts test year expenses for merger effects.	D. Ives	\$ (285,480)
CS-83	<b>Miscellaneous Test Year Adjustment</b> This adjustment eliminates miscellaneous expenses in the test year.	R. Klote	\$ (4,234)
CS-85	<b>Payroll Taxes</b> This adjustment annualizes FICA and Medicare tax expense for the test year.	R. Klote	\$ 63,662
CS-90	<b>Property Taxes</b>	R. Klote	\$ 36,127

**GMO - Steam  
Case No. HR-  
Description of Adjustments to Net Operating Income  
Twelve Months Ended December 31, 2007**

<b>Adj No.</b>	<b>Description of Adjustment</b>	<b>Witness</b>	<b>Increase (Decrease)</b>
(a)	(b)	(c)	(d)
	This adjustment annualizes property taxes for the test year.		
CS-95	<b>Depreciation</b> This adjustment annualizes depreciation expense for plant balances as adjusted.	R. Klote	\$ 692,895
TAX-1	<b>Current Income Tax Expense</b> This adjustment annualizes the current income tax based on adjusted net operating income.	R. Klote	\$ 50,080
TAX-1	<b>Deferred Income Tax Expense</b> This adjustment annualizes deferred income tax associated with tax straight-line vs. tax timing differences.	R. Klote	\$ -

**GMO - Steam**  
**Cash Working Capital - Schedule 5**  
**TYE 12/31/07; Update (K&M) TBD; True-up 03/31/09**

Line #	Account Description (a)	W/P Ref	Test Year Expenses (b)	Revenue Lag (c)	Expense Lead (d)	Net (Lead)/Lag (C) - (D) (e)	Factor (Col E/365) (f)	CWC Req (B) X (F) (g)
<b><u>Operations &amp; Maintenance Expense</u></b>								
1	Cash Vouchers	diff	2,930,803	39.1751	45.6250	(6.4499)	(0.01767)	(51,790)
2	Federal Income Taxes Withheld		190,302	39.1751	12.5000	26.6751	0.07308	13,908
3	State Income Taxes Withheld		55,894	39.1751	12.5000	26.6751	0.07308	4,085
4	FICA Taxes Withheld - Employee	CS-85	70,696	39.1751	12.5000	26.6751	0.07308	5,167
5	Net Payroll	CS-5	542,909	39.1751	14.0000	25.1751	0.06897	37,446
6	Accrued Vacation		12,939	39.1751	365.0000	(325.8249)	(0.89267)	(11,550)
7	Purchased Gas and Oil	FPP-10	10,483,497	39.1751	39.8343	(0.6592)	(0.00181)	(18,933)
8	Injuries and Damages	CS-30	28,504	39.1751	1,122.8350	(1,083.6599)	(2.96893)	(84,626)
9	Purchased Power	Schedule 7	0	39.1751	34.5000	4.6751	0.01281	0
10	Lake Road Coal & Freight	FPP-10	5,577,719	39.1751	20.3725	18.8026	0.05151	287,330
<b>Total Operation &amp; Maintenance Expense</b>			<b>19,893,262</b>					<b>181,035</b>
11	<b>Interest Expense</b>	Sch 8	505,335	39.1751	92.0000	(52.8249)	(0.14473)	(73,135)
<b><u>Taxes other than Income Taxes</u></b>								
12	Ad Valorem/Property Taxes	Sch 7, AC 408	36,127	39.1751	182.0742	(142.8991)	(0.39150)	(14,144)
13	FICA Taxes - Employer's	CS-85	70,696	39.1751	12.5000	26.6751	0.07308	5,167
14	Unemployment Taxes (FUTA & SUTA)	CS-85	4,056	39.1751	76.3750	(37.1999)	(0.10192)	(413)
15	Corporate Franchise Taxes		11,933	39.1751	(76.0000)	115.1751	0.31555	3,766
16	City Franchise Taxes		298,121	39.1751	40.2083	(1.0332)	(0.00283)	(844)
17	Sales Taxes	ST-1	0	39.1751	35.2000	3.9751	0.01089	0
<b>Total Taxes other than Income Taxes</b>			<b>420,933</b>					<b>(6,469)</b>
18	Current Income Taxes-Federal	Sch 8	43,279	39.1751	38.5000	0.6751	0.00185	80
19	Current Income Taxes-State	Sch 8	6,801	39.1751	38.5000	0.6751	0.00185	13
<b>Total Cash Working Capital Requirement</b>			<b>20,869,610</b>					<b>101,524</b>