Exhibit No.:	
Issues:	*Hawthorn 5 AFDC and Depreciation Expense, Lobbying Expenses, Cash Working Capital and EEI*
Witness:	*Phillip K. Williams, C.P.A., C.I.A.*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2006-0314*
Date Testimony Prepared:	*October 6, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

PHILLIP K. WILLIAMS, C.P.A., C.I.A.

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
February 2004

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

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan.)	Case No. ER-2006-0314

AFFIDAVIT OF PHILLIP K. WILLIAMS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phillip K. Williams, 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 38 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.

Phillip K. Williams

Phillip K. Williams

Subscribed and sworn to before me this 3rd day of October 2006

NOTARY PUBLIC STATE OF MISSOURI NOTARY SEAL

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

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SURREBUTTAL TESTIMONY

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PHILLIP K. WILLIAMS, C.P.A., C.I.A.

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Q. Please state your name and business address.

A. My name is Phillip K. Williams. My business address is Missouri Public Service Commission, Fletcher Daniels State Office Building, Room G8, 615 East 13th Street, Kansas City, MO 64106.

Q. Are you the same Phillip K. Williams who filed direct testimony in this proceeding?

A. Yes, I am. I filed direct testimony in this case on August 8, 2006, on the issue of the proper treatment of the allowance for funds used during construction (AFDC) for the Hawthorn 5 Generating Station (Hawthorn 5) reconstruction, property taxes, cash working capital charitable contributions and Edison Electric Institute (EEI) dues.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address the rebuttal testimony filed by Kansas City Power and Light Company (KCPL) witness Lori Wright on the issues of Accounting Treatment of the Insurance Recoveries and Lawsuit Settlements relating to Hawthorn 5 Reconstruction, lobbying expenses, dues, charitable contributions and injuries and damages. I will also provide responsive testimony to the rebuttal testimony of KCPL witness Shannon Green, Jr. relating to property taxes.

EXECUTIVE SUMMARY

Q. Please provide a brief summary your surrebuttal testimony.

A. This surrebuttal testimony is Staff's response to Company rebuttal testimony concerning the appropriate accounting treatment of the Hawthorn 5 construction costs and the affects of the insurance recoveries and lawsuit settlements. There are two distinct concerns regarding the accounting treatment of the Hawthorn 5 plant. KCPL Witness Lori Wright believes that the Company is required to follow the FERC Uniform System of Accounts (USOA) recommendations to account for the insurance recoveries and lawsuit settlements. This testimony will show why Staff believes following the USOA guidelines are inappropriate when accounting for the rebuild of an insured plant which was destroyed. Staff has also adjusted the cost of the plant to reflect the elimination of a portion of the Allowance for Funds Used During Construction (AFDC) based upon the availability of funds which were provided through insurance recoveries.

This testimony will also address the property tax annualization and why it is inappropriate to calculate property taxes on plant which has gone in service after January 1, 2006 and taxes will not be paid on until December 31, 2007. In the case of property taxes paid to Kansas, a portion of those taxes which will be assessed on January 1, 2007, will not be paid until spring of 2008.

This testimony will also address Staff's elimination of EEI dues and why EEI dues should not be included in the cost of service.

ACCOUNTING TREATMENT OF THE INSURANCE RECOVERIES AND LAWSUIT SETTLEMENTS FOR HAWTHORN 5 RECONSTRUCTION

Q. What is the difference between the treatments that KCPL and Staff have given Hawthorn 5 reconstruction costs?

A. One difference relates to how KCPL treated the recoveries from both insurance and lawsuit settlements relating to the Hawthorn 5 reconstruction costs as an increase to the accumulated depreciation reserve. Staff believes that these recoveries should have been used to reduce plant-in-service, FERC Account 101. While Staff believes reduction to plant-in-service to be the proper accounting of the recoveries KCPL received, Staff has not made the necessary adjustments to the reserve and corresponding plant accounts to correct for this accounting. Instead, Staff has identified this problem in testimony as it relates to the impact that this treatment had on the calculation of depreciation expense for Hawthorn 5.

Q. Since Staff believes that the insurance recoveries and lawsuit settlements should have been used to reduce the plant-in-service associated with the Hawthorn 5 reconstruction costs, please provide a summary of those costs at this time.

A. The insurance proceeds and lawsuit settlements are as follows:

Insurance Proceeds	** ____________ **
Replacement Power	** __________ **
Administrative & General Costs	** __________ **
Net Insurance Proceeds	** ____________ **
Lawsuit Settlements	** _____________ **
Replacement Power	** ______________ **
Lost Sales Margin & Incr. Fuel Costs	** _____________ **

Net Lawsuit Settlements	** ____________ **
Total Net Insurance Proceeds & Lawsuit Settlements	** ___________ **

Q. Is there another difference between KCPL and Staff relating to Hawthorn 5 costs?

A. Yes. The major difference between KCPL and Staff is how the Company calculated the amount of allowance for funds used during construction (AFDC).

Q. Does the accounting treatment of the recoveries have anything to do with the AFDC issue that exists between the Company and Staff?

A. No. While the accounting would be "cleaner" if the insurance and lawsuit settlements would have been booked as a reduction to plant, this matter is unrelated to the real difference between KCPL and Staff. Regardless if the recoveries would have been reflected as a reduction to plant, the Company's decision to calculate AFDC on construction expenditures when it had monies from insurance and lawsuit settlements is simply wrong.

Q. Did Staff include both insurance recoveries and lawsuit settlements in its determination of AFDC for Hawthorn 5 reconstruction?

A. No. Staff only used the recoveries from insurance because KCPL received proceeds from its insurance policies during the period of construction. Even though it would have been appropriate to use the monies received from lawsuit settlements in the same manner as the insurance proceeds to finance the construction of Hawthorn 5, no amounts of lawsuit settlements were received until after the reconstruction was complete. Therefore, Staff's re-calculation of the AFDC for Hawthorn 5 excluded the lawsuit settlements.

Q. Has Staff made any modifications to its position since its direct filing respecting the issue of AFDC treatment for Hawthorn 5 reconstruction costs?

A. Staff has not modified the overall position it presented in its direct testimony. However, Staff has made some modification to the quantification of the AFDC adjustment identified in the direct testimony based on further discussions with the Company during the prehearing conference.

Q. What is the amount of the AFDC that Staff believes should be reflected for Hawthorn 5?

A. In my direct testimony, I provided an amount of $5,158,896 (page 46, line 6). I stated that this compared with an amount determined by KCPL of $20,640,363 (page 46, line 7). Based on further discussions with the Company Staff believes that the AFDC amount should be $7,631,286. The updated amount is based on the modifications made to the inputs of the AFDC calculation.

Q. What are the modifications to the adjustment that Staff has made since the filing of direct testimony?

A. The modifications relate to several different items: 1) an over-site in the calculation that only picked up half of the previous month's construction costs not the entire month's construction costs, 2) two number transpositions in the amount of the monthly construction costs for February and April of 2001, and 3) the half month calculation of the AFDC for the last month of construction, June, 2001. The effect on the overall adjustment that Staff has made is $2,472,390. In the direct testimony the adjustment to reduce the amount of AFDC for the Hawthorn 5 reconstruction was $15,481,466, and now Staff is proposing an adjustment of $13,009,076.

Additionally, Staff did not adjust the depreciation reserve to reflect the overstatement of the reserve as a result of Staff's recalculation of AFDC. Staff has subsequently made the adjustments to the depreciation reserve to eliminate the overstatement of the reserve. Staff has reduced the depreciation reserve by $819,062 for the overstatement associated with the restatement of the AFDC calculation.

Q. Why was the adjustment to the depreciation reserve necessary?

A. This adjustment is necessary because KCPL booked the AFDC to Hawthorn 5 plant records in June 2001 when the construction was complete. KCPL has been depreciating this asset from June 2001 to the update period in this case, which is June 2006. Five full years of depreciation have been reflected to the depreciation reserve for the full amount of AFDC determined by KCPL. Since Staff is proposing an adjustment to reduce the AFDC amount, a corresponding adjustment should have been made to reduce the depreciation reserve for AFDC that should not have been included in the Hawthorn 5 plant amounts. Staff has made the necessary adjustment to the depreciation reserve to ensure that the reduced AFDC amount does not also have an amount in the reserve that would reduce the net plant balance.

Q. Company Witness Lori Wright states in her rebuttal testimony on page 2, line 2, that "Staff witness Williams' testimony asserts on page 35, lines 17 through 19, the Company should have booked the insurance recoveries and lawsuit settlements related to the Hawthorn 5 explosion to plant-in-service as a direct offset to the cost of construction." Is this a correct statement?

A. Yes. Staff believes that the booking of the insurance recoveries and lawsuit settlements related to the Hawthorn 5 explosion would be proper and would also make the necessity for tracking those costs in future rate cases over the life of the rebuilt plant much easier for all parties. Further, by booking the insurance proceeds and the lawsuit settlements as a reduction to the cost of the plant, to calculate the appropriate depreciation the plant-in-service would not require special depreciation rates for the rebuilt plant or the necessity for separate depreciation adjustments. As currently booked the insurance proceeds and lawsuit settlements require a special depreciation rate or an adjustment to be made to eliminate the depreciation on the cost associated with the insurance proceeds and lawsuit settlements. These special depreciation rates or adjustments are necessary because the Company chose to book the insurance recoveries and lawsuit settlements to depreciation reserve instead of directly to plant. In so doing, the plant amounts shown on the books for Hawthorn 5 are overstated resulting in an overstatement of depreciation, absent these adjustments.

Q. Does KCPL recognize that Hawthorn 5 plant balances are overstated?

A. KCPL in the past has made the adjustment Staff did in this case to reduce depreciation expense relating to the Hawthorn 5 plant amounts. This adjustment was made by KCPL in the same way it was made by Staff because the plant amounts for the rebuilt power plant are overstated. In fact, Staff first learned of the need for such adjustment from the Company itself, during the 2004 earnings review of KCPL's rates performed by Staff in conjunction with the development of the Experimental Regulatory Plan. KCPL made the depreciation expense adjustment as part of the surveillance reporting process. The only reason this depreciation adjustment was necessary and is necessary currently, is because of the way in which KCPL chose to account for the insurance recoveries and lawsuit settlements as an increase to the depreciation reserve account. If the monies received for the Hawthorn 5 explosion had been booked as a reduction to plant-in-service, no adjustment would be required.

Q. Did KCPL make the depreciation adjustment for the overstated plant amounts for Hawthorn 5 in this case?

A. While the Company did not make this specific depreciation adjustment as it had done so in its surveillance reporting, to reduce depreciation expense for this plant, it did calculate a depreciation rate that attempted to generate the same depreciation expense amount as though the reduction to plant-in-service had been made. The depreciation rate to calculate the depreciation as if the adjustment was made to plant-in-service, was identified in the Experimental Regulatory Plan in Case No. EO-2005-0329.

Q. Was the depreciation rate developed by KCPL correct?

A. No. It did not result in the same amount of reduction to depreciation expense as making the adjustment. This was pointed out to KCPL and the Company recalculated a new depreciation rate that Staff has reviewed and is satisfied that it is resulting in the proper amount of reduction, at least for the present. If KCPL receives any additional insurance recoveries or lawsuit settlements, then the depreciation rate will again have to be adjusted to reflect a further overstatement of plant.

Q. Is there a possibility that the Company will receive further payments from insurance and lawsuit claims?

A. Yes. KCPL currently has a pending appeals court case outstanding that may result in a future lawsuit amount. If this happens, then the depreciation rate or the adjustment will have to be revised to reflect a further reduction to the out of pocket costs of reconstructing Hawthorn 5.

Q. Ms. Wright states on page 2, line 22, that "KCPL is obligated to comply with the UsofA, as directed by the FERC, without consideration for what the FERC did or did not take into consideration at the time the guidance was originally issued." Does Staff agree with this statement?

A. No. Company could have requested further guidance from the Federal Energy Regulatory Commission (FERC) beyond what was contained in the Uniform System of Accounts (USOA) or for a letter ruling to determine if it was possible to book the insurance proceeds and lawsuit settlements amounts as a reduction of the cost of the new plant. KCPL, when asked if it had contacted FERC regarding the proper treatment of the Hawthorn insurance recoveries and lawsuit settlements stated in response to Staff Data Request No. 452 that:** ** The former KCPL Controller, was Neil A. Roadman.

Q. Did Staff contact the FERC Staff regarding Hawthorn 5?

A. Yes. Staff arranged a conference call on July 25, 2006, with FERC auditors John Okrak and Julie Kuhns of the Regulatory Accounting Branch, Office of Enforcement, Division of Financial Regulation. Staff participating in this call was Cary Featherstone, Steve Traxler, Phillip Williams and William Harris, a former FERC auditor. Staff explained the purpose of the call and gave a brief description of the Hawthorn Unit 5 explosion and the subsequent decision of KCPL to rebuild the plant and explained that Staff was reviewing the cost of the rebuild including the calculation of AFDC. Staff asked if Ms. Kuhns and Mr. Okrak had ever encountered a situation similar to what happened at Hawthorn 5. Mr. Okrak stated that he had seen instances of equipment failures and that he had also heard in the past where some utilities had treated the proceeds from insurance recoveries as a reduction to plant-in-service directly. He indicated that in those instances, the FERC Audit Staff did not make an issue of this treatment.

Q. Ms. Wright states that KCPL is obligated to comply with the USOA as directed by FERC. Does Staff agree?

A. No. Company's can deviate from the USOA under unusual circumstances. A company may seek a waiver or a letter ruling from the FERC. Ms. Wright states on page 2, line 22, of her rebuttal testimony that "KCPL is obligated to comply with the UsofA, as directed by the FERC, without consideration for what the FERC did or did not take into consideration at the time the guidance was originally issued." While the USOA sets forth the guidelines for the proper booking of funds received from insurance proceeds, KCPL's position fails to take into consideration the highly unusual event that took place at the Hawthorn 5 generating facility. On February 17, 1999, the boiler at Hawthorn 5 exploded completely destroying that major equipment component. As identified in my direct testimony (pages 31 and 32) the generating unit was substantially reconstructed to new-like status, with the complete replacement of most of the major components of this facility. Because of the unique nature of this extraordinary event, simply following the guidance of FERC's USOA to account for all the unusual characteristics surrounding the Hawthorn 5 reconstruction does not properly address the problems associated with the accounting treatment of this massive reconstruction.

Q. Does the Commission require the regulated utilities under its jurisdiction use the USOA?

A. Yes. The Commission rules require that a company's books and records utilize the FERC USOA to segregate all of its costs, revenues and expenses relating to the provision of utility service. 4 CSR 240-20.030 Uniform System of Accounts—Electrical Corporations under section 1 states:

> Beginning January 1, 1994, every electrical corporation subject to the commission's jurisdiction shall keep all accounts in conformity with the Uniform System of Accounts Prescribed for Public Utilities and Licensees subject to the provisions of the Federal Power Act, as prescribed by the Federal Energy Regulatory Commission (FERC) and published at 18 CFR Part 101 (1992) and 1 FERC Stat. & Regs. Paragraph 15,001 and following (1992), except as otherwise provided in this rule. This uniform system of accounts provides instruction for recording financial information about electric utilities. It contains definitions, general instructions, electric plant instructions, operating expenses instructions, and accounts that comprise the balance sheet, electric plant, income, operating revenues, and operation and maintenance expenses.

Q. Does the Commission require that the USOA be used for ratemaking purposes?

A. No. While companies under the jurisdiction of the Commission are required to use USOA for financial and recordkeeping purposes, the Commission has recognized there are exceptions to using USOA for the ratemaking process. The Commission's rule 4 CSR 240-20.030(4) states:

> In prescribing this system of accounts, the commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters before the commission. This rule shall not be construed as waiving any recordkeeping requirement in effect prior to 1994.

This section of the Commission's rules indicates that the Commission is not bound by the USOA to establish rates.

Q. If the Company has to use the USOA to comply with the Commission rules then can there be instances when the Company deviates from those very rules?

A. As noted above, the Company does not have to follow the FERC USOA for ratemaking purposes to set rates in Missouri. Staff believes that the events surrounding Hawthorn 5 is such an occasion.

Staff has taken into account the circumstances surrounding expenditures considering all the facts. The circumstances relating to this case are that: 1) KCPL purchased insurance to cover reconstruction costs or the replacement cost of Hawthorn 5 should an event occur such as what happened on February 19, 1999, when the boiler exploded; 2) KCPL purchased insurance to cover up to $5 million of replacement power costs in the event of an extraordinary outage such as occurred at Hawthorn 5; 3) KCPL received other reimbursements from insurance to repair damage to other structures at the Hawthorn 5 facility; 4) KCPL could have filed with the Commission to obtain an Accounting Authority Order (AAO) to account for the extraordinary replacement power costs at the time of those extraordinary expenditures if the Company believed it was warranted; 5) KCPL was in an over earnings situation at the time of the explosion, so costs incurred by the Company resulting from the Hawthorn 5 explosion were made up either by any over earnings prior to the explosion or that occurred once the unit went back in service, in particular from the increases to off-system sales. Prior to the explosion KCPL in Case No. ER-99-313 had agreed to a rate reduction effective March 1999 as a result of over earnings.

Q. Does KCPL believe that the value of Hawthorn 5 is overstated?

A. No. At page 4, line 18, of Ms. Wright's rebuttal testimony she states that "the value of the assets placed in service related to the Hawthorn Unit 5 rebuild represents the cost to construct those assets and the insurance and lawsuit settlements were recorded in accordance with the USofA."

However, Ms. Wright does not relate all of the facts surrounding the Company's own treatment of Hawthorn 5. While the Company contends that the balance of the plant is not overstated, KCPL has agreed to a special depreciation rate in the Experimental Regulatory Plan designated as Case No. EO-2005-329. This special depreciation rate in the Experimental

Regulatory Plan for the Hawthorn 5 plant is used to adjust for the insurance proceeds and lawsuit settlement recoveries that are booked to the depreciation reserve.

The overstatement of plant for Hawthorn 5 relates to the overstatement of gross plant. The net plant (gross plant less accumulated depreciation) is stated correctly. The impact of the overstatement of gross plant is on depreciation expense, because gross plant forms the basis for the calculation of depreciation. Therefore, there is a need to either make an adjustment for the overstatement of depreciation or to decrease the overall depreciation rates for Hawthorn 5 plant.

Q. Has KCPL used reduced depreciation rates in its case for Hawthorn 5 reconstruction costs?

A. Yes. Because KCPL recognizes the overstatement of Hawthorn 5 plant balances resulting from the reconstruction of that unit, KCPL determined what it thought at the time of the Experimental Regulatory Plan to be a reduced depreciation rate. This reduced depreciation rate for those costs relating to the reconstruction is a recognition by the Company that an adjustment must be made to depreciation expense. If this reduced depreciation rate is not used then an adjustment must be made which is the approach that Staff took to address this issue. Both KCPL and Staff recognize the overstatement of depreciation expense as a direct result of the overstated plant balances.

Q. Please explain why Staff believes the value of the assets placed in service related to the Hawthorn Unit 5 reconstruction is overstated.

A. Staff believes the Hawthorn 5 plant balances are overstated for two reasons. The first reason, as previously discussed in my direct testimony and earlier in this rebuttal, the booking of both the insurance recoveries and lawsuit settlements as an increase to the depreciation reserve instead of the a reduction of plant results in the plant balance being higher, or overstated. As noted above, even KCPL recognizes this point which is why it had to use reduced depreciation rates to reflect this overstatement in plant. The second reason for the overstatement of plant for Hawthorn 5 is due to the way KCPL computed the AFDC amount reflected in its books. This is the main issue between the Company and Staff resulting in a significant difference in plant balances being recommended by the two parties.

Q. How does the first reason result in an overstated plant amount?

A. Because the insurance recoveries and lawsuit settlements were included in depreciation reserve as a credit balance, or an increase to the reserve, the monies received were essentially ignored in the plant amounts for Hawthorn 5. KCPL is correct in one aspect that net plant (the amount of plant minus the amount of depreciation reserve) is the same (see Ms. Wright's rebuttal at page 2, line 18) regardless of the approach taken of either reducing plant or increasing the depreciation reserve. However, as noted above, unless an adjustment is made, either by using a reduced depreciation rate or making a manual adjustment for depreciation expense, that expense item would be overstated because the recovered proceeds were not used to reduce plant. As noted above, while KCPL is using reduced depreciation rates in this case, the Company has in the past relied on a manual adjustment to correct for this overstatement, very similar to approach taken by Staff in this case. It is important to keep in mind that the sole reason this adjustment is necessary is because KCPL did not reduce the plant balances for the recoveries from insurance or lawsuit settlements.

Q. Does Staff agree with the reduced depreciation rate used by KCPL to reduce depreciation expense for reconstruction costs of Hawthorn 5?

A. No. Staff does not agree with the reduced depreciation rate used by KCPL for the Hawthorn 5 reconstruction costs. The depreciation rate used by the Company in this case was identified in the Experimental Regulatory Plan in Case No. EO-2005-0329. The depreciation rates in the Experimental Regulatory Plan do not account for the proper level of depreciation associated with insurance proceeds and lawsuit settlements. The rates in the Experimental Regulatory Plan result in lower depreciation, than computing this amount manually. To arrive at the proper level of depreciation expense a separate adjustment is necessary.

Q. Please explain the second reason that KCPL's plant is overstated.

A. This is by far the more critical of the two reasons. The first one can be "fixed" by an adjustment fairly easily. The second reason for the overstated Hawthorn 5 plant results in an overstatement of the revenue requirement in this case and all future cases until this matter is resolved. Because the insurance recoveries (not the lawsuit settlements) were not used to fund the construction expenditures, KCPL calculated AFDC as though no reimbursement was available. In reality, KCPL received substantial upfront payments from the insurance recoveries that eliminated the need for KCPL to finance the majority of the construction costs to rebuild Hawthorn 5. When this funding is taken into consideration, the AFDC amount is substantially reduced, resulting in a reduction to plant-in-service for the Hawthorn 5 rebuild accounts. Without this adjustment, Hawthorn 5 is overstated, resulting in an overstatement of depreciation expense and an overstatement of net plant. Ms Wright, however does not share the view that net plant is changed (see Wright rebuttal, page 2, line 18).

END OF THE OVERSTATMENT OF PLANT REPEAT

Q. By what amount has Staff reduced the AFDC for Hawthorn 5?

A. Staff has reduced the amount of AFDC to eliminate a return on proceeds that was calculated by KCPL on the insurance received. Staff reduced the amount of AFDC from the $20.64 million calculated by KCPL to $7.63 million. This AFDC amount was determined by considering the insurance amounts received for the reconstruction of the power plant. The total recoveries were reduced for amounts of insurance received of $5 million associated with replacement power and an additional $2.219 million of cost described by KCPL as administrative and general cost offsets. These costs were incurred from the time of explosion through the rebuild of Hawthorn Unit 5. These costs were not considered by Staff as capital expenditures like the reconstruction of Hawthorn 5 costs.

Q. Ms. Wright states on page 2, line 14 through 19, "Recording these proceeds as a credit to construction (reduction of gross plant) as recommended by Staff would have resulted in an understatement of allowance for funds used during construction ("AFUDC"), gross plant, depreciation expense and accumulated depreciation." Does Staff agree with this statement?

A. No. The AFDC, plant-in-service, depreciation expense and accumulated depreciation reserve would not have been under recorded as Ms. Wright states. The Company would have recorded in plant the cost of the rebuild of Hawthorn 5 that was not covered by the insurance proceeds associated with the explosion and would only have calculated AFDC on the balance of plant that was not recovered from the insurance proceeds. Therefore, it is Staff's belief that the books and records of KCPL should be corrected to reflect no allowance of AFDC on the insurance proceeds received by KCPL. KCPL's customers have paid in rates the premiums associated with casualty insurance that the Company carries on its generating facilities such as Hawthorn 5. Once received by KCPL, these monies were available to fund the reconstruction of this generating unit. KCPL's customers should not be required to pay carrying cost (financing costs) for the funds used during construction that were covered by insurance proceeds. These monies were received by KCPL specifically for rebuilding the power plant, including the capital costs of the rebuild. These monies were not to cover other costs incurred by the Company during the period of reconstruction.

Q. Ms. Wright further states on page 3, line 21 to page 4, line 1 that:

> Staff's analysis omits several important factors in its cash flow considerations. The two most glaring omissions are that the Company spent approximately $162 million in un-reimbursed purchased power from the time Hawthorn Unit 5 went down until the rebuild in-service date in June 2001 and approximately $10 million on cost of removal.

Please explain why Staff has not taken those into consideration in Staff's analysis?

A. Staff reviewed the books and records of KCPL and responses to data requests and determined that the Company had insurance in the amount of up to $5 million to cover replacement power. This was a management decision prior to the explosion as to the proper level of insurance to carry concerning the need and the value of replacement power. Further, Staff determined that the Company had the right, during the time when KCPL was rebuilding the plant and was buying replacement power, to apply with this Commission concerning a need for an AAO. The Company made a determination not to request an AAO to defer these costs and consider them for future recovery. To suggest, as Ms. Wright has done in her rebuttal testimony (page 3, line 21), that the cash flow impacts of the amounts expended for replacement power not covered by insurance and cost of removal of the destroyed equipment at Hawthorn 5 should be considered in the AFDC analysis is simply wrong. Without authorization from the Commission, KCPL is not able to defer amounts of this magnitude.

Any consideration of these costs is long past the appropriate time frame. To do otherwise would be nothing short of retroactive ratemaking, i.e., the recovery, or attempted recovery, of costs from prior periods, in this situation from the years 1999 to 2001.

The attempt by KCPL to link the under recovery of the costs of replacement power and cost of removal and to ignore the insurance proceeds received prior to and during construction is inconsistent and inappropriate. There in not a connection between these events. The AFDC issue relates to the proper determination of costs to reconstruct Hawthorn 5 including the costs to finance the construction. KCPL had a substantial amount of the money from insurance to fund the construction activities and those funds should have been used for that purpose. On the other hand, the cash needed to fund the replacement power was an operating expense item, not a capital expenditure. Operating costs are presumed to be recovered in rates. If rates were not adequate to recover those costs then KCPL should have requested an AAO.

Therefore, what the Company has done through its calculation of AFDC is charge the ratepayer a financing charge for the purchase of replacement power during the time that Hawthorn 5 was out of service. This is a form of retroactive ratemaking that can be seen in Ms Wrights' assertion that Staff omits several important factors in its cash flow analysis.

Q. Company witness Ms. Wright stated that one of Staff's most glaring omissions was the failure to recognize that KCPL spent "approximately $10 million on cost of removal." Did Staff fail to consider the $10 million in cost of removal?

A. No. Staff was fully aware of the $10 million in cost of removal associated with the Hawthorn 5 destruction and subsequent rebuild project. Staff did not reflect the cost of removal in the analysis to determine the amount of AFDC that should be allowed in the plant-in-service balances of the rebuilt Hawthorn 5. Generally cost of removal is incurred when a utility property is retired and removed from service or, in case of the Hawthorn 5, when the plant is destroyed. Generally, removing property from service causes the utility to incur costs to physically dismantle, abandon, tear down, or otherwise remove the property from the plant sites. Salvage is the proceeds received from the residual value or scrap value that some property has when it is dismantled and removed from utility service. After a piece of property is dismantled or removed from service, utilities can in some instances sell or receive some value for the property that is no longer in use. Typically, removal costs exceed salvage value, resulting in a positive net expense to the utility. The net effect of cost of removal and salvage is normally included in Staff's determination of overall revenue requirement in a rate case. Staff believes that the depreciation rates collected over the life of Hawthorn 5 built in the late 1960's included an amount for cost of removal, therefore it would be inappropriate to include cost of removal in an analysis of the cost to rebuild the Hawthorn Unit 5 plant. This would allow the Company the benefit of collecting AFDC on the value of the cost of removal which has previously been recovered in rates from ratepayers.

Q. You stated earlier that KCPL was in an over earnings situation at the time of the Hawthorn 5 explosion. What did you mean by this statement?

A. At the time of the February 1999 explosion at Hawthorn 5, Staff was conducting an earnings review of the Company. In fact, KCPL agreed to a $15 million rate reduction in Case No. ER-99-313, approved by the Commission with an effective date of April 13, 1999, for its Order Denying Intervention And Approving Stipulation and Agreement. KCPL had very good earnings through much of the 1990s, and in fact, agreed to reduce rates in Case No. ER-94-197 by $12.5 million, and by two additional rate reductions resulting in Case No. EO-94-199 of $9 million and $11 million effective July 3, 1996, and October 7, 1997, respectfully.

According to the surveillance reports from KCPL during the 1990s, the Company had the following returns for its regulated Missouri operations:

	Return On Equity	Return On Equity	
12-Months Ended	Total Company	Mo. Juris.	
Dec. 31, 2005	N/A	** ________**	(A)
Dec. 31, 2004	N/A	** ________ **	
Dec. 31, 2003	N/A	** ________ **	
Dec. 31, 2002	N/A	** ________ **	
Dec. 31, 2001	N/A	** ________ **	
Dec. 31, 2000	N/A	** _______ **	
Dec. 31, 1999	** ________ **	** ________ **	
Dec. 31, 1998	** ________ **	** ________ **	
Dec. 31, 1997	** ________ **	** ________ **	
N/A = Not Available			
(A) Company manipulated formula			

Q. Did KCPL over earn during the time of reconstruction of Hawthorn 5?

A. Not likely. Since the Company incurred additional costs relating to the rebuilding of Hawthorn 5 during the period 1999 through 2001, KCPL returns reflected this. KCPL was not able to participate in the interchange off-system sales market because of the unavailability of Hawthorn 5. This also caused KCPL profits to not be as large as they would otherwise be.

However, as unfortunate as the explosion at Hawthorn 5 was, and KCPL had to incur additional expenditures for replacement power not covered by insurance, KCPL made a very good recovery to its operations after the reconstruction period ended, resulting in increased profits that are substantially over the 1999 to 2001 levels.

Q. Has KCPL had an opportunity to make up those increased costs from its operations since Hawthorn 5 has come back into service?

A. Yes. The "new" Hawthorn 5 has been a success since it became operational. This generating unit had a capacity prior to its reconstruction of 500 megawatts and was increased to 563 megawatts, as result of a completely new boiler, which generated more steam flow, upgrades to its turbine and a new transformer.

Q. Would the operation of Hawthorn 5 increase KCPL's ability to engage in more off-system sales?

A. Yes. While it is unlikely that off-system sales would be made from Hawthorn 5 specifically, since that unit is one of the lowest cost units in KCPL's generating fleet and typically would be used to meet the Company's native load requirements, having this unit available enables KCPL to make off-system sales from some of its higher priced generation, such as its Montrose facilities or its natural gas combustion turbines. When Hawthorn 5 was being reconstructed, the other KCPL generating units, including the combustion turbines had to pick up the system retail load requirements. Once this unit came back into service, it freed up capacity that could be used to make off-system sales.

During the time that Hawthorn 5 was out of service KCPL was unable to make the levels of off-system sales, this resulted in reduced profits to the Company. There has been a tremendous increase in off-system sales since this generating unit came back into service in 2001. KCPL has had an opportunity to recoup much of the profits lost during the time of the Hawthorn 5 reconstruction.

KCPL has received ** ___________ ** in insurance proceeds related to the Hawthorn 5 explosion and rebuild, of this amount, ** _________ ** was for replacement power and ** ___________ ** was for administrative and general costs. Therefore, a total of ** ___________ ** was available to cover the cost of reconstruction.

PROPERTY TAXES

Q. At page 2, of Mr. Green's rebuttal testimony, he indicated that Kansas City Power & Light disagrees with the Staff's expense. Mr. Green states that "Staff's adjustment does not reasonably reflect the increased property tax expense that KCPL will incur in 2006 and thereafter, let alone the increased property tax expense due to applicable plant additions during 2006." Do you agree with Mr. Green's criticisms?

A. No. Staff has properly adjusted the property taxes in this case. After discussions with KCPL during the prehearing conference, Staff adjusted our calculation of annualized property taxes to reflect the ratio of 2005 taxes paid as adjusted for the effects of a portion of the Kansas 2005 property taxes being paid in 2006.

KCPL pays property taxes in both Missouri and Kansas. Property taxes paid in Missouri are paid during December for plant owned as of January 1, of that year. Kansas property taxes are paid in two installments with a partial payment in December and the remaining payment in May of the following year, i.e., 2005 Kansas property taxes were paid partially in December 2005 and the remainder in April and May of 2006 on property accessed as of January 1, 2005.

Staff has corrected its calculation of the annualized property taxes to account for the actual taxes paid for 2005 to include the Kansas property tax payments which were made in

2006. Staff's calculation of property taxes was based upon the ratio of property taxes paid in 2005 to the January 1, 2005, plant balances. This ratio was then applied to the December 31, 2005 (January 1, 2006) plant balances. This is the proper relationship which reflects how tax payments are actually determined by the taxing authorities.

Q. Mr. Green States on page 2, of his rebuttal testimony, states that "Staff's adjustment does not reasonably reflect the increased property tax expense that KCPL will incur in 2006 and thereafter, let alone the increased property tax expense due to applicable plant additions during 2006." Can you explain what Mr. Green is referring to?

A. Yes. KCPL believes that Staff's annualization does not take into account 1) the known increases in the assessed valuation of plant for the 2006 and the assumed or anticipated increases in property taxes as a result of those increased assessments and 2) that Staff has failed to provide property taxes on plant that has or will be included in plant in service during 2006, i.e., 2006 plant additions.

Staff is aware of both of Company's concerns which are two separate and distinct issues or components of the property tax annualization. The first is that KCPL believes Staff's calculation of the annualized property taxes is incorrect because Staff did not increase property taxes to reflect increases in the known changes to assessment rates and the subsequent changes to the 2006 taxes paid. The second issue or component of the tax calculation that Mr. Green addresses is that Staff has failed to include the 2006 plant additions in the property tax annualization.

Q. Mr. Green States on page 4, of his rebuttal testimony:

> …the calculation of property taxes for utility property located in Missouri and Kansas is determined by applying the tax levy rates as imposed by the applicable local taxing jurisdictions such as the state, county, school district, etc. to the assessed value of the taxable property

> of KCPL, as of the beginning of the calendar year. Subsequent to the filing of the rate case, KCPL received its final 2006 property tax assessments from all state and local assessing authorities in Missouri and Kansas.

Q. Has Staff reviewed the assessed valuation issue that Mr. Green is putting forth?

A. Yes. Staff has gone back and calculated the property taxes for comparison purposes as a check of the reasonableness of Staff's property tax annualization and has determined that Staff's calculation is a reasonable approach. Staff has recalculated the annualized property taxes picking up the 2006 property tax assessment amount of $701,885,630 as identified by Mr. Green (page 4, line 8 of his rebuttal) and determined that the annualized level of property taxes would actually decrease under this methodology. The recalculation of annualized property taxes using the 2006 assessed values requires that the methodology be adjusted. This methodology would require a ratio of assessed value to plant in service which would calculate the assessed value. However, Company has provided the 2006 assessed value by which the remainder of the calculation can be made. The second step then becomes calculating the ratio of actual taxes paid to assessed values. Staff has calculated this value for a historical five year period and determined that the 2005 ratio of taxes paid to the assessed value is reasonable and should be used in the calculation. The Staff then took KCPL's 2006 assessed values as provided by Mr. Green in his testimony in response to Data Request 0427 and multiplied the $701,885.630 of assessed value times the 2005 ratio of taxes paid to assessed value. This recalculation of the annualized property taxes resulting from the 2006 assessed values is included in Schedule 1-1 attached to this surrebuttal testimony. The annualized level of property taxes and the subsequent adjustment that would be necessary can be seen in the far right hand column. The corresponding annualized property tax adjustment that was made after the corrections during the prehearing can be seen on Schedule 1-2. These two schedules show that the recalculation of the annualized property taxes to reflect the changes in the assessed valuation does not increase Staff's annualized property taxes as Mr. Green suggests but would actually decrease Staff's adjustment to annualize the property taxes by $203,516. These worksheets show that the assertions made by Mr. Green are incorrect and that the revenue requirement would be decreased as a result of this change.

Q. Do the assessment values of property determined by the taxing authorities impact the property tax rates used by these taxing authorities to bill the property tax amount for a given year?

A. Yes. Staff has seen in the past when reviewing historical property tax data at other utilities that many times when the assessed values are increased the corresponding tax levy rates are adjusted downward to keep the property tax levels revenue neutral. Staff has seen this at Empire District Electric Company, Aquila Networks - MPS, Aquila Networks - L&P and at Missouri Gas Energy. Many times the taxing authority will increase the assessment values but provide for a corresponding decrease to the property tax rate. The reverse has also occurred where the assessment value is decreased but the property tax rate is increased.

Just because KCPL has received the assessment values for 2006 does not mean that the Company can determine what the property tax rates will be. Even though KCPL may receive a portion of the property tax rates, it likely will not have substantially all the rates which would be necessary to determine the proper annualized levels. Because some rates may go up while others may go down, only considering a portion of the tax rates will not raise to level of the known and measurable standard.

Q. What are known and measurable items as this is used in the ratemaking process?

A. A "known and measurable" expense is an expense that is: 1) "known," meaning that the amount did or definitely will be an actually incurred cost and 2) "measurable," meaning that the rate impact of the change (for example, property tax expense) can be calculated with a high degree of accuracy. The significance of this term is that historically the Commission has only reflected in rates those revenue requirement changes that were known and measurable at the time the rate decision was made. Certainly, property taxes that are not "known and measurable" until 2007 do not constitute a proper or appropriate inclusion into the cost of service in this case.

The property tax issue and the anticipated changes as described by Mr. Green do not meet the criteria of known and measurable.

Q. On page 5, starting at line 1 of his rebuttal testimony, Mr. Green states:

> Also included in KCPL's June 30, 2006, update of its annualized property tax adjustment was an adjustment amount of $1,360,293 for expected 2006 increases to the actual 2005 tax levy rates. Of this amount, $660,293, relating to O&M property tax expense, was based on a three-year historical trending factor of levy rate increases for total Company KCPL property of 1.18%. Many of the actual 2006 levy rates will be set by the September 30, 2006, true-up date.

How has the Staff treated the anticipated changes to the tax levy rates?

A. Staff has not taken anticipated tax levy rate changes into account at this time as they are not known and measurable. While the tax levy rate for individual towns and or counties may be going up there may be other towns and counties in which the tax levy rate goes down, the final result is simply that these rates are not known and measurable. This can be seen in the historical analysis where the taxes paid as a percentage of total plant was less in 2002 and 2003 than the ratio of property taxes paid for 2001. There are no guarantees that the overall property taxes will be increased, it is simply not known and measurable at this time, and will likely not be known at the time of the true-up period, which is September 30, 2006.

Q. Company witness Mr. Green states on page 5, line 19, that " included in KCPL's June 30, 2006, update of its annualized property tax amount were two property tax adjustment amounts relating to 2006 plant additions through September 30, 2006." Does Staff believe the 2006 plant additions should be taken into account in the annualization of property taxes in this case?

A. No. Staff calculated the property taxes based upon the actual ratio of property tax payments at December 31, 2005, compared to the property values at January 1, 2005, and applied this ratio to the plant-in-service at January 1, 2006. This relationship reflects how tax payments are actually determined by the taxing authorities and KCPL actually pays for property taxes.

Q. Why is the January 1, 2006, plant-in-service the appropriate level of plant to include in the property tax annualization?

A. The state and local taxing authorities use January 1 as the assessment date to determine the appraised value of the property which forms the basis of the property tax liability owed the state and political subdivisions for the calendar year. Any plant additions or property that are completed and booked to plant in service during the period of January 2 through December 31 of any given calendar year will not be assessed for property tax purposes until January 1 of the following year. In reality, the property tax liability associated with this plant is not due to the state and local taxing authorities until December of the subsequent year and in Kansas a portion is not due until mid-way in the 2nd year after the plant is completed. Thus, when the current year is X, unless the property was in-service on

January 1 of year X, the taxes will not be owed until December of X + 1 year. In the case of property taxes associated with Kansas property a portion will not be owed until April or May of X + 2 years.

As an example, any plant additions that KCPL added to its plant-in-service on January 2, 2006, will not be assessed by the taxing authorities until January 1, 2007, and property taxes thereon will not be due until December of 2007 and April or May of 2008 for a portion of the Kansas property taxes.

Q. Mr. Green states at page 7, lines 8 through 17, of his rebuttal testimony that

> The 2006 Rate Case Schedule pursuant to the Regulatory Plan Stipulation and Agreement indicated that in a true-up proceeding in October 2006, KCPL will file a reconciliation as of September 30, 2006. The true-up items included, but were not to be limited to, plant-in-service and property taxes. Additionally, the projected 2006 property taxes are known and measurable because they are based on actual assessments, actual and/or historical trended tax levies, and will be effective prior to the effective date of the new rates. The projected taxes on the 2006 plant additions are known and measurable based on actual signed agreements or use of an acceptable tax to plant ratio as utilized by Staff, and such tax increases coincide with the implementation of the new rates.

Do you agree?

A. No. Mr. Green is attempting to persuade the Commission that the Staff's calculation of property taxes fails to comply with the Experimental Regulatory Plan Stipulation and Agreement and does not take into account known and measurable changes to property taxes. Mr. Green is claiming that the taxes associated with the 2006 plant additions are known and measurable and therefore should be included in Staff's annualization. Mr. Green has failed to realize that the taxes associated with the 2006 additions will not be assessed until January 1, 2007, well after the true-up date and the actual taxes associated with the January 1, 2007, assessments will not be paid until December 2007. In addition, a portion of the Kansas property taxes paid will not be paid until April or May of 2008. Both of these dates are well after the operation of law date in this present case and even after the proposed filing date of the following case agreed to in the Experimental Regulatory Plan Stipulation and Agreement. The fact is that the known and measurable period for the next case (the true-up in next years case will be September 30, 2007, will be passed before any taxes are paid associated with the 2006 plant additions. In fact, most of KCPL's property taxes with the possible exception of the portion of Kansas property taxes for these plant additions will only be actually paid by the time of the operational of law date in KCPL's next rate case, scheduled to be filed February 1, 2007.

The previous example of plant additions included in plant in service on January 1, 2006, is an illustration of the unique nature of property taxes. Unlike a payroll or revenue annualization, which the Staff attempts to include through an end of the test year, the end of an update to the test year period, or the end of a true-up period, the January 2, 2006, plant in service balances will not be included in the Company's booked property tax expenses until January through December of 2007. Indeed, KCPL will not even start accruing for property tax expense for any of the plant additions through September 30, 2006, the end of the Staff's true-up period in this case, until January of 2007. This accrual will only be an estimate, because the Company will not know the actual amount of property tax payments until late in 2007, when the tax bills are distributed by the taxing authorities, usually in November or December of that year.

Q. Has Staff seen examples where a company requested property taxes on plant additions similar to KCPL's request in this case?

A. Yes. In the 2001 Empire District Electric Company (Empire) rate case (ER-2001-299) where part of the rate request sought recovery in rates of its State Line Combined Cycle Generating Facility (State Line), Empire requested property taxes for this plant addition. Staff opposed such inclusion, which the Commission adopted.

In 2002, Empire filed another rate case, Case No. ER-2002-424. At the time rates went into effect for the 2002 case, Empire still had not paid for the property taxes relating to the "plant addition" (State Line) it sought rate recovery from the 2001 rate case. If the Commission would have adopted Empire's 2001 (and now KCPL's) proposed inclusion of property taxes on the State Line unit, customers would have been required to pay in rates costs the company was not required to pay until after the 2002 rates went into effect. In other words, before Empire had to pay the property taxes on the State Line unit at the end of 2002, Empire's rates had been changed from the 2001 rate case levels. Put more simply, Empire would have collected property taxes on this plant addition in rates during the whole time the 2001 rate levels were in place, yet did not actually pay for the property taxes until after those very rates had been replaced with yet another rate amount.

Q. When were property taxes reflected in rates for the State Line unit?

A. The property taxes for the State Line unit were reflected for the first time in the 2002 rate case. Since the State Line unit became operational in June 2001, this unit was not assessed for property taxes until January 1, 2002. Staff reflected the State Line units assessed value employing the exact same methodology used in the current KCPL rate case, for the 2002 Empire case. This method recognized the State Line unit increase in property taxes in the 2002, with rates actually started to be collected before Empire was required to pay the property taxes on this unit. Empire continued to collect property taxes for State Line through out the period those rates were in effect.

Q. Would it be appropriate to include an accrual/estimate of property taxes to be paid in 2007 in this rate case?

A. No. No other expense item is being considered for inclusion in this case by the Staff or even KCPL itself to go out to anytime into 2007. It is important to note that the property taxes that KCPL will pay on or about December 31, 2006, and the portion of Kansas taxes that will be paid around May 1, 2007, represents the level of plant at January 1, 2006, which is the exact time period which the Staff used to calculate its property tax annualization in this case.

Q. Does KCPL's proposal to include a level of property tax expense based upon plant in service as of September 30, 2006, violate the test year and update of the test year concept?

A. Yes. KCPL's proposed level of property tax expense violates the test year and the true-up audit period in this case. This proposal does not represent a complete "package" of adjustments that appropriately reflects a consistent revenue-expense-rate base relationship at a point in time. As indicated previously, the property tax expense level proposed by KCPL represents an estimated amount that the Company will not begin accruing on its books and records until January 2007, and KCPL will not know the exact amount payable for those property taxes until late in 2007. The actual property taxes themselves will not be paid until on or about December 31, 2007, with a portion of the Kansas property taxes paid about May 1, 2008. Mr. Green has only considered one item of expense while not considering other items such as additional revenues from customer growth during 2007, property insurance, payroll annualization, plant additions and retirements, depreciation reserve and possibly other items.

Q. Why is it important to maintain the proper relationship of the individual components that make up the revenue requirement?

A. It is very important that all elements of the revenue requirement be considered at a consistent point in time because events occur that result in constant changes in revenues, expenses and rate base causing changes to the overall revenue requirements. Reflecting changes for only one element of the revenue requirement, in this case property taxes, without consideration of other offsetting changes in other revenue requirement components, will likely lead to setting distorted rate levels.

Q. Has the Commission recognized the importance of maintaining the proper relationship between revenues, expenses and rate base in setting rates previously?

A. Yes. In its March 13, 1996, Suspension Order and Notice for Missouri Gas Energy, the Commission stated:

> The commission will not consider a true-up of isolated adjustments, but will examine only a "package" of adjustments designed to maintain the proper revenue-expense-rate base match at a proper point in time. Re: Kansas City Power & Light Company, 26 Mo. P.S.C. (N.S.) 104, 110 (1983).

Similar language has been used in many other rate proceedings by the Commission.

In Case No. ER-97-81, The Empire District Electric Company, the Commission in its test year order rejected various true-up proposals and thus ordered:

> …test year for use in this case as the twelve months ending September 30, 1996, with isolated adjustments, including consideration of State Line Unit II, through May 31, 1997. All isolated adjustments will be known and measurable, used and useful, and in-service prior to the adjustment cutoff date. In addition, the relationship between revenue, expense, and rate base will be maintained as accurately as possible in calculating any isolated adjustments.

Q. Is the Company's proposed level of property tax expense "known and measurable"?

A. No. KCPL's proposed level of property tax expense is not a known and measurable expense, which can or should be included in the cost of service in this proceeding.

Q. Mr. Green describes on page 6, of his rebuttal testimony that a second adjustment relating to 2006 plant additions through September 30, 2006, is related to PILOT payments associated with the wind generation facility located in Ford County, Kansas. Does Staff believe these PILOT payments should be included in the revenue requirement?

A. No. The PILOT payments are not known and measurable at the present time. Even if they become known and measurable they fall well outside the operation of law date in this rate case and as such should not be included in the determination of the revenue requirement. Should the wind generation all be on-line as of September 30, 2006, the Pilot payments would still not be made until some point in time well outside the operation of law date and therefore their inclusion would constitute single issue ratemaking. The inclusion of the PILOT payments in the revenue requirement would be a mismatch of revenues, expenses, and rate base items in total.

Q. Mr. Green states that the projected 2006 property taxes are known and measurable because they are based on actual assessments the tax base, tax assessments and historically trended tax levies. Do you agree with this assertion?

A. No. Recently in Case No. ER-2001-299, the Empire District Electric Company (Empire) proposed a property tax balance of June 30, 2001, in the Company's property tax adjustment calculation, very similar to KCPL's request for the September 30, 2006 plant levels in this case. The June 30, 2001, date recommended by Empire was associated with the true-up period of the rate case to include Empire's State Line Combined Cycle Unit in rates. The Commission stated in the Report and Order at page 22:

> ...The commission finds that the arguments of Staff and Praxair regarding the property tax issue are persuasive. Staff's estimate of property taxes is based upon known and measurable factors and preserves appropriate matching of all revenue requirements, and is consistent with the Commission's past practice. Empire's position is not based upon known and measurable factors. In addition, it would be unreasonable for the Company to start charging ratepayers in October 2001 for (estimated) costs that the Company will not start paying until January 2002. The Commission determines that it will not increase the total company revenue requirement to account for property taxes on the additional plant in service.

Also, in Case No. GR-96-285, Missouri Gas Energy (MGE) contended that the most current known and measurable plant balances should be used to calculate an ongoing level of property tax expense. Thus, MGE used a May 30, 1996, plant balance in the annualization of property tax expense. The Staff's position was that the last actual property tax assessment should be used to determine property taxes for revenue requirement purposes. The Commission found in favor of the Staff's position on this issue. The Commission stated in its ruling that:

> MGE will not accrue a property tax expense for any of the plant additions through May 31, 2996 identified in the Rebuttal Testimony of Mr. Kelly until January of 1997. This accrual will only be an estimate for which the Company will not know the actual amount of property tax payments until late in 1997, when the tax bills are distributed by the taxing authorities, usually in November or December of that year. (ex. 73, p. 4)

> The Commission finds that MGE's proposal would require waiting until the end of 1997 to account for an item of expense for inclusion in this case because this would be a violation of the test year, updated test year or true-up concepts. Staff's recommendation will be adopted.

In Case No. WR-2000-0844, St. Louis County Water Company also argued that its property tax expenses should be based on the level of plant in service to be reflected in rates. The Commission in that case ruled:

> The Commission traditionally, and properly, allows recovery of cost increases that are projected to occur after the end of the test year (including any adjustment periods) only if those costs are known and measurable. A cost increase is "known" if it is certain to occur, and it is "measurable" if the Commission is able to determine the amount of the increase with reasonable precision. The Company's projected property tax increases are neither known nor measurable. While it is probable that the Company will experience an increase in property tax expense at the end of the year, it is by no means certain. Even more damaging to the Company's proposal is the fact that its best estimate of the amount of any increase is based on an assumption that finds no support in the record. Company's proposed property tax calculation assumes that the tax rates for 2000 will be the same as the tax rates for 1999. Because any increase the Company's property tax expense is not known and measurable, the Commission will not adopt the Company's proposal. Staff's proposal to use a known amount (the last amount actually paid), while probably not a perfectly accurate representation of the property taxes that will be paid in the future, at least avoids the speculation inherent in Company's proposal.

CASH WORKING CAPITAL TREATMENT OF INJURIES AND DAMAGES

Q. Ms. Wright states in rebuttal testimony on page 11, line 21, that "Mr. Vesely's proposal to reflect the remainder of injuries and damages on a cash basis of accounting fails to consider that the results of the cash lead/lag study accounts for the effects of the timing of cash payments versus accrual accounting." Does Staff agree with Ms. Wright's statement that the cash lead/lag study accounts for the effects of the timing of cash payments versus accrual accounting?

A. No. Staff's annualization of expenses is the determination of what Staff believes is an ongoing level of expense during a 12 month period of time. The annualization of the injuries and damages expenses were addressed by Staff witness Mr. Graham Vesely in his direct testimony and this issue will be further addressed by Mr. Graham Vesely in his surrebuttal.

The second portion of Ms. Wright's statement which is misstated is that the cash working capital study addresses the effects of the timing of cash payments versus accrual accounting. The cash working capital study does not measure the effects of the timing of cash payments versus accrual accounting. A cash working capital study measures the time periods of when cash is received from customers through their bills and when the company actually pays for the related expense items. A complete description of a cash working capital study is included in my direct testimony starting on page 15.

The cash working capital study used by Staff measures when the Company receives money for the revenues billed and when the company pays out monies for the services or materials received. Therefore when describing the lag associated with injuries and damages the expense lag measures the period of time between when an injury occurs and when KCPL pays out monies for that injury or damage, not the difference between when KCPL accrues injuries and damages expenses on the books and records (accrual accounting) and when it is paid out.

The issue of the cash working capital requirement associated with injuries and damages is not relevant to what is the proper level of expense that should be built into the rate case for injuries and damages. The proper levels to include in this case for injuries and damages will be addressed by Mr. Vesley in his surrebuttal testimony.

Q. Does Staff believe that there is an issue with the injuries and damages expense lag in cash working?

A. No. Staff does not believe that there is any issue as to the time lag associated with the collection of the revenues or with the expense lag associated with the payment of the injuries and damages.

Q. Did Staff make a modification to the annualized level for injuries and damages in cash working capital?

A. Yes. Subsequent to the prehearing conference, Staff discovered the need to reflect the annualized amount for injuries and damages in cash working capital and has reflected this updated amount in the current revenue requirement run that will be used as basis for the true-up.

LOBBYING EXPENSE/EEI DUES

Q. Ms. Wright states on page 15 of her rebuttal testimony that "Mr. Williams is attempting to remove the lobbying expense associated with the EEI dues because lobbying expenses, in Staff's opinion do not directly benefit the ratepayers." Is this a correct statement?

A. Yes. Staff has in the past consistently removed all the EEI annual dues because it is Staff's opinion that EEI is engaged primarily in lobbying to benefit the electric industry by changing legislation and environmental policies. Companies have been unable to show a cost benefit analysis which shows a benefit to the ratepayers.

Staff's testimony states in Williams direct starting on page 50, line 15:

> EEI is a national association of investor-owned electric utilities, which is significantly engaged in lobbying activities. The Company included in its cost of service fees paid as EEI dues. Lobbying activities may benefit the shareholders, but do not directly benefit the ratepayers. The

> recommendation in this case. For example, in The Staff of the Missouri Public Service Commission v. Union Electric Company, 29 P.S.C. (n.S) 313, 332, the Commission said that "dues paid to the Edison Electric Institute do not produce any direct benefit to the ratepayers because lobbying activities do not directly benefit ratepayers.

Q. How much EEI dues were paid by the Company in 2005?

A. The Company paid in 2005 a total of $478,568 to EEI. The Company booked a total of $87,388 below the line for an amount it attributed to lobbying per the EEI estimate. An additional $119,017 was paid to the EEI Utility Air Regulatory Group, $10,000 was paid to the PowerTree Carbon Company LLC and $262,163 was paid to EEI for regular dues.

Staff historically has eliminated 100% of the EEI dues. However, in this case because of an oversight, Staff has only disallowed approximately 65% of the total dues paid to EEI by KCPL. During the prehearing conference, KCPL informed Staff that the Company believed that a greater disallowance was made than was intended. However, upon further review of the total amounts paid to the EEI, Staff discovered that other costs paid for the Utility Air Regulatory Group was also incurred. Staff determined that most, if not all of these dues would be considered lobbying, and therefore, would not be included in rates. Staff believes that unless KCPL were to provide additional documentation that showed a benefit to the ratepayers for the EEI dues paid, Staff's adjustment is conservative. At the very most, if the Commission determined that the EEI dues should be shared equally then Staff's adjustment eliminating $223,268 of EEI dues would be reduced by $71,372 thereby making a total elimination of $239,284 of EEI dues which represents 50% of the total dues paid by KCPL.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

Kansas City Power Light
Case No. ER-2006-0314

File Name: Property Taxes Annualized
Prepared By: PKW
Date Prepared: Oct. 2, 2006
Date Printed: 10/5/2006
Time Printed: 2:19 PM

Analyisis of Property Taxes Using 2006 Assessed Values
Sheet Name: Ann. PR Taxes Use Assessed Val

	Total Plant Dec. 31, 2005	
Plant-in-Service at Jan. 1, 2006 (Dec. 31, 2005)		
Plant Cost Capitalized (Property Taxes)	$ 40,134,064	
Plant Cost Vehichle Property Taxes to Clearings	$ 35,621,521	
Plant Cost of Unit Train Property-To Fuel Inv.	$ 42,629,961	
Plant Cost of Non-Utility Property Taxes	$ 5,183,086	
Plant Cost of Property Taxes to O&M Exp.	$ 5,093,548,781	
Total Gross Plant	$ 5,217,117,413	
Assessed Value as a percent of Gross Plant	13.394%	
Annualized Assessed Value per Staff Calculation	$ 698,780,706	
The 2006 Assessed Values per Company Witness Green's rebuttal testimony and company response to Staff Data Request No. 0427.		$ 701,885,630
Total property taxes paid as a percent of Assessed Plant in 2005	7.940%	7.940%
Total annualized property taxes	$ 55,483,188	$ 55,729,719

Distribution of Property Taxes Charged Per Year	12-Months Ended Dec. 31, 2005	Percent Distribution	Annualized Levels	
Capitalized Property Taxes	$ 145,097	0.263%	$ 146,147	$ 146,796
Vehicle Property Taxes charged to Clearing Ac	$ 483,537	0.878%	$ 487,035	$ 489,199
Unit Train Property Taxes Charged to Fuel Inv.	$ 87,404	0.159%	$ 88,036	$ 88,427
Non-Utility Property Taxes	$ 83,703	0.152%	$ 84,309	$ 84,683
Property Taxes Charged to O&M	$ 54,284,956	98.548%	$ 54,677,662	$ 54,920,613
Total Property Taxes Charged Per Year	$ 55,084,697	100.000%	$ 55,483,188	$ 55,729,719

Annualized Property Taxes to Expense		
Property Taxes Charged to O&M	$ 54,677,662	$ 54,920,613
Unit Train - Property Taxes Charged to Exp. Thru Fuel Inv.	$ 88,036	$ 88,427
Total Annualized Property Taxes to Expense	$ 54,765,698	$ 55,009,041
Test Year Property Taxes to Expense		
Property Taxes Charged to O&M =Test Year Expense	$ 54,284,956	$ 54,284,956
Unit Train - Property Taxes Charged to Exp. Thru Fuel Inv.	$ 483,537	$ 539,493
Total Test Year Property Taxes to Expense	$ 54,768,493	$ 54,824,449
Adjustment to annualized property taxes based upon Dec. 31, 2005 Plant Balances	$ (2,795)	$ 184,592
Adjustment No.	S-87.2	S-87.2