

Exhibit No.:
Issue: Property tax expense;
Bad debt expense;
General plant reserve;
L&P Ice Storm AAO; and
St. Joseph Infrastructure Program.
Witness: John P. Weisensee
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0175
Date Testimony Prepared: October 10, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

SURREBUTTAL TESTIMONY

OF

JOHN P. WEISENSEE

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
October 2012**

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OF

JOHN P. WEISENSEE

Case No. ER-2012-0175

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

2 A: My name is John P. Weisensee. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

4 **Q: Are you the same John P. Weisensee who prefiled Direct and Rebuttal Testimony in**
5 **this matter?**

6 A: Yes, I am.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company (“GMO” or
9 the “Company”) for both the St. Joseph Light & Power (“L&P”) and Missouri Public
10 Service (“MPS”) territories.

11 **Q: What is the purpose of your Surrebuttal Testimony?**

12 A: The purpose of my testimony is to rebut various Missouri Public Service Commission
13 (“MPSC” or “Commission”) Staff (“Staff”) witnesses and Office of Public Counsel
14 (“OPC”) witness Ted Robertson on the following issues:

- 15
- Property tax expense;
 - 16 • Bad debt expense;
 - 17 • General plant reserve;
 - 18 • L&P ice storm Accounting Authority Order (“AAO”); and
 - 19 • St. Joseph infrastructure program.

1 **PROPERTY TAX EXPENSE**

2 **Q: Please discuss the property tax expense issue.**

3 A: Staff witness Patricia Gaskins recommends that property tax expense in the true-up be
4 calculated by applying a tax ratio based on 2011 property tax payments to January 1,
5 2011 plant and apply that ratio to January 1, 2012 plant. While Company witness Harold
6 “Steve” Smith had indicated in his Direct Testimony in this case that GMO would want
7 to incorporate plant additions through the true-up date in the true-up calculation, the
8 Company now agrees that the approach recommended by Ms. Gaskins would be
9 acceptable and would work well in conjunction with the proposed property tax tracker
10 discussed by Company witness Darrin Ives in his various testimonies in this case.

11 **BAD DEBT EXPENSE**

12 **Q: Please discuss the bad debt expense issue.**

13 A: Staff witness Karen Lyons is taking the same position in this rate case that Staff has taken
14 for the past several rate cases, that no bad debt expense should be included in the revenue
15 requirement related to the revenue requirement increase in this case (“bad debt gross-
16 up”). Ag Processing Inc./Federal Executive Agencies/Midwest Energy Consumer’s
17 Group/Midwest Energy Users’ Association/Missouri Industrial Energy Consumers
18 (collectively referred to as the “Industrials”) witness Greg R. Meyer took essentially the
19 same position in his Direct Testimony.

20 **Q: What is the basis for Ms. Lyons’ position?**

21 A: While Ms. Lyons acknowledges on page 6 of her Rebuttal Testimony that “Theoretically,
22 bad debts should increase as rates increase or as revenues increase,” she states that “there
23 is no **direct relationship** between bad debts and revenue increases” (emphasis added).

1 She presents extensive testimony and schedules which she believes demonstrate that
2 there is no firm relationship between changes in revenues (i.e., rate increases or
3 decreases) and changes in bad debt expense.

4 **Q: Does GMO agree with Ms. Lyons' assertions stated in the preceding question?**

5 A: No. I will demonstrate later in this section of my testimony why we disagree with Ms.
6 Lyons' assertions. First, however, I should state that I believe Ms. Lyons has not focused
7 on the key point, that it is logical and intuitive that increased revenue will result in
8 increased bad debt write-offs, assuming all other factors remain constant. Why would it
9 make sense to believe that \$58 million and \$25 million rate increases (MPS and L&P,
10 respectively, for illustrative purposes only) would not result in increased bad debt write-
11 offs related to those increases, assuming all other factors remain constant?

12 **Q: Are you stating that total bad debt write-offs will definitely increase in 2013 once the**
13 **rate increase approved by this Commission in this case goes into effect?**

14 A: No, I can't state that. The economy could improve dramatically, resulting in overall bad
15 debt write-offs not increasing, but no one can predict those events. That is why I
16 emphasize the phrase "assuming all other factors remain constant." To decide this issue
17 the Commission must decide whether it makes sense that bad debt write-offs will
18 increase related solely to this rate increase.

19 **Q: Can you link this rationale to a typical customer bill?**

20 A: Yes. Let us assume a customer currently has an average monthly bill of \$100 and that the
21 customer does not pay his/her bills, resulting in write-offs. Assume for illustrative and
22 simplicity purposes that rates increase 10% in this case, resulting in this customer's bill
23 now being \$110 per month. If that customer's \$100 monthly bills have been written off it

1 is logical that their \$110 bills will now be written off. Therefore, bad debt write-offs
2 increase.

3 **Q: Please address Ms. Lyons' assertions regarding a lack of a direct relationship or**
4 **correlation.**

5 A: The schedules that Ms. Lyons uses to demonstrate that “there is no direct relationship of
6 bad debts and revenue increases” assume that a customer account will be written off
7 exactly six months after it is billed. She is attempting to show a firm relationship by
8 looking at each individual month’s revenues and the bad debt expense for a period
9 exactly six months later. However, while this six-month period is the average time that it
10 takes a customer account with ongoing service to go through the various steps of the
11 Company’s collection process, it is by no means absolute. Some accounts are written off
12 in less than six months after billing while others are written off in more than six months.

13 **Q: Please give an example of when an account may be written off in less than six**
14 **months.**

15 A: An account may be written off in less than six months in a situation where a delinquent
16 customer initiates service disconnection, generally as a result of relocation to outside the
17 Company’s service territory or an attempt to relocate within the service territory under a
18 different account name. When this happens, the Company does not incur the time delay
19 between when an account becomes delinquent and when service is disconnected and a
20 final bill issued. This eliminates about forty to forty-five days of the standard collection
21 process. The write-off process is also accelerated in cases where discovery of a
22 customer’s diversion of service results in immediate disconnection of service for safety
23 reasons and the resultant issuance of a final bill.

1 **Q: Please give an example of when an account may be written off in more than six**
2 **months.**

3 A: The Company is subject to both statutory cold weather and hot weather rules for
4 residential customers that often postpone the cut-off of service. Under these rules,
5 service cannot be disconnected when the temperature remains below or above specified
6 temperatures for a specified period of time. The cold weather rule is in effect from
7 November 1 through March 31 and the hot weather statute from June 1 through
8 September 30. If the customer has been notified that service will be disconnected, but the
9 cut-off cannot be timely completed due to cold or hot weather restrictions, the
10 disconnection must be cancelled and the collection process begun again from the first
11 step. Starting the collection process over also occurs when disconnection cannot be
12 timely completed for any other reason such as an internal backlog in completing cut-off
13 requests. An inability to complete the disconnect extends the collection process because
14 the final bill process cannot be started until 15 days after service has been disconnected.
15 Another situation where write-off of delinquent accounts may be delayed is when a
16 delinquent customer is granted a payment plan but later defaults on that plan.

17 **Q: Are there other reasons why the relationship between revenues for a specific month**
18 **cannot be matched exactly with the bad debt expense for the month that is exactly**
19 **six months later?**

20 A: Yes. The Company's bad debt expenses as shown in Ms. Lyons' schedules are bad debt
21 write-offs net of subsequent recoveries. Recoveries include both cash recoveries, such as
22 those from collection agencies, and reversal of prior write-offs where a customer has
23 subsequently agreed to make payment of the previous account balance in order to resume

1 service. As shown in the Company's adjustment CS-20a, bad debt expense, work paper
2 in its March update case for the MPS jurisdiction, bad debt write-offs for the twelve
3 months ended March 2012 were \$5,524,716 while recoveries for the same period were
4 \$2,036,956, for net bad debt write-offs of \$3,487,760. For the L&P jurisdiction, bad debt
5 write-offs for the twelve months ended March 2012 were \$1,438,010 while recoveries for
6 the same period were \$551,320, for net bad debt write-offs of \$886,690. Recoveries are a
7 significant offset to the amounts written off but could trail the write-offs by a number of
8 months.

9 **Q: If you generally agree that there is no firm correlation between the revenues for a**
10 **specific month and the bad debt write-offs for a month exactly six months later, why**
11 **does GMO continue to assert that a bad debt factor must be applied to the revenue**
12 **increase in a rate case?**

13 A: As discussed above, our primary assertion does not center around the correlation issue,
14 but rather the obvious fact that it is logical and intuitive that increased revenue will result
15 in increased bad debt write-offs, assuming all other factors remain constant. However,
16 addressing the correlation issue raised by Ms. Lyons, a general correlation can be proven
17 by looking at a period of time greater than a single billing month. Schedule JPW-11 uses
18 the monthly revenue and bad debt write-off data provided by Ms. Lyons in her schedule
19 KL-1A attached to her Rebuttal Testimony. However, although Ms. Lyons uses revenue
20 data back to 2000, the Company elected to use a subset of the data in order to eliminate
21 the majority of the pre-acquisition Aquila data. For ease of comparison with the 22-
22 month period for revenues resulting from Case No. ER-2009-0090 ("2009 Case"), data
23 was used from November 2007, resulting in a similar 22-month period prior to the

1 effective date of rates in the 2009 Case. The monthly data is therefore segregated into
2 periods based on the 22-month period prior to the effective date of rates in the 2009 Case
3 and the 22-month period during which the rates authorized in the 2009 Case were in
4 effect. There is a general relationship between the increase in revenues over that 22-
5 month period subsequent to the 2009 Case and the increase in bad debt write-offs
6 associated with the revenues for the same period. For instance, during the 22 months
7 following the rate increase from the 2009 Case, revenues increased 14.3% and 13.0%
8 over the previous 22 month period for MPS and L&P, respectively, while net bad debt
9 write-offs increased 35.7% and 25.2%, respectively. As indicated earlier, there will not
10 be a perfect relationship because of differing circumstances during the time period as
11 well as the timing of recoveries. However, this presentation reflects a much clearer
12 indication of the relationship than if it is only looked at for a specific month.

13 **Q: Ms. Lyons only shows three months relating to the period following the June 25,**
14 **2011 effective date of new rates in Case No. ER-2010-0356, presumably because**
15 **related bad debts would not have been incurred until January 2012. Had additional**
16 **months been included, would you expect this same relationship to hold for the**
17 **period subsequent to that time?**

18 A: Yes. I would expect the relationship to hold when considering that there will be
19 circumstances during each time period that affect the relative increases. In some rate
20 periods, the percent of increase in bad debt write-offs will be greater than the percent of
21 increase in revenues; in other periods, the percent of increase in bad debt write-offs will
22 be less than the percent of increase in revenues. Historically, however, it is an absolute
23 fact that when revenues increase, net bad debt write-offs always increase as well.

1 **Q: Can you prove that there is a statistical correlation between net bad debt write-offs**
2 **and revenues?**

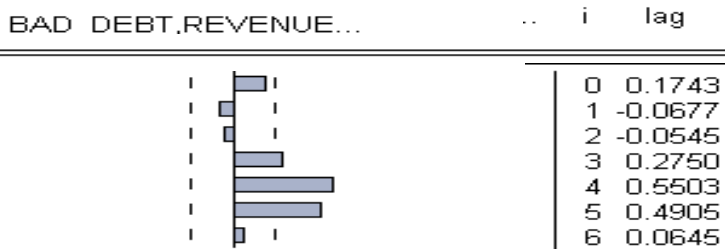
3 A. Yes. The table below shows correlations that were computed between revenues recorded
4 in one month and net bad debt write-offs recognized at varying months thereafter. The
5 schedule shows correlations computed for revenues with bad debts lagging by 0 to 6
6 months. The bars that go outside of the hash mark are statistically significant. The
7 correlations are positive and statistically significant for write-offs lagging revenues by 3,
8 4 and 5 months. The largest correlation, 0.5503, is at 4 months, followed closely by the
9 0.4905 correlation at 5 months. These correlations were computed with the EViews
10 software package and were computed for the revenues and associated bad debt write-offs
11 for the period January 2005 through December 2011, using data provided by Ms. Lyons.
12 It was necessary to use a larger sample of data for the correlation than is shown on
13 Schedule JPW-11 in order to have enough data for a statistically valid comparison.

14 **Q. What do these correlations tell us about the relationship of revenues and bad debt**
15 **write-offs?**

16 A: An increase in revenues during a particular month will be followed by a steadily
17 increasing amount of net bad debt write-offs for the next four months. In the fifth and six
18 months the increases will become smaller. The bad debt write-offs related to revenues
19 for a given month will be entirely reflected by the end of the sixth month after the
20 revenues are billed.

Cross Correlogram of BAD_DEBT and REVENUES

Date: 09/26/12 Time: 12:15
Sample: 2005M01 2011M12
Included observations: 72
Correlations are asymptotically consistent approximations



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2 **Q: Please summarize the Company's position regarding bad debt write-offs**
3 **attributable to the revenue increase granted in a rate case.**

4 A: I agree that there is not an exact relationship between the increase in revenues and the
5 increase in bad debt write-offs, where one could multiply the rate increase by a
6 normalized bad debt write-up factor and determine the exact amount of the bad debt
7 write-off increase. As explained earlier in my testimony, there are many factors that
8 prevent such an exact relationship. However, it is entirely reasonable and intuitive that
9 bad debt write-offs will be higher if a rate increase is granted than the write-offs would be
10 without such an increase, all other factors, such as the economy, being held constant.
11 This is evidenced in Schedule JPW-11 and as described above. The inability to
12 determine the exact impact is not a reason to deny any bad debt recovery on the
13 incremental revenue. We believe that the future increase in bad debt write-offs due to
14 incremental revenue can be reasonably predicted by the historical increases resulting
15 from incremental revenue. Bad debts should be calculated on the revenue increase
16 granted based on the normalized bad debt write-off factor calculated at true-up in this
17 case.

1 **Q: Has the Commission ruled on this issue in past rate case proceedings?**

2 A: Yes. In Kansas City Power & Light Company's ("KCP&L") 2006 rate case (Case No.
3 ER-2006-0314), the Commission's Report and Order, page 63 included this conclusion in
4 regard to bad debt expense:

5 The Commission understands Staff's argument that there is not a perfect
6 positive correlation between retail sales and the percentage of bad debts.
7 While it's possible that KCPL's bad debt expense could decrease, the
8 Commission finds it more probable, and therefore just and reasonable, that
9 an increase in the amount of revenue that KCPL is allowed to collect from
10 its Missouri retail ratepayers will result in a corresponding increase in bad
11 debt expense.

12 **Q: Do Staff and GMO agree on the bad debt write-off factor in this case?**

13 A: Yes. The parties calculated the normalized bad debt write-off factor consistently. The
14 actual factor used in this case will be adjusted as part of the true-up process.

15 **Q: What is the impact of the different approaches taken by Staff and the Company
16 regarding the bad debt gross-up?**

17 A: The impact cannot be determined at this time because it is a function of the revenue
18 increase granted and the update to the normalized bad debt factor that will occur at true-
19 up. Staff's bad debt write-off factor in its filed case was 0.6306% for MPS and 0.5431%
20 for L&P; therefore, the impact should be approximately the respective rate multiplied by
21 the rate increase granted in this case.

22 **Q: If the Commission should agree with the Company on this issue, would forfeited
23 discount revenue be affected?**

24 A: Yes. GMO believes it is reasonable that forfeited discount revenue would be higher if a
25 rate increase is granted than the revenue would be without such an increase, similar to the
26 bad debt write-off impact. Therefore, forfeited discount revenue should be calculated on
27 the rate increase granted in this case, based on the normalized forfeited discount factor.

1 **Q: Why do you think Ms. Lyons indicates that Staff’s analysis indicates the**
2 **relationship between revenues and forfeited discounts is “much closer” to a direct**
3 **correlation than the relationship of bad debt expense to increased revenues?**

4 A: There are several reasons why a more direct correlation for forfeited discounts based on
5 each specific month can be observed. Forfeited discounts occur as soon as a bill becomes
6 past due, generally 21 days after the billing date. Additionally, there are no subsequent
7 transactions such as recoveries that would impact the amount of the forfeited discount.

8 **GENERAL PLANT RESERVE**

9 **Q: Please discuss the general plant reserve issue.**

10 A: Staff witness Arthur W. Rice repeats his Direct Testimony positions in his Rebuttal
11 Testimony. I will address Mr. Rice’s contention that GMO did not abide by the
12 conditions of Sections 5d and 10 of the Non-Unanimous Stipulation and Agreement
13 Regarding Depreciation and Accumulated Additional Amortizations (“2010 Depreciation
14 S&A”), approved by the Commission on May 4, 2011. The Company strongly disagrees
15 with Mr. Rice’s conclusion.

16 **Q: Why does GMO disagree with Mr. Rice?**

17 A: In order to avoid unnecessarily burdening the record in this case, I simply refer the reader
18 of this testimony to my Rebuttal Testimony on this subject. Mr. Rice has raised the same
19 points in his Rebuttal Testimony that he raised in his Direct Testimony; nothing new.
20 Regarding Section 5d, I again state that GMO and the Staff have worked extensively over
21 the last year and a half on various issues addressed in the 2010 Depreciation Stipulation
22 S&A. During that time the Company had no reason to believe Staff would not support
23 continued use of the Amortization Method, making the practice permanent in this rate

1 case. As a result, the Company did not present Direct Testimony on this issue. Mr.
2 Spanos provides this support in his Rebuttal Testimony and addresses this issue again in
3 his Surrebuttal Testimony.

4 **Q: Please address Mr. Rice's concerns regarding Section 10 of the 2010 Depreciation**
5 **S&A.**

6 A: As I stated in my Rebuttal Testimony, GMO was very cooperative with Staff in fulfilling
7 the requirements of Section 10. We made every effort to answer all of Staff's questions,
8 over a period of time exceeding one year. The Company's compliance is fully
9 documented in the chronology of events listed in my Rebuttal Testimony and as
10 documented on my Schedule JPW-8 attached to that Rebuttal Testimony.

11 **Q: Are there any specific comments Mr. Rice has made in his Rebuttal Testimony**
12 **regarding Section 10 compliance that you would like to address?**

13 A: Yes, I would like to address two points. First, Mr. Rice states on page 6 that the
14 Company did not provide a "scope and approach" to the requirements of Section 10.
15 That statement is totally incorrect. As I stated in my Rebuttal we met with Mr. Rice and
16 other Staff members on June 13, 2011 to discuss the scope and approach. As part of this
17 effort we responded to sixteen (16) Staff questions that Staff had submitted in advance of
18 the meeting. After this meeting the Company believed the scope and approach was well
19 defined.

20 **Q: Did Staff ever indicate it had concerns with the scope and approach?**

21 A: No. Not until the filing of the Staff's Revenue Requirement/Cost of Service report
22 ("Staff Report") in this case did the Company get any indication from Staff that there
23 were concerns regarding the scope and approach. This is nearly one year later.

1 **Q: What is the second point that you would like to make regarding Section 10**
2 **compliance.**

3 A: In my Rebuttal Testimony I detail the many steps the Company took to meet the Section
4 10 requirements, culminating in a July 28, 2011 email to Staff and the other parties in this
5 case. Neither Mr. Rice nor anyone with Staff ever indicated a concern with non-
6 compliance. Mr. Rice admits in his Rebuttal Testimony that he did not even open the
7 July 28, 2011 email, and was not even aware that it existed, until I discussed the email at
8 an August 23, 2012 technical conference in this rate case. How can Staff then assert that
9 GMO did not comply?

10 **Q: What is your recommendation as to how the Commission should proceed on this**
11 **subject?**

12 A: I recommend the Commission disregard Mr. Rice's allegation regarding non-compliance
13 with the 2010 Depreciation S&A in its entirety and focus on the real general plant reserve
14 issues in this case, namely the alleged merger detriment/merger transition cost issue and
15 the continuation of the general plant amortization issue. Mr. Rice has stated that he has
16 performed the necessary study and has made certain recommendations. In response to
17 Mr. Rice, Mr. Spanos performed a study of unrecovered reserves and discusses his results
18 and recommendations in treating the unrecovered reserves in his Surrebuttal Testimony.
19 It serves no purpose to debate whether the Company's study was exactly what Staff
20 intended by Section 10. The Company has an unrecovered reserve that needs to be
21 addressed and Staff's insistence on repeating allegations of non-compliance diverts focus
22 from the real general plant reserve issues that need to be addressed in this case.

L&P ICE STORM AAO

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Q: What is Mr. Robertson’s issue with the L&P ice storm AAO?

A: Mr. Robertson is opposed to the Company’s request to include the annualized expense amount of \$1,589,436 for the amortization of the ice storm costs. The L&P ice storm AAO was set up as a five year amortization to recover costs incurred in a December 2007 ice storm. The amortization period started January 2008 and ends December 2012.

Q: Why is Mr. Robertson opposed to the Company’s request?

A: Mr. Robertson believes that if the annualized expense amount is included in the current rate case GMO will over-recover its costs since the amortization concludes in December 2012 and the Company does not anticipate another rate case for a few years. He suggests that, instead of the annualized amount, only the unamortized balance be included in rates in this case and be recovered over three years.

Q: Does the Company agree with Mr. Robertson’s recommendation?

A: No. As I stated in my Rebuttal Testimony in response to Staff witness Karen Lyons’ somewhat similar proposal, the Company did not begin recovering its costs for the ice storm until new rates were effective in Case No. ER-2009-0090, on September 1, 2009. Therefore, the Company will not fully recover these costs until August 31, 2014, well beyond the effective date of new rates in the current rate case. In other words, the Company does not believe the amortization recorded in the accounting records should govern the issue of full recovery. To accept Mr. Robertson’s position would result in a significant under-recovery for the Company (about \$2.65 million, representing the period January 1, 2013 through August 31, 2014).

1 **Q: Do you have any other issue with Mr. Robertson’s testimony regarding the L&P ice**
2 **storm AAO?**

3 A: Yes. Mr. Robertson uses the wrong amount for the unamortized balance at true-up. He
4 states it is \$519,812 when it is actually \$529,812.

5 **ST. JOSEPH INFRASTRUCTURE PROGRAM**

6 **Q: What is the purpose of this section of your testimony?**

7 A: I address the recommendations of Staff witness Keith Majors and OPC witness Ted
8 Robertson, both recommending rejection of construction accounting for GMO’s proposed
9 St. Joseph infrastructure program (“Infrastructure Program”). Many of the points
10 addressed by Mr. Majors and Mr. Robertson in their respective Rebuttal Testimonies
11 were addressed by Greg R. Meyer in his Direct Testimony on behalf of the Industrials
12 and were addressed by me in my Rebuttal Testimony.

13 **Q: Please describe the Infrastructure Program.**

14 A: GMO recommended implementation of a program to address the infrastructure related to
15 the worst performing circuits (based on “Customer Minutes Out” metric) in and around
16 the City of St. Joseph. This program would approach the improvements to infrastructure
17 in a systematic process, addressing many components of the delivery system, and would
18 require about five-years to complete. GMO considers this program a pilot, with plans for
19 a similar approach in GMO’s MPS service territory and KCP&L’s service territory.

20 **Q: Please describe the accounting treatment GMO has requested for the Infrastructure**
21 **Program.**

22 A: GMO requested construction accounting treatment, to better match the plant additions
23 with authorized rates. This treatment would allow for the deferral to a regulatory asset of

1 the depreciation on the infrastructure assets until the next rate case in which the costs are
2 included in rate base, coupled with a carrying cost similar to Allowance for Funds Used
3 During Construction (“AFUDC”). Amortization of the regulatory asset would be
4 determined in a future rate case. The infrastructure assets are principally those assets
5 recorded in the Distribution plant accounts (360s through 370s). Additionally, GMO
6 requested that the deferred, unamortized balance, net of accumulated deferred income
7 taxes, be included in rate base in future rate cases. The Commission has approved this
8 method of accounting treatment in the past, primarily for generation plant additions.

9 **Q: Please describe why there is a need to apply construction accounting to the**
10 **Infrastructure Program.**

11 A: Without rate relief timed to when these assets are included in Plant and the start of
12 depreciation, GMO will experience earnings decline due to rates not reflective of these
13 new assets. Absent construction accounting, the Company would realize a cash flow
14 detriment and an earnings decline, as it incurs significant construction expenditures
15 without the ability to earn a return on and a return of those costs. Also, the increase to
16 the depreciation reserve would represent a permanent loss; that is, the inability to recover
17 a portion of the costs incurred. The scope and size of this delivery infrastructure
18 program, coupled with the length of time to complete the program, warrants construction
19 accounting treatment.

20 **Q: What are Staff’s concerns surrounding construction accounting for the**
21 **Infrastructure Program?**

22 A: Mr. Majors has made numerous assertions, with which we disagree, including: (1)
23 project is too small for consideration of construction accounting; (2) proposal represents

1 single-issue ratemaking; (3) proposal does not reflect changes to revenue and expenses;
2 (4) proposal reduces management incentive to control costs; (5) proposal does not reflect
3 retirements; and (6) proposal does not reflect increases in accumulated depreciation and
4 accumulated deferred income taxes (“ADIT”).

5 **Q: Do you agree with Mr. Majors’ assertion that this project is not large enough to**
6 **warrant construction accounting treatment?**

7 A: No. As I stated in my Rebuttal Testimony in response to Mr. Meyer, the Infrastructure
8 Program would represent 8.9% of L&P’s Delivery plant assets, or 14.6% of its net
9 Delivery plant (cost less Reserve for Depreciation). Clearly, the Infrastructure Program
10 represents the size and scope necessary to be considered for construction accounting
11 treatment.

12 **Q: Do you agree with Mr. Majors’ assertion regarding single-issue ratemaking?**

13 A: No, I do not. Single-issue ratemaking typically occurs when a utility is allowed to adjust
14 its rates between rate cases without all relevant rate base, revenue, cost of capital and
15 expense factors taken into consideration. An example would be a rider whereby rates are
16 adjusted periodically between rate cases based on changes in only one revenue
17 requirement component. In the case of construction accounting customer rates would not
18 change between rate cases. Depreciation would be deferred and a carrying cost would be
19 accumulated, but such costs would simply be deferred to a regulatory asset for
20 consideration in a future rate case.

1 **Q: Do you agree with Mr. Majors' assertion regarding changes in revenue and**
2 **expenses?**

3 A: No. As I discuss in more detail in my Rebuttal Testimony in response to Mr. Meyer,
4 changes in these revenue requirement components would be realized not at the beginning
5 of the program but much later in the program, and can be addressed in a future rate
6 case(s). In contrast, the impact of not including Infrastructure Program assets in rate base
7 until the conclusion of the program is an immediate cash flow and earnings impact.

8 **Q: Do you agree with Mr. Majors' assertion that the proposal would reduce cost**
9 **control?**

10 A: No, I do not. Mr. Majors' primary point is that the regulatory lag created by traditional
11 ratemaking, whereby AFUDC ends and depreciation begins when the asset is placed in
12 service, incentivizes a utility to control costs. What Mr. Majors does not take into
13 consideration is that the Company is incentivized to control costs for other reasons,
14 including limited available financial resources, minimizing customer rate impacts, etc.
15 To accomplish these goals GMO utilizes proven project management techniques,
16 including an approval process, requests for proposal, cost variance reporting, on-the-
17 ground supervision, etc. The Company would fully expect these same controls to be in
18 place for the Infrastructure Program.

19 **Q: Do you agree with Mr. Majors' assertion that the proposal does not account for**
20 **retirements?**

21 A: No, I do not. The Infrastructure Program will consist of a mix of replacement assets and
22 new assets. For the most part any assets being replaced will be fully or nearly fully
23 depreciated; therefore, the retirement rate base impact would be minimal. Obviously, to

1 the extent the Infrastructure Program asset is a new asset and is not a replacement of an
2 existing asset, there would be no retirement.

3 **Q: Do you agree with Mr. Majors' assertion regarding changes in accumulated**
4 **depreciation and ADIT?**

5 A: No. Reducing the construction accounting regulatory asset deferral to reflect the impact
6 of increases in these balances would reduce the benefit of construction accounting; that
7 is, to avoid a cash flow detriment and earnings decline. Increases in accumulated
8 depreciation are reflected in rate cases to recognize that a utility has earned a return on
9 the asset through inclusion of depreciation expense in cost of service. Under construction
10 accounting the Company would not be including depreciation expense in cost of service,
11 but rather would defer the depreciation to a future rate case. This same general concept
12 applies to ADIT increases.

13 **Q: What are OPC's issues surrounding construction accounting for the Infrastructure**
14 **Program?**

15 A: OPC's concerns, as presented in the Rebuttal Testimony of Mr. Robertson, center around
16 regulatory lag issues and essentially mirror the concerns of Mr. Majors. Therefore, I will
17 not repeat my rebuttal of those concerns. However, Mr. Robertson does bring up a point
18 that I would like to discuss, a reference to a 1991 Missouri Public Service Company rate
19 case addressing regulatory lag (Mo. P.S.C. 3d 200, 207 (1991)).

20 **Q: What did the Commission state regarding regulatory lag in that case?**

21 A: I will not repeat the entire section that Mr. Robertson quotes, but the pertinent comments
22 are as follows:

23 Lessening regulatory lag by deferring costs is not a reasonable goal unless
24 the costs are associated with an extraordinary event.

1 **Q: Is this Commission statement applicable to the issue at hand in this rate case?**

2 A: Yes. The Commission in this 1991 Missouri Public Service Company case inferred that a
3 deferral mechanism may be appropriate if the event is considered extraordinary. While
4 the definition of extraordinary is subjective I stated earlier in this section of my testimony
5 that for the L&P jurisdiction the Infrastructure Program is material and significant and
6 could therefore be considered extraordinary.

7 **Q: Does that conclude your testimony?**

8 A: Yes, it does.

**KCPL Greater Kansas City Operations - MPS & L&P
Missouri Bad Debt Write-Offs, Net of Recoveries
Missouri Retail Revenue w/o GRT**

Change in Revenues Compared with Change in Write-Offs, net of Recoveries

(Based on bad debt write-offs 6 months after billing)

Month of Billing	Revenues (excl fuel adjustment revenues)	Month of Associated Bad Debt (a)	Bad Debt Net of Recoveries	Net Bad Debt as Percent of Revenues
GMO-MPS				
Acquisition of Aquila was completed in July 2008. Aquila data was used for November 2007 through June 2008 in order to have a 22 month comparison with the 22 month period during which rates from ER-2009-0090 were in effect.				
Nov-07	30,034,327	May-08	207,021	
Dec-07	37,235,114	Jun-08	263,082	
Jan-08	37,846,470	Jul-08	284,315	
Feb-08	33,453,328	Aug-08	181,974	
Mar-08	33,382,852	Sep-08	218,876	
Apr-08	32,378,564	Oct-08	261,491	
May-08	36,617,085	Nov-08	263,062	
Jun-08	49,028,634	Dec-08	379,838	
Jul-08	34,157,404	Jan-09	177,171	
Aug-08	52,850,440	Feb-09	56,067	
Sep-08	38,909,442	Mar-09	152,138	
Oct-08	30,289,383	Apr-09	291,008	
Nov-08	32,328,574	May-09	220,374	
Dec-08	38,511,640	Jun-09	214,502	
Jan-09	38,959,884	Jul-09	247,841	
Feb-09	32,599,905	Aug-09	206,674	
Mar-09	33,714,217	Sep-09	325,131	
Apr-09	31,697,362	Oct-09	265,470	
May-09	35,970,558	Nov-09	222,232	
Jun-09	51,626,376	Dec-09	289,679	
Jul-09	52,890,583	Jan-10	123,286	
Aug-09	54,474,698	Feb-10	26,515	
22 Months	<u>848,956,840</u>		<u>4,877,747</u>	0.575%

ER-2009-0090 - New Rates Effective September 1, 2009

Sep-09	40,715,785	Mar-10	48,850
Oct-09	36,490,328	Apr-10	208,129
Nov-09	35,773,445	May-10	313,120
Dec-09	43,741,942	Jun-10	355,122
Jan-10	44,784,288	Jul-10	267,173
Feb-10	38,934,371	Aug-10	191,151
Mar-10	38,771,060	Sep-10	14,535
Apr-10	33,080,560	Oct-10	328,365
May-10	43,066,391	Nov-10	377,364
Jun-10	62,574,028	Dec-10	552,126
Jul-10	68,708,023	Jan-11	478,939
Aug-10	70,455,183	Feb-11	241,095
Sep-10	45,873,736	Mar-11	114,638

**KCPL Greater Kansas City Operations - MPS & L&P
Missouri Bad Debt Write-Offs, Net of Recoveries
Missouri Retail Revenue w/o GRT**

Change in Revenues Compared with Change in Write-Offs, net of Recoveries

(Based on bad debt write-offs 6 months after billing)

Month of Billing	Revenues (excl fuel adjustment revenues)	Month of Associated Bad Debt (a)	Bad Debt Net of Recoveries	Net Bad Debt as Percent of Revenues
Oct-10	32,932,444	Apr-11	144,057	
Nov-10	36,211,704	May-11	255,339	
Dec-10	43,422,780	Jun-11	456,038	
Jan-11	43,389,209	Jul-11	368,172	
Feb-11	39,459,266	Aug-11	283,314	
Mar-11	38,273,826	Sep-11	282,593	
Apr-11	32,898,331	Oct-11	329,510	
May-11	41,263,155	Nov-11	542,933	
Jun-11	59,798,366	Dec-11	466,331	
22 Months	<u>970,618,221</u>		<u>6,618,894</u>	0.682%
Percent Incr (Decr) from prior period	14.33%		35.70%	

ER-2010-0356 - New rates Effective 6-25-2011

Jul-11	79,227,119	Jan-12	379,701
Aug-11	71,628,956	Feb-12	94,081
Sep-11	44,265,159	Mar-12	(114,309)

GMO-L&P

Month of Billing	Revenues (excl Gross Receipts Taxes)	Month of Associated Bad Debt (a)	Bad Debt Net of Recoveries	Net Bad Debt as Percent of Revenues
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ER-2007-0004 - New Rates Effective May 31, 2007

Acquisition of Aquila was completed in July 2008. Aquila data was used for November 2007 through June 2008 in order to have a 22 month comparison with the 22 month period during which rates from ER-2009-0090 were in effect.

Nov-07	8,744,893	May-08	75,490
Dec-07	10,754,404	Jun-08	129,597
Jan-08	10,242,282	Jul-08	49,198
Feb-08	9,808,439	Aug-08	35,740
Mar-08	9,577,668	Sep-08	70,421
Apr-08	8,322,027	Oct-08	67,702
May-08	10,478,337	Nov-08	37,816
Jun-08	14,040,548	Dec-08	67,439
Jul-08	8,945,430	Jan-09	(18,620)
Aug-08	13,821,397	Feb-09	2,443
Sep-08	10,097,803	Mar-09	29,208
Oct-08	8,441,522	Apr-09	67,923
Nov-08	9,535,374	May-09	164,975
Dec-08	11,225,135	Jun-09	61,093

**KCPL Greater Kansas City Operations - MPS & L&P
Missouri Bad Debt Write-Offs, Net of Recoveries
Missouri Retail Revenue w/o GRT**

Change in Revenues Compared with Change in Write-Offs, net of Recoveries

(Based on bad debt write-offs 6 months after billing)

Month of Billing	Revenues (excl fuel adjustment revenues)	Month of Associated Bad Debt (a)	Bad Debt Net of Recoveries	Net Bad Debt as Percent of Revenues
Jan-09	10,467,239	Jul-09	50,781	
Feb-09	10,069,925	Aug-09	56,864	
Mar-09	9,968,943	Sep-09	95,862	
Apr-09	8,612,517	Oct-09	64,766	
May-09	8,771,281	Nov-09	52,595	
Jun-09	13,179,394	Dec-09	61,095	
Jul-09	14,180,774	Jan-10	25,986	
Aug-09	13,418,272	Feb-10	66	
22 Months	<u>232,703,604</u>		<u>1,248,440</u>	0.536%

ER-2009-0090 - New Rates Effective September 1, 2009

Sep-09	10,381,646	Mar-10	(1,487)	
Oct-09	10,554,372	Apr-10	43,221	
Nov-09	10,038,655	May-10	92,746	
Dec-09	13,043,407	Jun-10	114,868	
Jan-10	12,882,294	Jul-10	76,716	
Feb-10	11,837,746	Aug-10	26,804	
Mar-10	10,702,913	Sep-10	(42,136)	
Apr-10	8,865,362	Oct-10	69,966	
May-10	11,562,412	Nov-10	53,385	
Jun-10	15,739,527	Dec-10	115,122	
Jul-10	16,593,057	Jan-11	140,549	
Aug-10	17,076,311	Feb-11	40,412	
Sep-10	11,377,146	Mar-11	10,453	
Oct-10	9,136,668	Apr-11	48,245	
Nov-10	10,147,028	May-11	50,598	
Dec-10	12,413,801	Jun-11	127,572	
Jan-11	12,584,359	Jul-11	133,702	
Feb-11	11,209,773	Aug-11	96,426	
Mar-11	10,728,367	Sep-11	72,210	
Apr-11	9,102,990	Oct-11	53,931	
May-11	11,256,885	Nov-11	119,762	
Jun-11	15,672,092	Dec-11	119,680	
22 Months	<u>262,906,811</u>		<u>1,562,745</u>	0.594%
Percent Incr (Decr) from prior period	12.98%		25.18%	

ER-2010-0356 - New rates Effective 6-25-2011

Jul-11	20,353,054	Jan-12	102,479
Aug-11	19,572,547	Feb-12	4,284
Sep-11	12,529,071	Mar-12	(42,199)

(a) Based on 6-month lag