

Exhibit No.:
Issue: Receivables Companies
Witness: James P. Gilligan
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power &
Light Company,
KCP&L Greater
Missouri Operations
Company
Case Nos.: ER-2018-0145 and ER-
2018-0146
Date Testimony Prepared: September 4, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2018-0145 and ER-2018-0146

SURREBUTTAL TESTIMONY

OF

JAMES P. GILLIGAN

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY, and
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

September 2018

KCP&L Exhibit No. 125
Date 9-25-18 Reporter TWT
File No. ER-2018-0145+0146

SURREBUTTAL TESTIMONY

OF

JAMES P. GILLIGAN

CASE NOS.: ER-2018-0145 and ER-2018-0146

1 **I. INTRODUCTION**

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

3 A: My name is James P. Gilligan. My business address is 1200 Main Street, Kansas City,
4 MO 64105.

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

6 A: I am employed by Kansas City Power & Light Company (“KCP&L”) and serve as the
7 Assistant Treasurer for KCP&L and KCP&L Greater Missouri Operations Company
8 (“GMO”).

9 **Q: What are your responsibilities?**

10 A: I have responsibility for all the cash management, capital market and corporate finance
11 functions of KCP&L and GMO.

12 **Q: Please summarize your education, experience and employment history.**

13 A: I graduated Cum Laude from the University of Missouri in 1977 with a Bachelor of
14 Science degree in Business Administration with a major in marketing. I later earned a
15 Master of Business Administration (MBA) degree with a major in Finance from the
16 University of Missouri in 1982. I hold the professional designations of Certified
17 Treasury Professional (CTP) and Certified Corporate Financial Planning & Analysis
18 Professional (FP&A). I began work with KCP&L following graduate school in 1982 as a

1 Financial Planner. I have held various jobs in my 36-year career including Manager,
2 Credit & Collection; Manager, Treasury Operations; Senior Manager, Corporate Treasury
3 and now Assistant Treasurer.

4 **Q: Have you previously testified before the Missouri Public Service Commission**
5 **(“Commission”)?**

6 A: No.

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

8 A: I am testifying on behalf of KCP&L and GMO in this proceeding (collectively, the
9 “Company”).

10 **Q: What is the purpose of your testimony in this proceeding?**

11 A: The purpose of my testimony is to respond to the Rebuttal Testimony of Robert E.
12 Schallenberg of the Office of the Public Counsel (OPC) opposing adjustments CS-4, CS-
13 9 and CS-78 regarding the KCP&L Receivables Company (KCP&L Rec) and the GMO
14 Receivables Company (GMO Rec).

15 **Q. According to pages 13-15 of his rebuttal testimony, Mr. Schallenberg opposes the**
16 **transfer of certain KCP&L Rec and GMO Rec expenses to KCP&L and GMO,**
17 **respectively, because KCP&L and GMO did not explain or justify the transfers,**
18 **KCP&L Rec and GMO Rec generated net income and KCP&L and GMO provide a**
19 **financial advantage to the KCP&L Rec and GMO Rec in violation of the**
20 **Commission’s affiliate transaction rules. Do you agree with Mr. Schallenberg’s**
21 **statements?**

22 A. No. Mr. Schallenberg’s testimony is inaccurate, and misunderstands the structure and
23 purpose of KCP&L’s and GMO’s securitization programs which are administered

1 through KCP&L Rec and GMO Rec, respectively. Furthermore, OPC witness
2 Schallenberg ignores the fact that the securitization programs provide a strong benefit to
3 KCP&L and GMO customers. In fact, in past rate cases, Staff took GMO to task for not
4 having a receivables company. Staff indicated that a receivables company provided both
5 customer (reduced revenue lag in cash working capital) and company (receives
6 immediate funds at a rate less than a financial institution would charge) benefits.¹

7 **Q. Please explain the purpose of the securitization programs.**

8 A. The securitization programs provide a semi-permanent low-cost financing alternative for
9 KCP&L and GMO that take the place of higher-cost long-term debt and simultaneously
10 do not cannibalize the companies' short-term credit facilities. The programs are
11 specifically designed so that they have no detrimental impact on either the customers of
12 KCP&L and GMO or the receivables management practices of KCP&L and GMO.

13 **Q. Can you explain what an accounts receivable securitization program is?**

14 A. Securitization is a structured finance process that provides diversification of capital,
15 whereby all the accounts receivable of the utilities are sold to a wholly-owned subsidiary
16 of each company – KCP&L Rec and GMO Rec respectively – which I will refer to now
17 as the “Receivables Companies”. The Receivables Companies were formed for the sole
18 purpose of buying receivables from the utilities.

19 **Q. Why is a separate Receivables Company subsidiary necessary?**

20 A. The purpose of the subsidiary is to legally separate the receivables assets from the utility.
21 This enables lenders to view their repayment risk as only that of the receivables and not
22 of the utility as a whole. This is important because it allows for the issuance of debt

¹ Surrebuttal testimony of Bret G. Prenger, ER-2009-0090, p. 9.

1 (commercial paper) at a higher credit rating than the utility itself, which results in
2 reduced borrowing cost.

3 **Q. How is the sale of receivables structured?**

4 A. There are three basic steps in the structure. (1) The utilities sell receivables on a daily
5 basis to the Receivables Companies; (2) the Receivables Companies sell a part of their
6 ownership interest in the receivables to a subsidiary of a bank that was created solely for
7 the purpose of buying receivables (called a “bank conduit”) – the amount of receivables
8 purchased by the conduit is based on certain eligibility criteria and reserves set by the
9 bank; (3) the bank conduit finances the acquisition of the receivables it purchases from
10 the Receivables Companies by issuing commercial paper into the market.

11 **Q. How are the utilities’ customers impacted?**

12 A. The financing process is transparent to the utilities’ customers and does not affect them at
13 all. The securitization program is designed so that the utilities are still responsible for,
14 among other tasks, billing, customer service and credit & collection.

15 **Q. How is this accomplished?**

16 A. As part of the securitization structure, the utilities enter into an agreement with the
17 Receivables Companies to service all the receivables, exactly as they have always done.
18 The Receivables Companies pay a fee to the utilities for this service, calculated as a
19 percentage of the receivables purchased. The fee is set to purposely compensate the
20 utilities at more than their actual cost.

1 **Q. Where do the Receivables Companies get the money to pay the utilities to service the**
2 **receivables they purchased?**

3 A. The Receivables Companies obtain funds from the bank conduit to which they sold a part
4 of their receivables. If there is a shortfall of funds, the Receivables Companies issue a
5 promissory note to the utilities for the difference and pay interest on the note.

6 **Q. Is the securitization accounted for on the utilities' books as well as the Receivables**
7 **Companies?**

8 A. Yes, normal accounting practices are followed. Because the Receivables Companies are
9 wholly owned subsidiaries of their respective utility, the consolidated financial
10 statements of the utilities reflect the total balance of receivables sold to the Receivables
11 Companies.

12 **Q. What is the cost of the accounts receivable securitization program?**

13 A. The cost of the securitization program is equal to the cost of the commercial paper issued
14 by the bank conduit plus a program fee and a commitment fee, if applicable, charged by
15 the bank.

16 **Q. How do the utilities' customers benefit from an accounts receivable securitization**
17 **program?**

18 A. A securitization program benefits utility customers in several ways. First, using such a
19 facility reduces the utilities' need to issue higher cost long-term debt, which results in
20 lower interest expense to the utility's customers. The bank conduit is able to issue
21 commercial paper in the market at a lower rate than the utilities because it is secured by
22 the accounts receivable and backed by the credit of the bank that created the conduit.
23 This savings is offset somewhat by the bank's program fee. Second, the utilities do not

1 need to draw on short-term credit facilities, therefore alleviating pressure on short-term
2 borrowings. Third, the daily sale of the accounts receivable to the Receivables
3 Companies reduces the utilities' working capital needs by zeroing out the days receivable
4 outstanding of the working capital calculation.

5 **Q. Why do the utilities request that the fees charged by the bank for the conduit as well
6 as bad debt expense be included in the cost of the utilities' regulated operations?**

7 A. The securitization programs are simply financing mechanisms structured to benefit the
8 utilities' customers for the purpose of obtaining low-cost debt. The utilities are only
9 requesting that the borrowing expense (the cost of commercial paper issued by the
10 conduit plus bank fees) be included in cost of service. Bad debt expense is also a
11 legitimate expense to include in cost of service because the sale of the receivables to the
12 Receivables Companies is done only because it is required by investors in the bank
13 conduit's commercial paper program to isolate the receivables repayment risk from the
14 utility. The bad debt incurred is still held by the utility on a consolidated basis.

15 **Q. Can you explain how the Receivables Companies generate large net income and why
16 that shouldn't cover all expenses?**

17 A. The net income generated by the Receivables Companies is by design so that the
18 Receivables Companies qualify as legitimate going concerns for tax purposes. The
19 receivables are purchased at a discount from the utilities by the Receivables Companies.
20 This discount is booked as revenue by the Receivables Companies, but does not generate
21 cash. If the Receivables Companies have any cash on-hand after payment of all
22 expenses, then they use the funds to pay down the promissory note with the utility.
23 Because the utilities sell all their receivables to the Receivables Company, which in turn

1 sells only part of the total receivables to the bank conduit, there is normally always a
2 balance owed on the note to the utilities. In the rare occasion that would not be the case,
3 the Receivables Company would pay a dividend to the utility, which would use the funds
4 to avoid additional borrowings.

5 **Q: Please summarize your surrebuttal testimony.**

6 A: The Receivables Companies provide benefits to customers as well as to KCP&L and
7 GMO that are not otherwise available. Because of this, the costs and benefits associated
8 with the Receivables Companies have been included in KCP&L's and GMO's rates for
9 many years as a result of many rate cases. OPC has not provided any evidence that
10 would justify a Commission decision to change the ratemaking treatment used by the
11 Commission for the Receivables Companies that has been in place for many years.

12 **Q: Does this conclude your testimony?**

13 A: Yes, it does.

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

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement) Case No. ER-2018-0145
A General Rate Increase for Electric Service)

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority to) Case No. ER-2018-0146
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF JAMES P. GILLIGAN

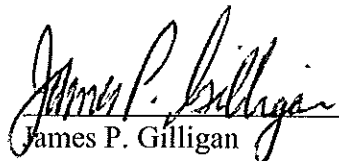
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

James P. Gilligan, being first duly sworn on his oath, states:

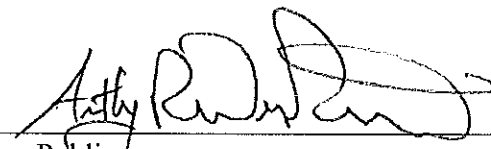
1. My name is James P. Gilligan. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Treasurer.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of seven (7) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


James P. Gilligan

Subscribed and sworn before me this 4th day of September 2018.


Notary Public

My commission expires: 4/26/2021

ANTHONY R WESTENKIRCHNER Notary Public, Notary Seal State of Missouri Platte County Commission # 17279952 My Commission Expires April 26, 2021
