Exhibit No.:	
Issue:	*Bad Debt Factor-Up*
Witness:	*"Kofi" A. Boateng*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2009-0089*
Date Testimony Prepared:	*April 7, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

"KOFI" AGYENIM BOATENG

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
April 2009

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SURREBUTTAL TESTIMONY

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KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Q. Please state your name and business address.

A. "Kofi" Agyenim Boateng, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Kofi A. Boateng who has previously contributed to the Staff's Cost of Service Report in Case No. ER-2009-0089 dated February 11, 2009 for Kansas City Power & Light Company (KCPL or Company)?

A. Yes, I am. In addition, I contributed to the Staff's Cost of Service Report filed on February 13, 2009 for KCP&L Greater Missouri Operations Company (GMO).

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of KCPL witness John P. Weisensee with regard to bad debt factor up or gross up.

EXECUTIVE SUMMARY

Q. Please briefly summarize your Surrebuttal Testimony pertaining to this rate case.

A. In this testimony I explain why Staff is recommending that KCPL should not be allowed to include in rates the full impact of the revenue requirement increase that is supposed to result in bad debt expense in this rate case. This act of including an adjustment for bad debt expense associated with revenue requirement increase (or decrease) is commonly referred to as bad debt factor up or gross up.

The Company's rationale for making this request is based on the assumption that any increase in revenue requirement granted by the Commission will cause bad debt expense also to increase proportionally. However, while the Company's initial proposal for this request may be reasonable from a common sense basis, from Staff's perspective, it believes that there is not a direct correlation for the need to reflect the full impact of increased bad debt expense in rates.

On the other hand, Staff's position is that if the Commission decides to grant the Company its request by matching bad debts with an increase in revenue requirement, then it will also be reasonable and appropriate to gross-up forfeited discount (late payment fees) for the same reason. Because if the Company believes that it will experience a higher level of bad debt as a result of a rate increase, then it would be logical to assert that it would also experience a higher level of late payment revenue resulting from those higher rates.

BAD DEBT "FACTOR UP" OR "GROSS-UP"

Q. Regarding the calculation of the bad debt write-off factor that was based on retail revenues and bad debt write-offs of different periods, Mr. Weisensee states at page 14 of his rebuttal testimony that in reality there is a lag between the time a ratepayer receives utility service and the time the customer's unpaid bills are written off. Does Staff agree with Mr. Weisensee?

A. Yes.

Q. Does Staff also agree with Mr. Weisensee's statement on pages 15 and 16 of his rebuttal testimony that it is reasonable to assume that there will be bad debts associated with the revenue requirement increase granted in this rate case?

A. In principle, Staff agrees that bad debts may increase to some extent as a result of an increase in KCPL's revenue requirement. However, Staff does not subscribe to the position that any increase in the Company's revenue requirement should cause bad debt expense also to increase proportionally, or on a dollar-for-dollar basis. Staff has simply seen no evidence of this direct correlation. In fact, in many times as revenues go up, bad debts have actually declined. In some instances, Staff has seen bad debts going up while revenues decreased.

Q. What is a bad debt "factor up" or "gross up", and what is the rational behind its use?

A. The usual justification for use of the bad debt factor up is the belief that it is necessary to properly match the level of bad debt expense established in a rate case with the amount of revenue requirement increase that will be determined by the Commission in that case. This additional amount of bad debt expense, if the factor up is granted, will be calculated and added to the annualized and normalized level of bad debt expense found reasonable for inclusion in the utility's revenue requirement. The amount of any ordered bad debt factor up will be derived by applying the bad debt expense ratio to the expected revenue requirement increase to be granted by the Commission.

KCPL's use of a bad debt factor-up is based on the assumption that any amount of increased revenues resulting from this rate case will cause bad debt expense to increase proportionally as well, all things being equal. In other words, the Company believes it is reasonable to assume that if some ratepayers are not able to pay their current utility bills when they fall due, chances are that some of these same customers would not be able to pay their bills when the utility bills go up as a result of a rate increase. However, while Staff believes that this view may seem reasonable on a theoretical basis, Staff has found from a practical point of view that this theory does not always hold true in reality. In other words, use of bad debt factor-up means it is a virtual certainty that with each rate increase bad debts will go up. This is not a realistic view. In order for the KCPL proposal to use a bad debt factor-up to be justified, a substantial amount of analysis would be needed to demonstrate a correlation between revenue levels and bad debt levels.

Q. How is "in proportion" defined by the Encarta Dictionary?

A. The Encarta Dictionary defines "in proportion" as something having the correct relationship of size, quantity, or degree to something else, or remaining in the same relationship when things change. While Staff believes there may be some relationship between bad debt expense and increased revenues resulting from a rate case, when it has examined this relationship in rate cases for other utilities, Staff has generally found that rate increases do not always cause a proportional increase in bad debt expense, as KCPL is suggesting in this case. There are no indications that an increase in revenue requirement should or will result in a proportional increase in bad debt expense.

Q. Has Staff performed any analysis that would support the position that no direct relationship exists for bad debts relating to additional revenue requirement for KCPL?

A. Yes. Attached to this surrebuttal testimony, as Schedule KAB-1 is a historical analysis of the Company's bad debts and retail revenue levels for KCPL. The Company's own historical data does not support the position that there is always a corresponding direct relationship between revenues and bad debt expense; whereby any revenue increase will always result in an automatic increase in bad debt expense in the same magnitude and proportion.

Q. How did Staff review KCPL's historical relationship of bad debt expense to sales revenue?

A. Staff employed various methods of data analysis in its review, yet none of those methods produced any substantive evidence to support the direct relationship that must exist between the two items to justify inclusion of a full bad debt gross up in this case. Staff utilized both numerical and graphical presentations in its review.

Q. What does Schedule KAB-1 show?

A. Staff believes the information shown in Schedule KAB-1 clearly demonstrates that there is no direct relationship between bad debts and increased revenues that would have to exist to justify total bad debt factor-up calculation.

Q. Does the bad debt factor-up proposed by KCPL work in the same way as an income tax factor-up?

A. Yes. The income tax factor assumes that for every increase in earnings to a utility resulting from a rate case there will be a direct and absolute proportional increase in income taxes. This is a well-known and established relationship, and in this case both Company and Staff have applied an income tax factor up to the additional revenue requirement calculation to determine the proper level of rate increase recommended in this case. If the Commission authorizes a rate increase in this proceeding, then a corresponding income tax amount will have to be added to the additional revenue requirement amount or the Company may not be able to recover the authorized amount of increase in revenue requirement. However, it is clear from the analysis conducted by Staff that no such direct relationship exists between increased rates and increased bad debt expense.

Q. What are some historical examples specific to KCPL when bad debts did not increase proportionately to a rate increase?

A. Staff reviewed the changes or variations that occurred between electric retail revenues and actual bad debt write-offs for a 36-month period from April 2005 through March 2008 (see attached schedules). In other words, using the Company's data, Staff reviewed how bad debts varied in relation to revenues for those 36 months period.

Half of the data reviewed showed that there was no relationship. That is, while electric revenues increased (or decreased), actual bad debt write-offs tend to decrease (or increase) by different amounts. In October 2006, KCPL experienced a decrease of about 13.63% in revenues, but had an increase in bad debt write-off of 49.25%. In the following month (November 2006), revenues decreased by 7.56%, while bad debt write-offs increased by 8.78%. In December 2006, revenues increased by 8.27%, and bad debt write-offs decreased by 21.42%. Even in situations where revenues and bad debts tend to go in the same direction, Staff observed that they were either increased or decreased by different, not the same amounts. This situation does not in a way support the argument that bad debt write-offs and revenues have proportional relationship.

Q. Does the Company acknowledge that there is not a direct relationship between bad debts and increasing rates?

A. Yes. Mr. Weisensee states at page 16 of his rebuttal testimony that "while it is true that the increase cannot be precisely calculated, as for example the expected income tax impact of a rate increase, that is no reason to ignore the need for a bad debt adjustment. It is certainly reasonable to assume that the bad debt write-off factor employed by Staff in its bad debt normalization adjustment (E-131) is appropriate for use in calculating the bad debt write-off impact of the revenue increase granted by this Commission" (page 16, line 2 through 7).

Q. Did KCPL include the bad debt factor up in its initial rate filing?

A. Yes. KCPL has always included an adjustment for bad debt match up with revenue requirement increase, since the Commission's Report and Order in KCPL's previous rate case, Case No. ER-2006-0314. It is understood in the last KCPL's rate case, Case No.ER-2007-0291, that Staff made a similar adjustment.

Q. Did Staff include an adjustment for the bad debt expense supposedly expected to be associated with the revenue requirement to be determined in this rate case?

A. No. At this time, Staff has not included any additional amount in rates for bad debts supposed to be associated with an increase in revenue requirement. Staff's current position is based on its current analysis of actual KCPL data that shows no direct correlation exists between revenue increases and increases in bad debt expense.

The analysis does not support the position that an increase in revenue will result in proportionate increase in bad debt expense.

Q. Does Staff plan to include an adjustment in the Staff Accounting Schedule at some point to reflect the bad debt expense expected to be associated with the revenue requirement increase?

A. Yes. Staff is open to discuss with the Company and include in rates a reasonable amount to reflect a partial impact of the projected bad debt that will be associated with the revenue requirement increase.

Q. Please identify how much does this issue worth?

A. Based upon the Staff's revised Accounting Schedules, this issue is worth $401,670, between the parties (Staff and Company), calculated on a revenue requirement increase of $53.1 million.

<u>FORFEITED DISCOUNT "FACTOR UP" OR "GROSS UP"</u>

Q. What are "forfeited discounts"?

A. Forfeited discounts also known as "late payment fees" are charges that KCPL charges its customers for non-payment of customer bills whenever they fall due. The charges are assessed on the remainder of the unpaid bill.

Q. Did the Company propose to gross-up forfeited discount (late payment fees) the same way that it is proposing bad debt gross up for revenue requirements increases?

A. No. One would have thought that since the Company is requesting an addition to bad debt as a result of revenue requirement increase, it would have been reasonable to propose the same treatment for forfeited discounts.

Q. Should forfeited discounts be included in the bad debt factor-up issue?

A. Yes. Staff's position is that if the Commission decides to grant the Company's request by matching bad debts with an increase in revenue requirement, then it will also be reasonable and appropriate to gross-up forfeited discounts (late payment fees) for the same reason. Because if the Company believes that it will experience a higher level of bad debt as a result of a rate increase, then it would be logical to assert that it should also experience a higher level of late payment revenue. KCPL did not consider such an off-set, and is therefore, inconsistent with its approach in this case for these two issues.

Q. What is the value of including forfeited discounts in the bad debt factor up calculation?

A. This issue is worth $147,385 for KCPL, based on Staff's projected revenue requirement increase of $53.1 million.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan.	)))))	Case No. ER-2009-0089

AFFIDAVIT OF "KOFI" A. BOATENG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

"Kofi" A. Boateng, 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 9 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.

"Kofi" A. Boateng

Subscribed and sworn to before me this 6th day of April, 2009.

Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Kansas City Power & Light Company
Case No. ER-2009-0089
Issue: Missouri Net Bad Debt Write-Offs vs. Retail Sales Revenue
Prepared by: Kofi Boateng, MPSC

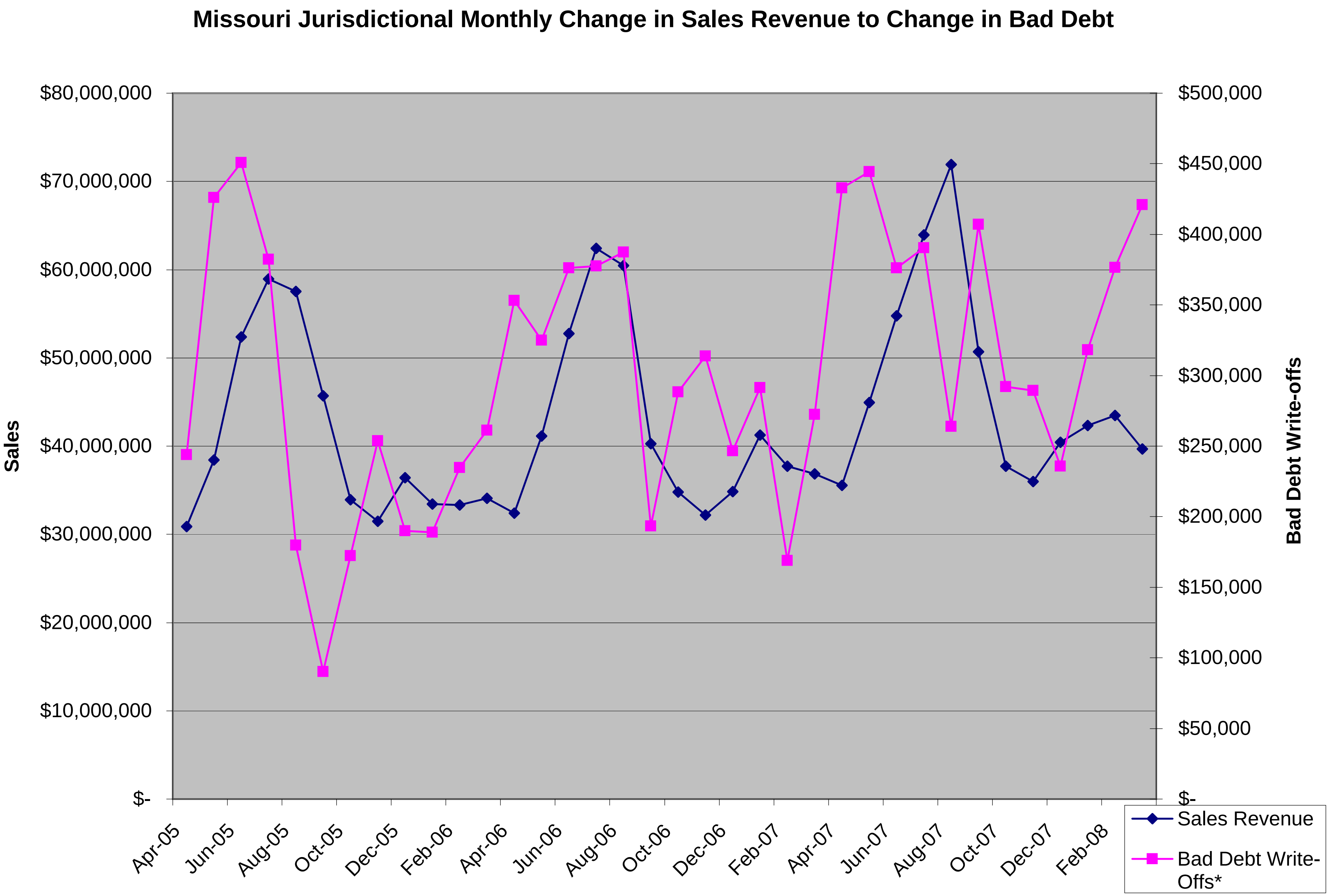
Missouri

	Monthly Sales Revenue	Monthly Bad Debt Write-Offs*	Change in Sales Sales	Change in Bad Debts Write-offs	No. of Occurrence**
Apr-05	$ 30,899,307	$ 243,979			
May-05	$ 38,418,451	$ 426,130	24.33%	74.66%	
Jun-05	$ 52,379,078	$ 450,732	36.34%	5.77%	
Jul-05	$ 58,951,530	$ 382,278	12.55%	-15.19%	1
Aug-05	$ 57,506,146	$ 179,711	-2.45%	-52.99%	
Sep-05	$ 45,694,910	$ 90,207	-20.54%	-49.80%	
Oct-05	$ 33,901,935	$ 172,476	-25.81%	91.20%	2
Nov-05	$ 31,490,850	$ 253,849	-7.11%	47.18%	3
Dec-05	$ 36,430,499	$ 190,047	15.69%	-25.13%	4
Jan-06	$ 33,448,924	$ 188,815	-8.18%	-0.65%	
Feb-06	$ 33,327,066	$ 234,782	-0.36%	24.34%	5
Mar-06	$ 34,106,792	$ 261,035	2.34%	11.18%	
Apr-06	$ 32,422,473	$ 353,242	-4.94%	35.32%	6
May-06	$ 41,132,580	$ 324,907	26.86%	-8.02%	7
Jun-06	$ 52,757,294	$ 376,258	28.26%	15.80%	
Jul-06	$ 62,405,677	$ 377,494	18.29%	0.33%	
Aug-06	$ 60,438,218	$ 387,508	-3.15%	2.65%	8
Sep-06	$ 40,294,695	$ 193,280	-33.33%	-50.12%	
Oct-06	$ 34,803,162	$ 288,473	-13.63%	49.25%	9
Nov-06	$ 32,171,877	$ 313,806	-7.56%	8.78%	10
Dec-06	$ 34,832,011	$ 246,604	8.27%	-21.42%	11
Jan-07	$ 41,248,430	$ 291,521	18.42%	18.21%	
Feb-07	$ 37,730,216	$ 169,007	-8.53%	-42.03%	
Mar-07	$ 36,858,501	$ 272,474	-2.31%	61.22%	12
Apr-07	$ 35,552,918	$ 432,698	-3.54%	58.80%	13
May-07	$ 44,964,450	$ 444,468	26.47%	2.72%	
Jun-07	$ 54,783,793	$ 376,258	21.84%	-15.35%	14
Jul-07	$ 63,947,529	$ 390,285	16.73%	3.73%	
Aug-07	$ 71,913,979	$ 263,900	12.46%	-32.38%	15
Sep-07	$ 50,698,258	$ 407,035	-29.50%	54.24%	16
Oct-07	$ 37,719,881	$ 292,212	-25.60%	-28.21%	
Nov-07	$ 35,984,381	$ 289,225	-4.60%	-1.02%	
Dec-07	$ 40,428,059	$ 235,734	12.35%	-18.49%	17
Jan-08	$ 42,320,923	$ 318,096	4.68%	34.94%	
Feb-08	$ 43,474,834	$ 376,588	2.73%	18.39%	
Mar-08	$ 39,673,795	$ 420,915	-8.74%	11.77%	18

* Based on 6-month lag
** This shows the number of times Revenue and Bad Debt moved in different directions. Based on change in Sales and change in Bad Debt Write-offs

Schedule KAB-1A

KCPL
Case No. ER-2009-0089

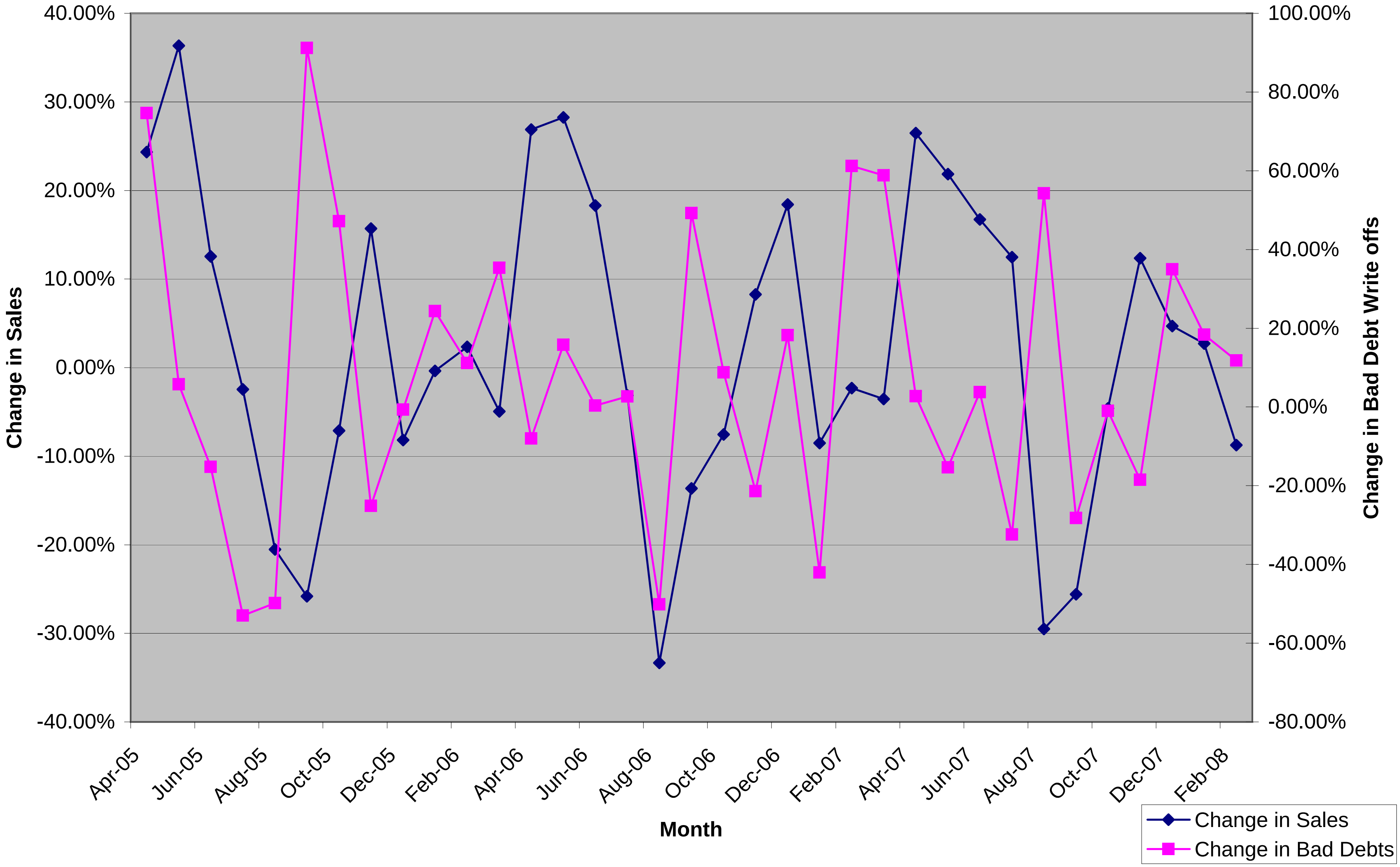


Schedule KAB-1B

Schedule KAB-1B

KCPL
Case No. ER-2009-0089

Missouri Jurisdictional Monthly Change in Sales Revenue to Change in Bad Debt



Schedule KAB-1C

Schedule KAB-1C