

Exhibit No.:  
Issue: Accounting Requirements for Expense Deferral  
Witness: Ryan A. Bresette  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Kansas City Power & Light Company  
KCP&L Greater Missouri Operations Company  
Case No.: EU-2014-\_\_\_\_  
Date Testimony Prepared: September 20, 2013

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: EU-2014-\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**ON BEHALF OF**

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

**Kansas City, Missouri  
September 2013**

**DIRECT TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**Case No. EU-2014-\_\_\_\_\_**

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

2   A:   My name is Ryan A. Bresette. My business address is 1200 Main, Kansas City, Missouri  
3       64105.

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

5   A:   I am employed by Kansas City Power & Light Company (“KCP&L”) as Assistant  
6       Controller.

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

8   A:   As Assistant Controller, I oversee margin accounting (revenue, fuel and purchased  
9       power), derivative accounting (hedging), the monthly accounting close process and  
10      external reporting. In addition, I have responsibility for leading the Company’s monthly  
11      forecasting and annual budgeting process.

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

13   A:   I am testifying on behalf of Kansas City Power & Light Company (“KCP&L”) and  
14       KCP&L Greater Missouri Operations Company (“GMO”) (collectively referred to as the  
15       “Company”).

16   **Q:   Please state your educational background and describe your professional training  
17       and experience.**

18   A:   I graduated from Rockhurst University in Kansas City, Missouri in December 1994 with  
19       a Bachelor of Science in Business Administration with a major in Accounting. In 1997, I  
20       passed the Certified Public Accountant’s exam. In May 2010, I graduated from the

1 University of Missouri-Kansas City with a Masters in Business Administration. I have  
2 previously worked with Sprint, Applebee's International and Interstate Bakeries  
3 Corporation in a variety of accounting and finance roles prior to joining KCP&L in  
4 December 2004. I joined the Company as an Accounting Policy Specialist and have also  
5 held the positions of Manager Corporate Accounting, Director Revenue and Energy  
6 Accounting, and Director, Accounting before assuming my current position in May 2011.

7 **Q: Have you previously testified before the Missouri Public Service Commission**  
8 **("MPSC" or "Commission") or other utility regulatory agencies?**

9 A: I have testified before the MPSC and the Kansas Corporation Commission.

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

11 A: The purpose of my testimony is to explain the standards that govern a public utility's  
12 accounting and financial reporting for deferring costs in a regulatory asset. I will also  
13 explain how General Instruction No. 7 does not permit the Company to defer costs as a  
14 regulatory asset without Commission approval.

15 **Q: Have you reviewed the Company's Transmission AAO application and the**  
16 **testimony of Darrin R. Ives?**

17 A: Yes, I have.

18 **Q: Please explain the requirements that must be met for the Company to defer costs to**  
19 **a regulatory asset.**

20 A: Accounting Standards Codifications (ASC) ASC 980-340-25-1 (paragraph 9 of Statement  
21 71) states that the "rate action of a regulator can provide reasonable assurance of the  
22 existence of an asset." All or part of an incurred cost that would otherwise be charged to  
23 expense should be capitalized as a regulatory asset if:

- It is probable that future revenues in an amount approximately equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes.
- The regulator intends to provide for the recovery of that specific incurred cost rather than to provide for expected levels of similar future costs.

An incurred cost is defined in ASC 980-10 (Statement 71) as “a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and must be paid for.”

ASC 980-10 (Statement 71) requires a rate-regulated utility to capitalize as a regulatory asset an incurred cost that would otherwise be charged to expense if future recovery in rates is probable. Probable is defined in ASC 450-20, Contingencies: Loss Contingencies (Statement 5, Accounting for Contingencies), as “likely to occur,” which is a high test to meet. The Securities and Exchange Commission (SEC) staff has concurred with this conclusion.

**Q: Please describe what type of approval the Company must obtain from the Commission in order to defer costs to a regulatory asset.**

A: Whether a regulatory asset is probable of recovery is a matter of professional judgment based on the facts and circumstances of each case. Utility management’s positive representation is required that each regulatory asset is probable of recovery in future rates. The SEC has increasingly scrutinized documentation of the basis for recording regulatory assets. The SEC staff has suggested that the following could support future recovery and corroborates utility management’s representation includes:

- Rate orders from the regulator specifically authorizing recovery of the costs in rates.

1 • Previous rate orders from the regulator allowing recovery for substantially similar  
2 costs.

3 • Written approval from the regulator approving future recovery in rates.

4 The best evidence of a regulatory asset is a rate order. However, the scheduling and  
5 length of the regulatory process sometimes does not enable an entity to obtain a rate  
6 order on a timely basis. As a result, a utility might obtain an “accounting order” from its  
7 regulator or the regulator’s staff agreeing with the entity’s proposed accounting for an  
8 incurred cost; even though such orders often include a qualifier that the letter guidance is  
9 not authoritative for ratemaking purposes.

10 **Q: Please explain the standards (legal and accounting) that govern the accounting for**  
11 **deferring costs as a regulatory asset and that govern financial reporting in that**  
12 **context.**

13 A: The SEC requires all publicly traded companies to adhere to Generally Accepted  
14 Accounting Principles (GAAP) in the United States of America to ensure the  
15 comparability and consistency of financial information that is relied on by investors and  
16 creditors. The Financial Standards Accounting Board (FASB) ASC has been established  
17 as the source of authoritative GAAP recognized by the FASB. In addition, the Federal  
18 Energy Regulatory Commission (FERC) defines Account 182.3, “Other regulatory  
19 assets.” In the definition of 182.3, it states “This account shall include the amounts of  
20 regulatory-created assets, not includible in other accounts, resulting from the ratemaking  
21 actions of regulatory agencies.”

1 **Q: What are the consequences if the Company does not follow the standards?**

2 A.: The Company would not obtain an unqualified opinion on its financial statements. An  
3 unqualified opinion provides the independent auditor's judgment that the Company's  
4 financial records and statements are fairly and appropriately presented in accordance with  
5 GAAP. Without such unqualified opinion there are potential consequences from the  
6 SEC, investors, and others who rely on the Company's financial statements.

7 **Q: Would the Company's external auditor agree with your conclusion that the**  
8 **Company must ascertain written approval from the Commission in order to defer**  
9 **costs to a regulatory asset?**

10 A: I believe so. Attached in Schedule RAB-1 to my testimony is Deloitte's Energy and  
11 Resources 2009 Accounting, Financial Reporting and Tax Update. I have included the  
12 applicable pages of Section 4 of this publication that is titled, "An Analysis of the  
13 Application of ASC 980, *Regulated Operations (Statement 71, Accounting for the Effects*  
14 *of Certain Types of Regulation*, as Amended and Interpreted) and Other Specialized  
15 Industry Accounting."

16 **Q: On pages 6-7 of Mr. Ives' testimony, he states that the Commission erred in its**  
17 **conclusion of linking General Instruction No. 7 and the Company's ability to record**  
18 **costs that exceed 5% to a regulatory asset. Do you agree with Mr. Ives' statement?**

19 A: Yes. General Instruction No. 7 does not permit the Company to defer costs in a  
20 regulatory asset. As mentioned above, a utility must have written approval (a ratemaking  
21 action) from its regulators. The criteria that must be met to defer costs as a regulatory  
22 asset are defined in the account definition for FERC Account 182.3 in the FERC Uniform  
23 System of Accounts.

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

2    **A:**    Yes, it does.

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

In the Matter of the Application of )  
Kansas City Power & Light Company and KCP&L )  
Greater Missouri Operations Company for the )  
Issuance of an Accounting Authority Order relating ) File No. EU-2014-  
to their Electrical Operations and for a Contingent )  
Waiver of the Notice Requirement of 4 CSR 240- )  
4.020(2) )

**AFFIDAVIT OF RYAN A. BRESSETTE**

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

Ryan A. Bresette, being first duly sworn on his oath, states:

1. My name is Ryan A. Bresette. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company ("KCP&L") as Assistant Controller.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of KCP&L and KCP&L Greater Missouri Operations Company consisting of Six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

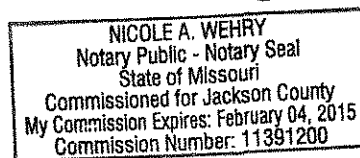
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Ryan A. Bresette  
Ryan A. Bresette

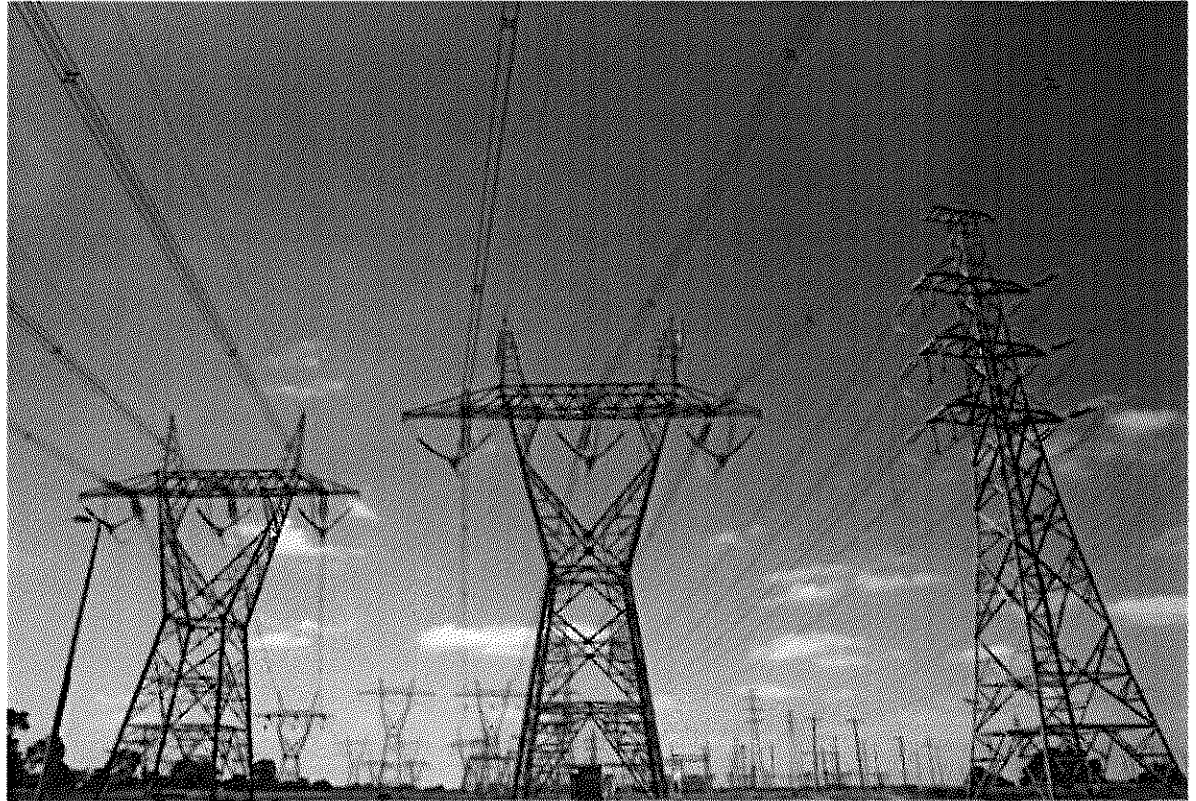
Subscribed and sworn before me this 20<sup>th</sup> day of September, 2013.

Nicole A. Wehry  
Notary Public

My commission expires: Feb. 4, 2015







## Energy & Resources 2009 Accounting, Financial Reporting and Tax Update

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# Foreword

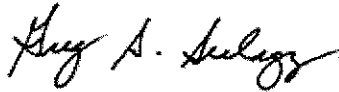
November 2009

Energy & Resources 2009 Accounting, Financial Reporting and Tax Update

We have prepared this document to assist companies with their 2009 financial, regulatory, and compliance reporting requirements. Following brief Industry, SEC and IFRS updates, we focus on the specialized industry accounting and reporting applied by energy companies, including rate-regulated entities.

Recognizing the ongoing challenges of accounting and reporting for energy contracts, derivatives, and fair value measurements, we have dedicated separate sections to address the nuances associated with these matters, particularly for our industry. We round out our report with a general accounting update (including new accounting guidance for variable interest entities), a tax update and a discussion of FERC and ISO matters.

We hope you find this document to be a useful resource and welcome your feedback.



Greg S. Seelagy  
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# Section 4

## An Analysis of the Application of ASC 980, *Regulated Operations* (Statement 71, *Accounting for the Effects of Certain Types of Regulation*, as Amended and Interpreted) and Other Specialized Industry Accounting

### Introduction

This section summarizes the specialized industry reporting requirements for utilities included in the authoritative accounting literature.

### Regulated Operations

ASC 980-10, *Regulated Operations: Overall* (Statement 71) provides guidance in preparing general-purpose financial statements for most utilities. ASC 980-10 (Statement 71) specifies criteria for its applicability by focusing on the nature of regulation rather than on specific industries. In general, the type of regulation covered by ASC 980-10 (Statement 71) permits rates to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital. The cost of capital consists of interest and a provision for earnings on shareholders' investments.

ASC 980-10 (Statement 71) applies to general-purpose external financial statements of an enterprise that has regulated operations if all of the following criteria are met:

- The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
- The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
- In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

If some of a utility's operations are regulated and meet all of the above criteria, ASC 980-10 (Statement 71) should be applied to only that portion.

### General Standards

ASC 980-10 (Statement 71) recognizes that a principal consideration introduced by rate regulation is the cause-and-effect relationship of costs and revenues — an economic dimension that, in some circumstances, should affect accounting for rate-regulated utilities. Thus, a rate-regulated utility should therefore capitalize a cost, as a regulatory asset, or recognize an obligation, as a regulatory liability, if it is probable that through the ratemaking process there will be a corresponding increase or decrease in future revenues.

### Regulatory Assets

ASC 980-340-25-1 (paragraph 9 of Statement 71) states that the "rate action of a regulator can provide reasonable assurance of the existence of an asset." All or part of an incurred cost that would otherwise be charged to expense should be capitalized as a regulatory asset if:

- It is probable that future revenues in an amount approximately equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes.
- The regulator intends to provide for the recovery of that specific incurred cost rather than to provide for expected levels of similar future costs.

An incurred cost is defined in ASC 980-10 (Statement 71) as "a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and must be paid for." Equity return (or an allowance for earnings on shareholders' investment), however, is not an incurred cost that would otherwise be charged to expense.

ASC 980-10 (Statement 71) requires a rate-regulated utility to capitalize as a regulatory asset an incurred cost that would otherwise be charged to expense if future recovery in rates is probable. Probable is defined in ASC 450-20, *Contingencies: Loss Contingencies* (Statement 5, *Accounting for Contingencies*), as "likely to occur," which is a high test to meet. Thus, ASC 980-340-25-1 (paragraph 9 of Statement 71) has a continuous probability standard to be met at each balance sheet date in order for a regulatory asset to remain recorded. Also, see subsequent discussion of ASC 980-20-35, *Regulated Operations: Discontinuation of Rate-Regulated Accounting: Subsequent Measurement* (Emerging Issues Task Force (EITF) Issue 97-4, *Deregulation of the Pricing of Electricity – Issues Related to the Application of FASB Statements No. 71 and 101*), for additional considerations in determining the recoverability of regulatory assets. Additionally, costs that would otherwise be charged to other comprehensive income (OCI), and not to expense in determining net income, also qualify to be capitalized as a regulatory asset under ASC 980-10 (Statement 71) when the other requirements for recording a regulatory asset are met. The basis for this conclusion is primarily that OCI was not well developed when ASC 980-10 (Statement 71) was written. Absent OCI, the cost would be charged to expense for determining net income, and such amounts are charged to "comprehensive" income/expense. The SEC staff has concurred with this conclusion.

If a regulatory asset is recorded, but no longer meets the above criteria, the cost should then be charged below-the-line to other income and expense if the income statement is in a traditional utility format. See subsequent discussion in this Section on income statement presentation.

Evidence that a regulatory asset is probable of recovery is a matter of professional judgment based on the facts and circumstances of each case. Utility management's positive representation is required that each regulatory asset is probable of recovery in future rates. The SEC has increasingly scrutinized documentation of the basis for recording regulatory assets. The SEC staff has unofficially suggested that evidence that could support future recovery and corroborates utility management's representation includes:

- Rate orders from the regulator specifically authorizing recovery of the costs in rates
- Previous rate orders from the regulator allowing recovery for substantially similar costs.
- Written approval from the regulator approving future recovery in rates
- Analysis of recoverability from internal or external legal counsel

The best evidence of a regulatory asset is a rate order. However, the scheduling and length of the regulatory process sometimes does not enable an entity to obtain a rate order on a timely basis. As a result, a utility might obtain an "accounting order" or comparable form of communications from its regulator or the regulator's staff agreeing with the entity's proposed accounting for an incurred cost; even though such orders often include a qualifier that the letter guidance is not authoritative for ratemaking purposes. In a few jurisdictions, accounting orders signed by the regulator may provide the same degree of assurance as a specific rate order. However, this is atypical and the level of assurance provided by an accounting order must be assessed on a jurisdiction-by-jurisdiction basis, with particular focus on legal authority, who signs the accounting order, and historical regulatory precedents and practices.

Under guidance included in ASC 980-340-25-1 (EITF Issue 93-4, *Accounting for Regulatory Assets*), an incurred cost that does not meet the asset recognition criteria in ASC 980-340-25-1 (paragraph 9 of Statement 71) at the date the cost is incurred should be recognized as a regulatory asset when it meets those criteria at a later date. Under ASC 980-340-35-1 (paragraph 10 of Statement 71), as amended by ASC 360-10-35, *Property Plant and Equipment: Overall: Subsequent Measurement* (Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*), previously disallowed costs that are subsequently allowed by a regulator to be recovered, should be recorded as an asset, consistent with the classification that would have resulted had the cost initially been included in allowable costs. This provision applies to plant costs and regulatory assets created by actions of a regulator.

ASC 980-340-35-1 (paragraph 10 of Statement 71), as amended by ASC 360-10-35 (Statement 144), also concludes that a regulator can reduce or eliminate the value of an asset. If a regulator disallows recovery of part of a regulatory asset, that part of the asset is to be written off. Although special rules apply to disallowances of a recently completed utility plant, any write downs in the value of other assets are limited to the amount appropriate under U.S. GAAP.

Regulatory assets should be amortized over future periods consistent with the related increase in customer revenues.

#### **Regulatory Liabilities**

ASC 980-405-25-1 (paragraph 11 of Statement 71) also recognizes that the rate actions of a regulator can impose a liability on a rate-regulated utility, usually to its customers. The following are examples of ways in which regulatory liabilities can be imposed.

- A regulator may require refunds to customers.
- A regulator can provide provisions in rates for costs not yet incurred.
- A regulator can require that a gain be given to customers by amortizing amounts to reduce future rates.

ASC 980-405-40-1 (paragraph 12 of Statement 71) expands this idea that "actions of a regulator can eliminate a liability only if the liability was imposed by actions of the regulator." Thus, a rate-regulated enterprise's balance sheet should include all liabilities and obligations that an enterprise in general would record under U.S. GAAP, such as for capital leases, pension plans, compensated absences, and income taxes. The SEC staff, in SAB 10F, *Utility Companies-Presentation of Liabilities for Environmental Costs*, clarified that such liabilities should not be offset with corresponding regulatory assets.

Regulatory liabilities should be amortized over future periods consistent with the related decrease in customer revenues.