

**DIRECT TESTIMONY**  
**OF**  
**RUSSELL W. TRIPPENSEE**  
**KANSAS CITY POWER & LIGHT COMPANY**  
**CASE NO. EO-2005-0329**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Russell W. Trippensee. My business address is P.O. Box 2230, Jefferson City, Missouri 65102.

3 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

4 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public  
5 Counsel).

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

7 A. I attended the University of Missouri at Columbia, from which I received a BSBA degree, major in  
8 Accounting, in December 1977. I attended the 1981 NARUC Annual Regulatory Studies Program at  
9 Michigan State University.

10 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS OR DESIGNATIONS?**

11 A. Yes, I am a Certified Public Accountant and hold certificate/license number 2004012797 in the State of  
12 Missouri.

13 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

14 A. From May through August, 1977, I was employed as an Accounting Intern by the Missouri Public  
15 Service Commission (MPSC or Commission). In January 1978, I was employed by the MPSC as a  
16 Public Utility Accountant I. I was employed as a Public Utility Accountant III in June 1984, when I left  
17 the MPSC staff and assumed my present position with the Office of the Public Counsel.

1    **Q.    PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.**

2    A.    I served as the chairman of the Accounting and Tax Committee for the National Association of State  
3    Utility Consumer Advocates from 1990-1992 and am currently a member of the committee. I am a  
4    member of the Missouri Society of Certified Public Accountants.

5    **Q.    PLEASE DESCRIBE YOUR WORK WHILE YOU WERE EMPLOYED BY THE MPSC**  
6    **STAFF.**

7    A.    Under the direction of the Chief Accountant, I supervised and assisted with audits and examinations of  
8    the books and records of public utility companies operating within the State of Missouri with regard to  
9    proposed rate increases.

10   **Q.    WHAT ARE YOUR DUTIES WITH THE OFFICE OF THE PUBLIC COUNSEL?**

11   A.    I am responsible for the Accounting section of the Office of the Public Counsel. I coordinate this  
12   section's activities with the rest of the office and with the other parties in rate proceedings. I am also  
13   responsible for performing audits and examinations of public utilities and presenting the findings to the  
14   MPSC on behalf of the Office of the Public Counsel and public of the State of Missouri.

15   **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY IN CASES BEFORE THE MPSC?**

16   A.    Yes. I filed testimony on behalf of the Missouri Office of the Public Counsel or MPSC Staff in the cases  
17   listed on Schedule RWT-1 of my testimony.

18   **Q.    WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

19   A.    The purpose of my testimony is to explain the reasons for the Public Counsel's support of the Stipulation  
20   and Agreement (Agreement) regarding an Experimental Regulatory Plan (ERP) for Kansas City Power

1 & Light Company (KCPL or Company). I will address the underlying regulatory policies that Public  
2 Counsel believes support this Agreement and will demonstrate how the ratepayers are protected under  
3 this Agreement.

4 **Q. PLEASE EXPLAIN PUBLIC COUNSEL'S PARTICIPATION IN THE PROCESS**  
5 **THAT RESULTED IN THE STIPULATION AND AGREEMENT.**

6 A. The events and cases that led up to this Agreement are set out in Paragraph II., "Procedural History" of  
7 the Agreement and, therefore, for sake of brevity, I will not repeat that history in this direct testimony.  
8 Public Counsel was represented by one or more individuals at all workshops and team meetings  
9 discussed in Paragraph II. Public Counsel issued formal and informal data requests, reviewed responses,  
10 conducted interviews, received training on the corporate financial model, analyzed the corporate financial  
11 model and requested changes to it, participated in meetings with other parties, and participated in the  
12 negotiation of the Agreement with all signatory parties and some of those entities that ultimately did not  
13 sign the Agreement.

14 **Q. WHAT WAS YOUR PERSONAL PARTICIPATION IN THIS CASE?**

15 A. Ryan Kind and I served as the primary Public Counsel staff members on this project. I believe it would  
16 be accurate to state that at least one of us, and often both of us, attended every major meeting or  
17 presentation since the first workshop was held on June 21, 2004. The primary focus of my efforts was  
18 to develop the concepts for a financial plan that provides the Company with adequate cash flows while  
19 also ensuring that ratepayers enjoy just and reasonable rates and, most importantly, that ratepayers  
20 receive recognition for ratepayer monies paid to ensure cash flows. To that extent, I analyzed the  
21 Company's corporate financial model that projects financial performance over a forward-looking 10-

1 year period. I requested the Company to make modifications to its model to better focus the results on  
2 cash flows and then evaluated those results. The model included forecasts of the original cost of the new  
3 construction provided for in the Agreement and assumed rate changes consistent with Missouri law  
4 regarding exclusion of Construction Work in Progress (CWIP) from the revenue requirement.

5 I evaluated the results of the MPSC Staff's earnings review of the KCPL's operations using traditional  
6 revenue requirement procedures on a Missouri jurisdictional basis. It should be noted that the MPSC  
7 Staff's earnings review, while extensive, was not to the level or the depth of a general rate proceeding  
8 audit.

9 **Q. WHAT IS THE PURPOSE OF THE EXPERIMENTAL REGULATORY PLAN?**

10 A. The fundamental goal of the Experimental Regulatory Plan in this Agreement is to provide the customers  
11 in the service territory of the Company with safe and reliable service at just and reasonable rates. This  
12 Agreement is premised on the unique circumstances of the Company and the financial and other  
13 considerations created by building a base load coal-fired electric generating facility, adding  
14 environmental control systems to existing generation fleet facilities, and taking other measures to address  
15 existing load and load growth in a cost effective manner.

16 **Q. DOES THE EXPERIMENTAL REGULATORY PLAN IN THE AGREEMENT CONTAIN**  
17 **PROVISIONS THAT ARE INTENDED TO ACHIEVE THE GOAL OF PROVIDING**  
18 **SAFE AND ADEQUATE SERVICE AT JUST AND REASONABLE RATES?**

19 A. Yes. The Agreement contains numerous provisions aimed at providing safe and adequate service at just  
20 and reasonable rates. The plan provides a framework that should lead to reasonable rates during the  
21 expected 5-year duration of the construction period for the projects included in the Regulatory Plan. The

1 plan also helps provide for reasonable rates for the five years following the effective date of the tariffs  
2 that include in rate base all investments set out in the Agreement that meet the in-service criteria set out  
3 in the Agreement.

4 **Q. IN YOUR OPINION, WILL THIS AGREEMENT RESULT IN A LOWER RATE**  
5 **FOR CUSTOMERS?**

6 A. Yes. This Agreement contains provisions that facilitate lower rates for customers in the future than  
7 would exist absent this Agreement. Specifically, this Agreement provides for lower capitalized facilities  
8 costs during the period of construction and therefore will result in lower future rate base upon which  
9 customers must pay a return of and on. This Agreement should have a positive impact on the credit  
10 rating of the Company and thus KCPL should experience lower debt costs to be passed on to the  
11 consumer in the form of lower future rates (the Company has also made representations regarding  
12 potential credit downgrades absent an agreement).

13 **Q. ARE THERE ANY ANCILLARY BENEFITS RESULTING FROM THIS**  
14 **AGREEMENT?**

15 A. Yes. One ancillary benefit of this Agreement is the structure of the future rate cases that arise during the  
16 anticipated 5-year construction phase of the Iatan 2 unit. During the construction period, one mandatory  
17 rate case will be filed and new tariffs become effective with the option for two additional rate cases.  
18 These cases, in conjunction with the Additional Amortization (Agreement, Paragraph III.B.i.) and the  
19 treatment of SO<sub>2</sub> Allowances, will eliminate much of what is referred to as "rate shock" that traditionally  
20 is associated with the addition and inclusion of a major electric generating facility into rate base.

Another ancillary benefit is that the Company will make timely investments in new generation facilities, in environmental control upgrades at existing facilities, and in enhancements to the transmission system to ensure safe and reliable service. (See, Agreement, "Timely Infrastructure Investments" p. 44, for a listing of the investments). Appendix D-1 to the Agreement lists the in-service dates for these various projects. The Company has also committed to institute programs to test the viability of reliably meeting future supply needs through demand response and efficiency programs. (See, Agreement, "Demand, Response, Efficiency, and Affordability Programs," paragraph III.B.5, for an outline of the programs).

**Q. DOES PUBLIC COUNSEL BELIEVE THE EXPERIMENTAL REGULATORY PLAN WILL BENEFIT MISSOURI CONSUMERS?**

A. Yes. Public Counsel believes this plan provides the consumer with sufficient benefits and adequate protections during the term of the Agreement such that Public Counsel was willing to enter into the Stipulation and Agreement and support its approval by the Commission.

**Q. PLEASE SUMMARIZE THE BENEFITS OF THIS PLAN THAT HAD DIRECT QUANTIFIABLE IMPACTS ON THE CONSUMER'S BILL.**

A. In general terms, here is a list that highlights the Experimental Regulatory Plan's benefits:

1. Recognizes the need for and encourages the development of a long-term source of base load electric supply for Missouri (based on current knowledge and data).
2. The cost to consumers for the new electric generating facility is reduced over the life of the plant.
3. Provides for revenue requirement recognition of reduced depreciation expense due to the longer service life estimated for the Wolf Creek Nuclear Generation facility for depreciation rate determination.
4. Provides for the Company's acknowledgement of the continued inclusion in revenue requirement of net income from off-system sales and transmission service, which results in lower cost of service for consumers.

5. Ensures that there are no rate increases until January 1, 2007.

6. Provides that the Company will implement affordability programs for those customers requiring assistance.

**Q. PLEASE OUTLINE THE CONSUMER PROTECTIONS THAT PUBLIC COUNSEL BELIEVES ARE CRITICAL IN THIS EXPERIMENTAL REGULATORY PLAN.**

A. Public Counsel believes the following highlights the major consumer protections included in the Agreement. It should be noted that some of these highlighted benefits and protections result from a comparison of the Experimental Regulatory Plan outlined in the Stipulation and Agreement in this case to the regulatory plan originally proposed by the Company in Case No. EO-2004-0577 and EW-2004-0596. Here are the major consumer protections included in the Agreement.

1. Ensures that there will be regulatory oversight at the time of all rate changes during the regulatory plan.

2. Provides that if consumers provide cash flow to the Company via additional amortization expense, customers will receive recognition of this "return of" investment through reduction of rate base.

3. Provides for continued recognition of SO<sub>2</sub> emission allowances sales in the determination of revenue requirement thus properly using these revenues to benefit customers who pay for the generating facilities and fuel expense from which these allowances are derived.

4. Ensures future customer rates will be based on all relevant factors and does not allow any party to benefit from the use of single-issue rate mechanisms during the Regulatory Plan.

5. Requires the Company to identify and assign to the Missouri jurisdiction funds provided by Missouri retail customers, via depreciation or amortizations, that otherwise could be lost via changes in future jurisdictional allocation procedures.

6. Provides that the Company will implement a cost control / monitoring process for the construction projects required under the regulatory plan.

7. Provides for regulatory oversight and review of the construction process and cost of the new investments set out in the Agreement.

1    **Q.    DOES THE AGREEMENT PROVIDE OTHER BENEFITS THAT MAY OR MAY NOT**  
2    **HAVE AN EFFECT ON THE REVENUE REQUIREMENT?**

3    A.    Yes. The Regulatory Plan has other factors that a Signatory Party or Parties believed important to  
4    include or to recognize when evaluating the plan. These factors include:

- 5        1.    Providing increased diversity of resources used to meet customer needs for electric  
6        service by.
  - 7            a.    Providing for wind generation for the first time on the KCPL system.
  - 8            b. Providing for Demand Response and Efficiency programs to address future  
9            resource needs.
  - 10          c. Addressing risk mitigation associated with single source or volatile price fuels.
- 11       2.    Assists in addressing the Kansas City metropolitan area clean air issues.
- 12       3.    Provides both construction and permanent jobs in Missouri.
- 13       4.    Increases capital investment in Missouri and resulting local tax base.

14   **Q.    WHY DOES PUBLIC COUNSEL BELIEVE THIS AGREEMENT WILL BENEFIT**  
15   **MISSOURI CONSUMERS?**

16   A.    It is Public Counsel's belief that this Agreement as structured will result in rates that ultimately will be  
17   lower than would occur absent the Agreement while at the same time will maintain safe and adequate  
18   service.

19   The Company asserted that, absent adequate cash flow, it would be unable to make the necessary  
20   investments to provide electricity using a newly constructed coal fired generating unit. Public Counsel  
21   recognizes that cash flow is an important consideration during long-term, large-scale construction  
22   projects. However, Public Counsel was unable to independently verify the Company's assertion. But  
23   Public Counsel recognizes that historically consumers provided cash flow during periods of major long-  
24   term construction projects via the regulatory process in addition to that which would have occurred



1 under then existing regulatory practices. A critical feature of this Agreement is that the customers will  
2 receive recognition of and credit for any additional cash flows provided through the regulatory process.  
3 This recognition, albeit via a different mechanism than past practice, is consistent with the procedures  
4 used to provide recognition of ratepayer provision of cash flows during the last major construction phase  
5 experienced by the electric industry in Missouri from the mid-1970s to the mid-1980s.

6 The recognition of the customer contribution of cash flow is in stark contrast to the Company's original  
7 regulatory plan, filed in Case No. EO-2004-1577, that requested increased (i.e. inflated) earnings to  
8 provide cash flow. Increasing the level of earnings (i.e. return on equity) during a construction period for  
9 the purpose of providing cash flow results in the customer paying higher rates currently and  
10 subsequently requires the customer to pay for the new plant whose construction cycle created the  
11 additional cash flow concerns. Under the original regulatory plan, there would not have been any  
12 consideration or recognition of the monies paid by the customers for the inflated earnings to address the  
13 cash flow concerns.

14 **Q. YOU REFERENCED PREVIOUS REGULATORY TREATMENT OF CASH FLOW**  
15 **NEEDS. HAS CASH FLOW BEEN AN ISSUE DURING PREVIOUS PERIODS OF**  
16 **MAJOR CONSTRUCTION PROJECTS?**

17 **A.** Yes. During the last large power plant construction period utilities experienced (from the mid- 1970s  
18 until the Wolf Creek nuclear generating station was complete and operational in 1985), the revenue  
19 requirement of utilities engaged in large plant projects was determined using a procedure referred to as  
20 normalization of tax timing differences. The tax laws allowed utilities to take addition depreciation  
21 expense for the computation of income taxes actually paid, thus reducing their current income tax paid,

1 but increasing future income tax paid. However, the tax laws allowed the regulatory commissions to  
2 incorporate the actual taxes paid into the revenue requirement and thus “flow-through” the benefit of  
3 lower current income taxes paid to the consumer in the regulatory process and thus not increase the cash  
4 flow to the utility. This was the traditional practice of the Commission absent a showing that a utility  
5 was experiencing cash flow issues. Regulatory commissions had the option to ignore the reduced current  
6 income taxes actually paid and set rates as if the taxes were actually paid; this process, referred to as the  
7 normalization of tax timing differences requires customers to provide additional tax flow to the utility.  
8 This created a deferred tax liability to recognize that the utility would eventually have to pay the income  
9 tax. The regulatory process also recognizes the deferred tax as a reduction to rate base because the  
10 customer had provided these monies (additional cash flow) to the utility.

11 **Q. HOW WERE CASH FLOW CONCERNS ADDRESSED DURING THE PRIOR PERIOD**  
12 **OF MAJOR ELECTRIC GENERATING FACILITIES CONSTRUCTION?**

13 A. During the previous electric plant construction period, the Commission routinely utilized normalization  
14 procedures in lieu of its traditional flow-through approach for setting rates. Due to changes in the federal  
15 income tax laws as a result of the Tax Reform Act of 1986, the flow-through option for tax timing  
16 differences is essentially no longer available. The significant tax timing differences, in terms of dollars,  
17 are currently required to be normalized for regulated utilities.

18 **Q. PLEASE EXPLAIN WHY INFLATED EARNINGS TO PROVIDE CASH FLOW**  
19 **WOULD RESULT IN HIGHER CURRENT RATES THAN THE AMORTIZATION**  
20 **PROCESS INCLUDED IN THE AGREEMENT.**

1 A. The reason for the higher rates would be the income taxes associated with receiving a dollar of earnings.  
2 Simply put, utilities pay income taxes **only** on their earnings. Therefore, to receive a \$1.00 of earnings,  
3 a utility must receive approximately \$1.62 of revenue from the customer. The amortization procedure  
4 included in this Agreement anticipates that amortization expense (the accelerated recovery of past capital  
5 investments of the company) will be offset in the income tax calculation by the depreciation expense  
6 associated with the new investment. This will reduce or eliminate the 62 cents that must be recovered  
7 from the customer to provide a \$1.00 of cash flow to the Company during the construction phase.

8 **Q. PLEASE EXPLAIN WHY PROVIDING ADDITIONAL CASH FLOW VIA**  
9 **INCREASED EARNINGS WOULD REQUIRE THE CUSTOMER TO SUBSEQUENTLY**  
10 **PAY MORE WHEN THE NEWLY CONSTRUCTED PLANT IS INCLUDED IN RATE**  
11 **BASE.**

12 A. The incremental earnings for cash flow would be recorded on the financial records, first as a revenue  
13 and, ultimately as an increase to stockholders equity. In turn, this supports the construction projects that,  
14 upon being placed in-service, will be investments that are included in rate base. Once included in rate  
15 base, the ratepayer would then be required to pay not only a return on the investment, but also a return of  
16 the investment supported by earnings from a prior period. Effectively, the customer would pay for a  
17 portion of the total investment twice plus pay a return on the total investment prior to it being fully  
18 depreciated. In contrast, the Additional Amortization expense included in the Agreement will result in an  
19 increase in the Accumulated Reserve for Depreciation in the future. It will be used a reduction to rate  
20 base to recognize that the customer has already paid for the past investment and no longer has to pay a  
21 return on these past investments. As a result of this Agreement, the total rate base and the resulting  
22 future rates will be lower. Stockholders also receive an advantage of a reduced investment risk

1 associated with loss of capital because they will have received a return of their investment in a shorter  
2 time frame due to the Additional Amortization.

3 **Q. HAVE THE PARTIES AGREED TO PROVIDE ADDITIONAL CONSUMER**  
4 **BENEFITS UNDER THIS AGREEMENT WITH RESPECT TO THE TOTAL**  
5 **ORIGINAL COST OF THE PROJECT TO BE INCLUDED IN RATE BASE IN**  
6 **RATE FILING #4, ASSUMING PRUDENT CONSTRUCTION MANAGEMENT OF**  
7 **THE PROJECT?**

8 A. Yes. The parties have agreed to reduce the equity component of the Allowance For Funds Used During  
9 Construction by 125 basis points (1.25%) in Paragraph III.B.1.g, Allowance For Funds Used During  
10 Construction ("AFUDC") for the Iatan 2 project.

11 A construction project has both direct and indirect costs charged to the project during its construction  
12 phase. Direct costs include cash payments for steel, concrete, labor, and other tangible items or services  
13 acquired to complete the project. Indirect costs include costs associated with management of the project,  
14 property taxes during the construction phases, and numerous other items. AFUDC is an indirect cost  
15 that recognizes the "cost of capital" associated with financing the project. These costs include interest  
16 expense and return on equity invested by the stockholders.

17 The 125 basis point reduction in the AFUDC rate will result in lower indirect costs being charged to this  
18 project and thus reduce the total original cost that the Company will seek to include in rate base in the  
19 future. Ratepayers will thus benefit from having a lower original cost upon which they have to provide a  
20 return "on" and "of" in the determination of revenue requirement.

1   **Q.   WILL THIS REDUCTION IN THE EQUITY COMPONENT OF THE AFUDC RATE**  
2       **AFFECT CURRENT TARIFF RATES DURING THE TIME IATAN 2 IS**  
3       **CLASSIFIED AS CONSTRUCTION WORK IN PROGRESS?**

4   A.   No. AFUDC is simply an accounting entry to capitalize to plant cost the opportunity costs associated  
5       with a stockholder's equity funds and debt interest costs. Essentially, the Company is agreeing that the  
6       stockholders will accept a lower return during the construction period in exchange for, or recognition of,  
7       the obligations of the ratepayers under this Agreement. The treatment of AFUDC also does not affect  
8       current cash flows during the construction period.

9   **Q.   PLEASE EXPLAIN THE CUSTOMER BENEFIT ASSOCIATED WITH THE**  
10       **REDUCTION IN DEPRECIATION EXPENSE DUE TO LIFE EXTENTION FOR**  
11       **THE WOLF CREEK NUCLEAR GENERATING PLANT.**

12   A.   A reduction in depreciation expense for a utility results in a dollar for dollar decrease in the revenue  
13       requirement that is paid by the customers. This benefit will be reflected in rates when tariffs from the  
14       Company's next general rate case become effective. Missouri customers will continue to receive credit  
15       for the depreciation expense based on the shorter life expectancy until such time.

16   **Q.   WHY HAVE THE PARTIES AGREED THAT THE DEPRECIATION RATE FOR THE**  
17       **WOLF CREEK NUCLEAR GENERATION STATION SHOULD BE REDUCED?**

18   A.   The current depreciation rate is based on a 40-year license from the Nuclear Regulatory Commission for  
19       the operation of the facility. It is expected that this license will be extended for another 20 years. This  
20       results in lower depreciation rates and shifts some of the responsibility for paying for the facility to the  
21       customers who will be receiving service from it during the extended life period.

1 If this Agreement is adopted, the depreciation rate based on a 60-year life will be consistent with  
2 procedures already used in Kansas. I will address protections for Missouri customers later in my  
3 testimony with regard to ensuring that Missouri customers receive recognition for additional funds paid  
4 during the time period in which Missouri and Kansas depreciation rates were different for the Wolf  
5 Creek Plant.

6 **Q. HOW DOES THE CUSTOMER BENEFIT FROM THE RECOGNITION OF NET**  
7 **INCOME FROM OFF-SYSTEM SALES AND TRANSMISSION SERVICE IN THE**  
8 **DETERMINATION OF REVENUE REQUIREMENT BOTH HISTORICALLY AND ON**  
9 **A GOING FORWARD BASIS?**

10 A. The investments used to provide off-system sales of electricity and transmission services are included in  
11 rate base on which the customer pays a return on and of in their rates. Therefore, the revenue  
12 requirement attributable to the customer should reflect prudent actions by Company management to fully  
13 utilize these assets. These actions would include taking advantage of opportunities to profitably sell  
14 power when excess capacity exists above that level of capacity necessary to serve jurisdictional retail  
15 sales and contractual requirements. Similarly, excess transmission system capacity should also be  
16 utilized to its fullest potential. Upon completion, the Iatan 2 plant will provide a significant increase to  
17 the Company's base load generation capacity. To the extent opportunities for off-system sales are  
18 created, the net margin on these sales should be used to reduce the revenue requirement as customers will  
19 not only be paying a return on and of the investment in Iatan 2 (and the rest of the generation fleet for  
20 that matter), but also will have paid the additional amortization necessary to obtain the financing during  
21 the construction of the Iatan 2 unit and other investments.

1    **Q.    PLEASE EXPLAIN HOW THE RATE MORATORIUM BENEFITS CUSTOMERS.**

2    A.    The moratorium provides the customers with stable rates through December 31, 2006.

3    **Q.    DOES THE AGREEMENT PROVIDE FOR REGULATORY OVERSIGHT OF ALL**  
4    **RATE CHANGES DURING THE REGULATORY PLAN?**

5    A.    Yes.

6    **Q.    IN YOUR OPINION, DID THE COMPANY'S ORIGINAL REGULATORY PLAN**  
7    **PRESENTED IN CASE NUMBERS E0-2004-0577 AND EW-2004-0596**  
8    **PROVIDE FOR REGULATORY OVERSIGHT OF ALL RATE CHANGES?**

9    A.    No. The Company's proposal would have required a series of tariff increases to be approved for  
10    implementation over a five-year period based on Company projections of expenses and investments.  
11    There would not have been an opportunity for review of actual data or market conditions prior to any of  
12    the effective dates of the tariffs. Additionally, the in-service status of the new investments included in the  
13    Company forecasts would not have been determined prior to the effective date of the proposed tariffs.

14   **Q.    DOES THE EXPERIMENTAL REGULATORY PLAN SET OUT A STRUCTURE TO**  
15   **REVIEW ACTUAL DATA AND ENSURE IN-SERVICE STATUS OF NEWLY**  
16   **CONSTRUCTED PLANT PRIOR TO THE INCLUSION OF SUCH PLANT IN RATE**  
17   **BASE?**

18   A.    Yes. Paragraph III.B.3., Expected Rate Cases During Regulatory Plan, addresses the regulatory process  
19   and certain procedures to change rates during the Regulatory Plan and through the in-service date of the  
20   Iatan 2 generating facility. The Company agreed to not seek changes in any rates outside of the two

1 required general rate cases (Rate Filings #1 & #4) identified in Paragraph III.B.3 and the two anticipated  
2 general rate cases (Rate Filings #2 & #3).

3 The Agreement sets out the expected timing of these rate filings. The Agreement also addresses several  
4 areas of each case including case schedules, known and measurable update periods, true-up dates,  
5 intervention status, new infrastructure investments, amortization expense, revenue imputations, and class  
6 cost-of-service/rate design. Construction Accounting (Paragraph III.B.3.d.(vii), at p. 43) sets out the  
7 procedures to address the earnings impact of a new large base load electric generating facility on the rate  
8 base of the Company. It is anticipated that the Iatan 2 facility will increase rate base by over 20% at the  
9 time it reaches in-service status.

10 In-Service Criteria (Paragraph III.B.1.(l) ) sets out the criteria for the various proposed investments that  
11 each investment must meet prior to being declared in-service and then eligible for inclusion in rate base.

12 **Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THAT AMORTIZATIONS:**  
13 **TEN (10) YEAR RECOGNITION OF FUTURE BENEFITS (PARAGRAPH**  
14 **III.B.2.P) CONTAIN ESSENTIAL RATEPAYER PROTECTIONS.**

15 A. The Additional Amortizations to Maintain Financial Ratios (Paragraph III.B.1.i., p. 18) will raise  
16 current rates to provide adequate cash flows to the Company subject to certain conditions as set out in  
17 this Agreement. As previously discussed, this amortization represents a return of the investment made  
18 by the Company in plant-in-service that is included in rate base. Once paid, the ratepayers will no longer  
19 have to pay a return on these assets in rate base. In order for the customers to receive the benefits of the  
20 payment of the amortization expense, future rates must reflect the resulting lowering of rate base and  
21 also ultimately the reduction in total payments remaining in order to provide the Company a return "of"



1 its investment. The purpose of Paragraph III,B.1.p is to recognize that customers are entitled to this  
2 benefit and give the customers some assurance that at a minimum, some of this benefit will in fact be  
3 recognized and not altered by some unknown future event.

4 This paragraph also requires the Company to recognize the benefits to ratepayers associated with the  
5 continued amortization of \$3.5 million initially authorized in Case No. EO-94-199. In addition,  
6 Appendix G of this Agreement, sets out the depreciation and amortization rates for Missouri  
7 jurisdictional plant in service.

8 Another amortization affected by this paragraph is the deferral of SO<sub>2</sub> revenues. These revenues are to  
9 be deferred for recognition in the revenue requirement until Rate Filing #4. This deferral recognizes that  
10 these monies are due the customers and as such are customer supplied funds to the Company and  
11 therefore are to be used as an offset to rate base not only during the construction period, but also in the  
12 period following the in-service date of Iatan 2.

13 Finally, Appendix G, Depreciation and Amortization Rates, sets out the rates (i.e. time periods) over  
14 which the original cost of KCPL's plant is allocated to the income statement and the cost of service for  
15 rate making purposes. The resulting accumulated reserves represent customer-supplied funds and serve  
16 as an offset to the original cost of the plant in the determination of rate base.

17 **Q. THE AGREEMENT SETS OUT RECOMMENDATIONS FOR THE TREATMENT OF**  
18 **THE SALES OF SO<sub>2</sub> EMISSION ALLOWANCES DURING THE CONSTRUCTION**  
19 **PERIOD. HOW DOES THE SALE OF SO<sub>2</sub> EMISSION ALLOWANCES IMPACT**  
20 **REVENUE REQUIREMENTS?**

1 A. The recognition of SO<sub>2</sub> emission allowances transactions would normally be included in the revenue  
2 requirement determination after review of all associated factors. Operating revenue from sources other  
3 than revenue received via tariffs allows for lower rates charged under tariffs. The customers pay the cost  
4 (expense and investment costs) associated with the provision of normal on-going utility services and thus  
5 revenues resulting from utility operations should be recognized in the ratemaking process.

6 **Q. WHY DOES THIS AGREEMENT ADDRESS THE SALE OF SO<sub>2</sub> EMISSION**  
7 **ALLOWANCES?**

8 A. The process set out in the Agreement recognizes two distinct circumstances that Public Counsel believes  
9 warrant a change in the normal ratemaking treatment. Providing a favorable method of generating cash  
10 flow during the construction period is a primary driver of this Agreement. The sale of SO<sub>2</sub> emission  
11 allowances without current recognition in the revenue requirement will provide additional cash flow to  
12 the Company during the construction period of the environmental upgrades contemplated under this  
13 Agreement.

14 The second circumstance is that the construction projects, which include environmental upgrades of  
15 existing plants, will result in lower emissions and thus make available more SO<sub>2</sub> emission allowances  
16 currently available for sale. The Agreement provides for the deferral of the net income recognition of  
17 SO<sub>2</sub> emission allowance transactions that will occur in the first two years and the subsequent recognition  
18 in revenue requirement via an amortization of the deferral to operating revenues in the future periods.

19 **Q. PLEASE EXPLAIN PUBLIC COUNSEL'S POSITION ON THE PROVISION FOR**  
20 **A SPECIFIC PERIOD OVER WHICH THE AMORTIZATION WILL OCCUR.**

1 A. The availability of SO<sub>2</sub> emission allowances for current sale result in part, from future investments in  
2 environmental upgrades. It is therefore anticipated that the Internal Revenue Service will treat this  
3 transaction as a like-kind exchange. IRS treatment as a like-kind exchange will eliminate potential  
4 current income tax consequences. If that occurs, the appropriate treatment of the resulting deferred  
5 revenues would be to recognize the revenues over the life of the property that created the revenues.

6 **Q. WHAT HAPPENS IF THE INTERNAL REVENUE SERVICE DOES NOT TREAT**  
7 **THE TRANSACTION AS A LIKE-KIND EXCHANGE?**

8 A. Such a finding would mean that the IRS, would find that, in fact, the relationship between the SO<sub>2</sub>  
9 emission allowances sold currently and the investment in environmental controls is not directly linked.  
10 Absence such linkage, Public Counsel believes it appropriate to return the deferred monies to the  
11 ratepayers over the shortest period possible that takes into consideration the cash flow effects on the  
12 Company and impact on rate changes. This recommendation would occur in Rate Filing #4. The  
13 deferral of SO<sub>2</sub> emission allowances would be continued until that time in order to provide cash flow.  
14 The deferral in either instance will be recorded as a regulatory liability (i.e. monies due to customers).

15 **Q. ARE THERE CUSTOMER PROTECTIONS RELATED TO RATE CHANGES THAT**  
16 **DO NOT CONSIDER ALL RELEVANT FACTORS OF THE COST OF SERVICE IN**  
17 **THE AGREEMENT?**

18 A. Yes. The current regulatory process looks at all relevant factors when determining rates. The resulting  
19 matching of all components of the total cost of service precludes any party from gaming the system to  
20 achieve either lower or higher earnings than would be just and reasonable had all relevant components of  
21 the total cost of service (revenue requirement) been reviewed. KCPL has agreed in Single-Issue Rate

1 Mechanisms (Paragraph III.B.1.c.) to not seek to utilize any mechanism that would allow rate changes  
2 outside of a general rate case unless all relevant factors are considered. Public Counsel believes this  
3 paragraph provides an essential protection to ensure that customers pay just and reasonable rates.

4 The paragraph also allows the Company to address potentially volatile fuel costs in a manner that sets  
5 rates with due consideration to all relevant factors. The Interim Energy Charge allowed under the  
6 Agreement will be set in the context of a general rate proceeding and will not be subject to change  
7 outside of a general rate case.

8 **Q. KCPL IS A COMPANY THAT HAS RETAIL OPERATIONS IN BOTH MISSOURI**  
9 **AND KANSAS. DOES THIS AGREEMENT PROVIDE PROTECTIONS TO ENSURE**  
10 **THAT FUNDS PROVIDED BY MISSOURIANS DO NOT SUBSEQUENTLY BENEFIT**  
11 **KANSAS CUSTOMERS?**

12 **A.** Yes. Several paragraphs of the Agreement require the Company to develop and maintain records that  
13 identify payments made by Missouri retail customers. These payments by Missouri customers will  
14 reduce the determination of rate base in future rate cases. Absent this Agreement, the identification of  
15 these funds would be lost amid the jurisdictional allocation process in future cases. The Kansas service  
16 territory of the Company is its fastest growing business segment and as such the allocation factors will  
17 continue to assign more of the cost of service to Kansas. To the extent Missouri customers have paid  
18 monies that would serve to offset this cost of services, the jurisdictional allocation process should not  
19 inadvertently assign these cost reductions to Kansas. The following paragraphs address specific  
20 instances where such an occurrence would happen absent the prohibitive language included in the  
21 Agreement.

Paragraph III.B.1.d. - SO<sub>2</sub> Emission Allowances

Paragraph III.B.1.h. - Current Amortizations

Paragraph III.B.1.i. - Additional Amortizations to Maintain Financial Ratios

Paragraph III.B.1.m. – Wolf Creek Depreciation Reserve

**Q. WILL THE REQUIREMENT TO IMPLEMENT A CONSTRUCTION PROJECT COST MONITORING SYSTEM BENEFIT CUSTOMERS AND STOCKHOLDERS?**

A. Yes. The system will provide the Commission, the signatory parties, and the Company with a procedure to review the cost incurred. During the construction period, a properly designed system will identify areas for potential cost overruns and other circumstances that would have detrimental impacts to the customer and stockholder and the economics of the project itself.

**Q. PLEASE EXPLAIN THE REGULATORY OVERSIGHT AND REVIEW OF THE CONSTRUCTION PROJECTS ADDRESSED IN THIS AGREEMENT.**

A. Paragraph III.B.3. of the Agreement contains four sub-paragraphs (one per Rate Filing section) entitled “Infrastructure” which specifically sets out the rights of the parties to address the question of prudence with respect to the management of the construction projects, construction expenditures, and the total cost of the projects to be included in rate base. It is Public Counsel’s belief that the signatory parties have reached agreement with respect to what has been termed “decisional” prudence regarding the need for the projects and the initial decision to move forward with the planning, design, and construction of the projects based on information and data provided by KCPL.

The Agreement does not contemplate that the signatory parties have given up their right to review the prudence of continuing the projects under changed circumstances. The Agreement does not contemplate that the signatory parties have given up their right to challenge the management of the construction

1 projects or the resulting costs. Further, Public Counsel would not recommend that this Commission  
2 abandon its ability to do so as Public Counsel believes that in so doing, the Commission would not be  
3 able to fulfill its obligation to ensure safe and adequate service to the customers at just and reasonable  
4 rates.

5 The Agreement specifically requires KCPL to actively monitor the major factors and circumstances of  
6 its resource plan and take steps to inform the Signatory Parties and ultimately the Commission if changes  
7 occur that would warrant a change in investment strategy from that determined in the initial decision to  
8 begin the planning and construction of the investments listed on Appendix D-1 and D-2. It is Public  
9 Counsel's belief that the Agreement anticipates that some or all non-KCPL Signatory Parties also will  
10 continue to monitor the circumstances and data that support the initial decision to proceed. If changes in  
11 these factors occur, the Signatory Parties have the ability to inform the other Signatory Parties and  
12 ultimately the Commission and make a recommendation on whether to continue with construction  
13 without changes or to identify needed changes will be addressed and brought to the Commission. Finally  
14 it is Public Counsel's belief that the Agreement anticipates that the signatory parties, or at least some of  
15 them, will perform construction audits in the various anticipated rate cases, to review the performance of  
16 the management of the projects and the related costs.

17 **Q. DOES THE REGULATORY PLAN CONTAINED IN THE AGREEMENT PROVIDE**  
18 **FOR THE INCORPORATION OF CONSTRUCTION WORK IN PROGRESS (CWIP)**  
19 **IN THE DETERMINATION OF REVENUE REQUIREMENT FOR CURRENT RATES**  
20 **OR, IN THE ALTERNATIVE, ESTABLISH A PROCESS THAT INCORPORATES**

**CWIP IN THE DETERMINATION OF REVENUE REQUIREMENT APPROVED  
DURING THE REGULATORY PLAN?**

A. No. The Agreement does not provide for any change in current tariff rates. Furthermore, the process set out in Paragraph 3, "Expected Rate Cases During the Regulatory Plan" provides for regulatory procedures (including the use of true-up mechanisms) that ensure investment in plant must be used and useful and in-service prior to its inclusion in the determination of revenue requirement. Paragraph III.B.3. sets out the procedures for each of the expected rate cases and includes a sub-paragraph entitled "Infrastructure" that specifically states the construction projects (identified in Appendix D to the Agreement) must be "in-service prior to the agreed upon true-up date". In addition, Appendix H, "In-Service Criteria" sets out the criteria for evaluating and testing the performance of the various projects so that they can be declared to be in-service for regulatory purposes.

**Q. IS THE AGREEMENT SUBJECT TO MODIFICATION BASED UPON A CERTAIN  
ACTIONS TAKEN BY STAKEHOLDERS IN KANSAS AND APPROVED BY THE  
KANSAS CORPORATION COMMISSION REGARDING KCPL AND THE IATAN 2  
PLANT?**

A. Yes. Agreement Conditioned on Regulatory Plan Approval By Kansas Corporation Commission, (Paragraph III.B.6., p. 49) specifically provides for this contingency. The Agreement states "If the terms of the Regulatory Plan agreed upon in Kansas and/or required by the KCC are not comparable to the terms agreed to in Missouri and required by this Commission, KCPL agrees that it will offer to the other Signatory Parties in Missouri and accept comparable terms to those terms agreed upon in Kansas and/or required by the KCC". Public Counsel asks the Commission to leave this case open to incorporate any conditions approved by the KCC that the Signatory Parties wish to incorporate into the Missouri

1 Agreement. Public Counsel anticipates that there will be some changes the Signatory Parties will want  
2 to make in the Missouri Agreement to reflect provisions in the Kansas agreement.

3 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON BEHALF OF THE OFFICE OF**  
4 **PUBLIC COUNSEL.**

5 A. Public Counsel believes this Agreement fairly balances the interests of consumers and stockholders. The  
6 Agreement contains provisions to protect consumers and provide them with tangible benefits. The  
7 stockholders also receive benefits such as construction accounting addressed in Paragraph III.B.3.d.(vii)  
8 Construction Accounting and protections such as decisional prudence.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes.