Exhibit No.:	______________
Issue(s):	Additional Amortizations to Maintain Financial Ratios SO_2 Emission Allowances Aquila Inc. Purchase Transition Costs Iatan 2 O&M Expenses
Witness:	Ted Robertson
Type of Exhibit:	Direct
Sponsoring Party:	Public Counsel
Case Number:	ER-2010-0355
Date Testimony Prepared:	January 5, 2011

SURREBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2010-0355

January 5, 2010

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval To Make Certain Changes in its Charges for Electric Service	))))	**File No. ER-2010-0355**

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Chief Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ted Robertson, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 5th day of January 2011.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037

Jerene A. Buckman
Notary Public

My Commission expires August, 2013.

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SURREBUTTAL TESTIMONY
OF
TED ROBERTSON

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2010-0355

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. I will provide the Public Counsel surrebuttal to the Rebuttal Testimony of Kansas City Power & Light Company's (KCPL or Company) witnesses, 1) Mr. John P. Weisensee - Additional Amortizations to Maintain Financial Rations, SO_2 Emission Allowances, and Iatan 2 O&M Expenses, and 2) Mr. Darrin R. Ives - Aquila Inc. Purchase Transition Costs. I will also provide surrebuttal to the Rebuttal Testimony of the Missouri Public Service Commission (MPSC) Staff witness, Mr. Arthur W. Rice, regarding the Additional Amortizations To Maintain Financial Ratios.

III. ADDITIONAL AMORTIZATIONS TO MAINTAIN FINANCIAL RATIOS

Q. WHAT IS THE ISSUE?

A. Public Counsel's recommendation on this issue differs from every other party's recommendation in the case. It is my understanding, Company's proposal is similar to the Public Counsel's, but differs in that Company prefers the spreading of the accumulated additional amortizations to all plant accounts excluding the Iatan 2 plant accounts (Weisensee Rebuttal Testimony, page 26, lines 7 - 11) and does not recommend a minimum of ten years recognition in rates subsequent to their actual inclusion in the determination of rates, by vintage collected. In addition, it is my understanding that the Company's depreciation witness, Mr. John J. Spanos, has made adjustments to include the accumulated additional amortizations in the development of his depreciation study utilizing a remaining life methodology. Whereas, Mr. Greg Meyer, the Midwest Energy Users Association witness, proposes a 15 year amortization of the accumulated additional amortizations, and the MPSC Staff proposes to include the accumulated additional amortizations in the depreciation reserve accounts and then amortize the amount by not reflecting net cost of removal in depreciation rates.

Q. DOES PUBLIC COUNSEL BELIEVE IT APPROPRIATE TO INCLUDE THE IATAN 2 PLANT ACCOUNTS WHEN SPREADING THE ACCUMULATED ADDITIONAL AMORTIZATIONS TO THE PLANT DEPRECIATION RESERVE ACCOUNTS?

A. Yes. The additional amortizations were developed and authorized in order to support the Company's financial ratios due to the possible rating impacts associated with the new construction identified within the Regulatory Plan - in particular Iatan 2. To exclude the Iatan 2 plant accounts dissociates the primary driver for which the additional amortizations were implemented. Had Iatan 2 not been part of the Company's Regulatory Plan, I believe it likely that additional amortizations would not have been required or authorized. Iatan 2 was the fundamental core of the Regulatory Plan and as such the related plant should be included in the allocation of the accumulated additional amortizations. In fact, it is Public Counsel's position that only the plant accounts associated with the Regulatory Plan new construction should receive allocations of the accumulated additional amortizations.

Q. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY'S UTILIZATION OF THE REMAINING LIFE METHODOLOGY IN THE DEVELOPMENT OF ITS DEPRECIATION STUDY?

A. Public Counsel has not taken a formal position on the Company's proposed depreciation rates or the study from which they were developed, but generally supports the MPSC Staff's position, except for its cost of removal position concerning the additional amortizations, and generally does not support the remaining life methodology.

Q. WHY DOES THE PUBLIC COUNSEL NOT SUPPORT THE MPSC STAFF'S COST OF REMOVAL POSITION CONCERNING THE ADDITIONAL AMORTIZATIONS?

A. In essence, Public Counsel believes that the MPSC Staff's position "muddies the waters" because tracking the future costs and amortizations results in a more complicated process than should otherwise be required. It is my understanding, the MPSC Staff's recommendation is a "hybrid" methodology of recovery motivated to achieve two separate and distinct goals. First, the MPSC Staff seeks to obtain refund of the accumulated additional amortizations for ratepayers, and second, it seeks to resolve the unrelated issue wherein the MPSC Staff perceives Company's total depreciation reserve is over-accrued by almost a half a billion dollars (Rice Rebuttal Testimony, page 13, line 5).

The MPSC Staff's recommendation results in a lower annualized depreciation expense and recovery of actual annual cost of removal via a reduction of the additional amortizations balance; however, the cost of removal reductions would not be recognized in rates until subsequent rates are authorized. Neither would they necessarily be specific to the new construction of the Regulatory Plan. The MPSC Staff's position would also deny the Company of a more current recognition of the cost of removal and its recovery. Furthermore, Public Counsel believes that in future years, as current staffing for all the parties changes and memories fade, the process could become embroiled in unnecessary conflicts and confusion that could be bypassed by simply keeping a separate tracking of the individual costs and their retirement or amortization. That is why the Public Counsel recommends using the separate sub-accounts to book and track the accumulated additional amortizations for the benefit of ratepayers and shareholders alike. The same should be done for the over-accrued depreciation reserve amount.

Q. DID THE STIPULATION AND AGREEMENT IN KCPL, CASE NO. EO-2005-0329, PROVIDE FOR THE COST OF REMOVAL PROPOSAL RECOMMENDED BY THE MPSC STAFF?

A. No. The MPSC Staff's recommendation is a new proposal combining the return of the accumulated additional amortizations and a perceived over-accrual of Company total depreciation reserve that is not identified in or consistent with the language in the agreement. Thus, Public Counsel believes that the MPSC Staff's recommendation may not be consistent with that agreement.

Q. IS THE PUBLIC COUNSEL OPPOSED TO THE RECOMMENDATION PROPOSED BY THE MIDWEST ENERGY USERS ASSOCIATION WITNESS, MR. GREG R. MEYER, TO AMORTIZE (REFUND) THE MONIES TO RATEPAYERS OVER A PERIOD OF 15 YEARS?

A. It is Public Counsel's believe that Mr. Meyer's recommendation is also not identified in or consistent with the language in the Stipulation and Agreement of Case No. EO-2005-0329; however, his proposal is merely a slight modification of the agreement because he is attempting to pass the refunds back to ratepayers more quickly. Public Counsel is in a general sense not adamantly opposed to the recommendation because his position is aligned with our goal to make the ratepayers whole for the monies they "fronted" to the utility during the course of the Regulatory Plan; however, I believe that the Public Counsel's position is consistent with the terms of the aforementioned agreement.

IV. SO_2 EMISSION ALLOWANCES

Q. WHAT IS THE ISSUE?

A. Beginning on page 1, line 14, of his Rebuttal Testimony, Mr. John P. Weisensee provides testimony wherein he attempts to support Company's position that the SO_2 emission allowance regulatory liability be flowed back to ratepayers over 21 years rather than 5 years as proposed by Public Counsel. Essentially, his testimony attempts to justify the Company's position based on two factors, 1) an alleged linkage of the funds received with the environmental asset construction financing at the time of the Regulatory Plan, and 2) an analysis of the discounted cash flow value of the 21 year amortization versus a 5 year amortization. Public Counsel believes that neither position is valid or completely accurate.

Q IS THERE A LINKAGE BETWEEN THE FUNDS RECEIVED FROM THE SALES AND THE ENVIRONMENTAL CONSTRUCTION FINANCING?

A. No. Mr. Weisensee's rendition of the Stipulation and Agreement in Case EO-2005-0329, as stated on page 2, lines 13 -19, of his Rebuttal Testimony, is not complete. Beginning on page 7, line 21, of my Direct Testimony, I included the following language from the Stipulation and Agreement:

> **The regulatory liability will be amortized over the same time period used to depreciate environmental assets (emission control equipment and other emission control investments). This provision recognizes that the sales of SO2 emission allowances to fund investments in new environmental control equipment, in order to meet emissions standards required now or in the future by legislation, MDNR or the United States Environmental Protection Agency ("EPA") regulations, are like-kind exchanges of assets.** KCPL agrees to provide all correspondence between KCPL and the United States Internal Revenue Service ("IRS") with respect to SO_2 emission allowances to the Signatory Parties, within fourteen (14) days of such correspondence. KCPL shall be obligated to define the correspondence as "Proprietary" or "Highly Confidential" if it so deems the material.

> **In the event the IRS fails to certify SO_2 emission allowance sales as like-kind exchanges, the Signatory Parties agree that the above agreement on the amortization period for the regulatory liability is no longer binding on, or prejudicial to, KCPL or the other Signatory Parties, and that KCPL and the Signatory Parties are free to, and may, recommend the appropriate amortization period for such regulatory liability to be included in Rate Filing #4 (Iatan 2 case) revenue requirement required herein and to commence on the effective date of tariffs from Rate Filing #4.**

Clearly, the language of the Stipulation and Agreement recognized that the failure to obtain IRS certification of the sales as a like-kind exchange was a "critical factor" to this issue and to the parties involved in the settlement. Absent the certification, the provision was no longer binding on the parties and the Commission did not link the sales with the environmental asset construction financing at the time of the Regulatory Plan and also did not synchronize the SO_2 amortization period with the useful life of the environmental plant.

Q. WHAT WOULD HAVE BEEN THE BENEFIT OF THE IRS CERTIFICATION?

A. The parties to the case recognized that IRS certification of the sales as like-kind exchanges would have allowed the utility to avoid the assessment and payment of income taxes on the additional revenues. That would have been a benefit to ratepayers had it occurred, but it did not. In fact, there has been no testimony on the Company's part that even indicates it made a sincere effort to achieve the IRS certification.

Q. IS THERE ANOTHER REASON THAT THE FUNDS FROM THE SALES SHOULD NOT BE ARTIFICALLY LINKED AS FINANCING FOR THE ENVIRONMENTAL ASSET CONSTRUCTION?

A. Yes. The language of the aforementioned Stipulation and Agreement was an agreement between the parties to treat the monies from the sales as a non-fungible revenue. That is, the parties, **if certain events had occurred**, had agreed to treat dollars associated with the SO_2 sales, for regulatory purposes, as being earned and specifically 'tagged" for utilization within the operation of the utility. However, these events did not occur and so there is no reason to maintain the artificial misrepresentation of the actual treatment of revenues earned.

Revenue dollars earned by a regulated utility, or any company for that matter, are not normally isolated dollar by dollar and then allocated or targeted for a specific expenditure or investment. The usual approach is that the dollars are earned, deposited in various financial institutions and expended as required without the benefit of knowing which individual dollar came from which individual customer or where it was actually expended. Revenue dollars are fungible and absent an agreement such as the one in the Stipulation and Agreement to artificially modify the process their nature does not change. The very fact that the monies received from the SO_2 sales were not tracked dollar for dollar from their collection on through to the actual payment for the new environmental assets (and no information has been provided to prove that they were) proves that they are fungible and cannot be linked as argued by Mr. Weisensee.

Q. WHAT ARE PUBLIC COUNSEL'S CONCERNS WITH MR. WEISENSEE'S ANALYSIS OF DISCOUNTED CASH FLOWS?

A. Public Counsel has two concerns with his analysis. First, Mr. Weisensee failed to show what the opportunity cost to ratepayers would be in the event that they received their monies back over 5 years versus the 21 years proposed by the Company. That is, what benefit or use, monetarily or otherwise, would the ratepayers receive from receiving the funds quicker than the period proposed by the Company?

Public Counsel believes that his analysis fails to recognize that ratepayers may be able to put the funds to use in such a way that would benefit them to a degree or amount greater than that identified in his analysis. In fact, to be fair, it is more than likely that some would benefit less and some would benefit more, but since we do not know (since we cannot see into the future) how much more or less of a benefit that they would receive, we cannot quantify the issue monetarily or otherwise.

However, Public Counsel believes Mr. Weisensee's analysis has neglected this important part of the analysis. Further, we believe that because the monies belong to ratepayers they should be returned to ratepayers as quickly as possible and whether or not they benefit more or less in the future is a decision that they alone have control over.

Q. WHAT IS PUBLIC COUNSEL'S SECOND CONCERN WITH MR. WEISENSEE'S DISCOUNTED CASH FLOW ANALYSIS?

A. Public Counsel's second concern has to do with intergenerational inequity. That is, to the extent that the proceeds from the sales were associated with utility operations funded by ratepayers over approximately the last five years, the longer the amortization period for the liability the more likely it is that future ratepayers will inappropriately benefit at the expense of current ratepayers.

Public Counsel recognizes that intergenerational inequity can never be eliminated completely; however, the Regulatory Plan which artificially spawned the creation of the liability was a discrete series of events which are now coming to an end. Public Counsel believes it appropriate that the monies which rightfully belong to current ratepayers should be flowed back to them as quickly as possible so as to mitigate, as much as possible, any intergenerational inequities that have or will develop. Extending the amortization period out to the 21 years proposed by the utility merely magnifies the inequities that have already developed. Further, authorization of the 5 year amortization proposed by Public Counsel does no disservice to the utility since it recognizes that the funds associated with the liability do in fact belong to ratepayers.

V. AQUILA INC. PURCHASE TRANSITION COSTS

Q. WHAT IS THE ISSUE?

A. On page 2, lines 4 - 8, of his Rebuttal Testimony, Mr. Darrin R. Ives states that the Public Counsel's position on this issue is consistent with the Company's request in this case; however, his testimony is not completely accurate. Public Counsel's position on this issue, as stated beginning on page 11, line 32, of my Direct Testimony, is:

> Pursuant to the Commission's authorization, Company has deferred transition costs and will amortize those costs over five years beginning with the effective date of the Commission's authorization in the instant case. However, <u>while Public Counsel will not oppose what the Commission authorized for this issue, Public Counsel recommends that any future costs incurred subsequent to the test year and true-up period of the instant case not receive continued deferral authorization or amortization in any future rate cases</u>.

Q. WHY DOES PUBLIC COUNSEL RECOMMEND THE DISCONTINUANCE OF THE DEFERRAL/AMORTIZATION

AUTHORIZATION FOR ALLEGED FUTURE TRANSITION COSTS?

A. Public Counsel's recommendation is primarily based on the fact that sufficient time has already passed to effect the integration of Aquila Inc. into the operations of the current owner. In fact, it has been more than two years since the purchase of Aquila Inc. was authorized in Case No. EM-2007-0374 (the effective date of the Report and Order was July 11, 2008). Furthermore, it is my understanding, any additional transitional costs likely to be incurred may not be material and, given the dynamics of the Company's ongoing operations, may be considered costs which have been incurred due to changes caused by current operations of the total entity because there is no foolproof manner to determine whether the costs were incurred because of the purchase of Aquila Inc. or are simply a normal reaction to the operation of the utility as it currently exists.

(Emphasis added by OPC)

Public Counsel's position includes a recommendation that any future costs incurred subsequent to the test year and true-up period of the instant case not receive continued deferral authorization or amortization in any future rate cases. I have not been able to identify in any testimony where Company states its agreement with this portion of Public Counsel's recommendation, but if it does, we are in agreement. If Company does not support this recommendation, we are not consistent with the Company's position.

VI. IATAN 2 O&M EXPENSES?

Q. WHAT IS THE ISSUE?

A. Beginning on page 29, line 7, of his Rebuttal Testimony, Mr. Weisensee discusses that the Company is agreeable to the MPSC Staff's proposal to use estimated Iatan 2 O&M expense and a tracker to afford the utility recovery of the costs. He adds that not only should a tracker be established for Iatan 2, but one should be utilized to account for and track the estimated costs of the Iatan Common assets. Public Counsel opposes both the MPSC Staff's proposal and the Company's additional tracker.

Q. WHY DOES PUBLIC COUNSEL RECOMMEND THAT THE COMMISSION NOT AUTHORIZE THE O&M EXPENSES TRACKERS REQUESTED BY THE MPSC STAFF AND COMPANY?

A. As I stated in my Direct Testimony on the issue of a Transmission Expense tracker, beginning on page 13, line 20, trackers are normally utilized for material costs that significantly fluctuate that are associated with events that are outside the control of a utility's management, e.g., acts of God, government actions, etc.

In this instance, just like the proposed Transmission Expense tracker, which Public Counsel also opposes, the respective costs may be subject to increases due to the

Company's future operations; however, Iatan 2 met its in-service criteria on August 26, 2010. Company, and the other parties to the case, will have had approximately four months of cost information up and through the true-up period of the instant case with which to develop an annualized level of expenses for inclusion in the cost of service. The annualization amount, and its support, can be audited and scrutinized for prudence and reasonableness just like any other expense for which a full year's worth of data is not available. That is the normal way for accounting for such costs in the regulatory ratemaking process. Once subjected to such scrutiny, the parties can present their positions to the Commission for a decision if an agreement between the parties cannot be reached on an appropriate amount. Therefore, there is no need for the trackers proposed.

Q. WITHOUT TRACKERS ISN'T IT POSSIBLE THAT THE COMPANY COULD OVER-RECOVER OR UNDER-RECOVER ON THE ANNUALIZED AMOUNT ACTUALLY INCLUDED IN THE DEVELOPMENT OF RATES?

A. The answer is yes, but that is the nature of public utility regulation. As regulators, the Commission does not guarantee a utility that it will recover its authorized rate of return. The regulatory compact is that the utility is provided the "opportunity" to recover the authorized return. It is up to the utility's management to operate the company so as to achieve that goal.

The Commission's job is not to micro-management the utility and neither is it to absolve the company's management of its duties and responsibilities, and consequences of actions they make take. However, that is exactly what the proposed trackers would do. The trackers, both the O&M and the Transmission, would account for the dollars expended and provide for recovery on a one to one basis thus eliminating the incentive for management to control the costs and absolving them of any missteps they might have possibly taken.

Q. IS IT NOT ALSO POSSIBLE THAT WITHOUT A TRACKER RATEPAYERS COULD BE NEGATIVELY AFFECTED?

A. Yes. If the level of annualized costs included in the development of rates turn out to be higher that the actual level of costs incurred by the utility, ratepayers would end up paying higher rates than necessary to support the company's revenue requirement (assuming all other costs held equal). That is the reality of regulatory ratemaking. It is not an exact science.

Q. WHAT DO YOU MEAN WHEN YOU STATE THAT REGULATORY RATEMAKING IS NOT AN EXACT SCIENCE?

A. Simply put, regulatory ratemaking, at its core, is the process of acting as a surrogate for competition as applied to monopoly enterprises. It is the attempt to avoid, or at least mitigate, the excesses of pricing and costs associated with monopolies.

Regulators take the most recent historical financial and operational information available to develop rates which the utility's management then takes and attempts to achieve or exceed for the benefit of shareholders. The implementation of trackers, as proposed by the MPSC Staff and Company, essentially eliminates the necessity of the utility's management to compete. Why should they if the recovery of the expenditures are guaranteed?

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.