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Missouri Public
Service Commission

Exhibit No.:
Issues: Payroll and FICA Payroll Taxes;
Plant In Service and Reserve for Depreciation;
Pensions;
Unamortized Storm Costs ;
Demand Response, Efficiency and Affordability Programs;
Regulatory Expense;
Bad Debt Expense;
Wolf Creek Refueling Accrual;
Benefit Expense;
Transmission Revenue; and
Prepayments
Witness: Lori A. Wright
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2006-____
Date Testimony Prepared: January 27, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-____

DIRECT TESTIMONY

OF

LORI A. WRIGHT

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2006

KCPL Exhibit No. 7
Case No(s). ER-2006-0314
Date 10-16-06 Rptr XX

DIRECT TESTIMONY

OF

LORI A. WRIGHT

Case No. ER-2006-____

Q: Please state your name and business address.

A: My name is Lori A. Wright. My business address is 1201 Walnut, Kansas City, Missouri 64106-2124.

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

A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as Controller.

Q: What are your responsibilities?

A: As Controller, I have primary responsibility for management of KCPL's accounting function, including all accounting records, the design of internal controls and the preparation of financial reports for management and shareholders.

Q: Please describe your education, experience and employment history.

A: I graduated from The University of Iowa in 1985 with a Bachelor of Business Administration degree in Accounting. I received my Master of Business Administration degree from The University of Iowa in 1989. I am a Certified Public Accountant. I was first employed at KCPL in 2001 as Assistant Controller and became Controller in 2002. From 1990 to 2001, I held various accounting positions at Central and South West and American Electric Power (Central and South West was acquired by American Electric Power in 2000). From 1986 to 1990, I held various accounting positions at Iowa Electric Light and Power Company.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC") or before any other utility regulatory agency?

A: Yes, I have filed written testimony with the MPSC and the Kansas Corporation Commission ("KCC").

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to support the following adjustments listed on the summary of adjustments, which is attached to the direct testimony of KCPL witness Don A. Frerking as Schedule DAF-2 ("Summary of Adjustments"):

Adjustment ("Adj-")	Description
20	Payroll and FICA payroll taxes;
21 & 53	Plant in service and reserve for depreciation;
27	Pensions;
29	Unamortized storm costs;
31	Demand response, efficiency and affordability programs;
32	Regulatory expense;
41, 49 & pro forma	Bad debt expense;
42	Wolf Creek refueling accrual;
45	Benefit expense;
48	Transmission revenue, and
50	Prepayments

The dollar amounts discussed in this testimony related to these adjustments refer to total Company effects, not Missouri jurisdictional effects (unless otherwise noted). Missouri effects are determined by allocation factors sponsored by Company witness Don A. Frerking.

I. PAYROLL AND FICA TAXES

Q: What are the various components of Adj-20?

A: Adj-20 consists of the following parts:

(a) Annualized payroll costs, fuel: $5,548,499;

(b) Reversal of test year payroll costs, fuel: ($5,220,470);

(c) Annualized payroll costs, other operations and maintenance ("O&M") expense: $158,186,833;

(d) Reversal of test year payroll costs, other O&M expense: ($148,834,011); and

(e) Adjusted FICA payroll taxes: $495,221.

Q: How were the payroll annualization adjustments determined?

A: The adjustments were calculated as the difference between annualized payroll and payroll recorded in the test period (2005, consisting of nine (9) months actual and three (3) months budget). Annualized payroll costs are included in parts (a) and (c). Payroll costs recorded during the test year are included in parts (b) and (d).

Q: How was payroll annualized?

A: We annualized payroll based on the complement of employees and pay rates expected to be in effect as of September 30, 2006, the true-up date specified in this case.

Q. How were pay rates determined?

A. Pay rates for bargaining (union) employees were based on contractual agreements. Pay rates for non-bargaining employees were based on annual salary adjustments expected to be in effect March 1, 2006.

Q. Were amounts over and above base pay, such as overtime, premium pay, etc. included in the payroll annualization?

A. Yes, amounts for overtime were included at an amount equal to the average of the amounts incurred for the period January 2002 through September 2005. Amounts were included for other categories at levels comparable to those incurred in the test period.

Q. Was payroll expense associated with the Company's interest in the Wolf Creek Nuclear Operating Corporation ("WCNOC") annualized in a similar manner?

A. Yes, it was.

Q. Do the payroll annualization adjustments take into consideration payroll billed to joint venture partners and payroll charged to capital?

A. Yes, they do.

Q. How was the FICA payroll tax adjustment determined?

A. This adjustment was calculated as the difference between annualized FICA payroll tax expense and FICA payroll tax expense recorded in the test period.

Q. How was FICA payroll tax expense annualized?

A. We annualized FICA payroll tax expense by determining the FICA payroll tax associated with annualized payroll. Our calculation was done at the employee level, with consideration of the 2006 Social Security limit.

Q. Does the FICA payroll tax expense adjustment take into consideration payroll tax expense billed to joint venture partners and payroll tax expense charged to capital?

A. Yes, it does.

II. PLANT IN SERVICE AND RESERVE FOR DEPRECIATION

Q. What are the various plant-related adjustments?

A. The various plant-related adjustments include:

Adj-21- Plant in service	$ 70,574,000
Adj-53a- Reserve for depreciation	$106,695,450
Adj-53b- Retirements and net salvage	($ 39,328,000)

Q: How was Adj-21 determined?

A. This adjustment was calculated as the difference between projected December 31, 2005 plant balances and estimated plant balances as of September 30, 2006.

Q. How were the September 30, 2006 plant balances estimated?

A. We rolled projected December 31, 2005 plant balances forward by using the Company's 2006 capital budget, which has been approved by management and the Company's Board of Directors. We also included anticipated retirements during this period.

Q. Why were plant balances rolled forward to September 30, 2006?

A. This is the true-up date specified in this case.

Q. Did this adjustment to plant balances include the Wind Turbine addition scheduled for 2006?

A. No, the adjustment for the Wind Turbine is considered separately in Adj-52, which is addressed in the direct testimony of KCPL witness John Grimwade.

Q. What is the purpose of adjustments 53a and 53b?

A. In combination, these adjustments roll forward the reserve for depreciation balances from projected December 31, 2005 to September 30, 2006. The former addresses the depreciation provision component of the reserve, while the latter addresses the retirement and net salvage components.

Q. How were these two adjustments determined?

A. The depreciation provision component was calculated by multiplying the September 2005 provision times nine months to approximate the provision that would be charged to the Reserve for Depreciation from January through September 2006. The retirement and net salvage components were based on estimated retirement activity during this period.

III. PENSIONS

Q: What are the various components of Adj-27?

A. This adjustment consists of five parts:

(a) Adjust Financial Accounting Standard No. 87 "Employers' Accounting for Pensions" ("FAS 87") pension expense for ratemaking purposes to an annualized level: $18,293,891;

(b) roll forward the FAS 87 regulatory asset to the September 30, 2006 balance: $17,653,407;

(c) reflect amortization of the FAS 87 regulatory asset: $5,197,378;

(d) roll forward the net prepaid pension asset: ($15,406,298); consisting of ($8,396,432) Missouri, ($6,824,990) Kansas and ($184,876) wholesale; and

(e) annualize the Financial Accounting Standard No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("FAS 88") expense $77,739.

Parts (a), (c) & (e) adjust operating income, and are shown as a combined $23,569,008 on the Summary of Adjustments. Parts (b) and (d) adjust rate base. Attached as Schedule LAW-1 is a summary of these adjustments.

Q. Do these various adjustments include the effects of the Company's interest in WCNOC's pension plans?

A. Yes, they do.

Q. How was part (a) determined?

A. An annualized level of FAS 87 pension expense for ratemaking purposes was determined. Then FAS 87 pension expense recorded during the test year was deducted from the annualized amount.

Q. How was annualized FAS 87 pension expense determined?

A. The annualized FAS 87 expense was based on information provided by the Company's actuarial firms.

Q. Was annualized FAS 87 pension expense determined in accordance with established regulatory practice?

A. Yes, the calculation was made in accordance with the methodology documented in the Stipulation and Agreement concerning KCPL's Regulatory Plan, which the Commission approved in Case No. EO-2005-0329 ("Regulatory Plan Stipulation and Agreement").

Q. What is the purpose of part (b)?

A. This adjustment was made to roll forward the FAS 87 regulatory asset to September 30, 2006, the true-up date specified in this case.

Q. What is the nature of this regulatory asset?

A. This regulatory asset represents the cumulative unamortized difference in FAS 87 pension expense for ratemaking purposes (as discussed in part (a) above) and pension expense currently built into rates.

Q. How do you know what level of FAS 87 pension costs that rates are built on?

A. The parties to the Regulatory Plan Stipulation and Agreement established this amount as $22 million.

Q. When is the beginning point for accumulating this difference in FAS 87 pension expense for ratemaking purposes and FAS 87 pension expense currently built into rates?

A. The Regulatory Plan Stipulation and Agreement specifies the accumulation was to begin January 1, 2005.

Q. How was the FAS 87 regulatory asset rolled forward to September 30, 2006?

A. The difference between FAS 87 expense for ratemaking purposes per part (a) and FAS 87 expense currently built into rates for the nine-month period January 1, 2006 to September 30, 2006 was added to the projected regulatory asset balance at December 31, 2005.

Q. What is the purpose of part (c)?

A. This adjustment is an amortization of the FAS 87 regulatory asset mentioned in the discussion on part (b).

Q. Over what period is the FAS 87 regulatory asset amortized?

A. The FAS 87 regulatory asset is amortized over a 5-year period, as specified in the Regulatory Plan Stipulation and Agreement.

Q. What is the purpose of part (d)?

A. This adjustment was made to roll forward the net prepaid pension asset to September 30, 2006, the true-up date specified in this case.

Q. What is the nature of this asset?

A. This asset represents the initial net prepaid pension asset outlined in the Regulatory Plan Stipulation and Agreement ($63,658,444 total company, consisting of $34,694,918 Missouri and $28,963,526 Kansas) reduced by the difference between pension expense computed under FAS 87 (per part (a) above) and contributions made to the pension trusts from January 1, 2005 through September 30, 2006.

Q. How was the net prepaid pension asset rolled forward to September 30, 2006?

A. The difference between FAS 87 expense for ratemaking purposes per part (a) and projected contributions for the nine-month period January 1, 2006 to September 30, 2006 was added to the projected December 31, 2005 net prepaid pension asset balance to determine the September 30, 2006 net prepaid pension asset.

Q. How was the January 1, 2006 to September 30, 2006 FAS 87 contribution amount determined?

A. The contributions are based on the minimum contributions as determined by the Company's actuarial firms.

Q. Is the net prepaid pension asset properly includable in rate base?

A. Yes, inclusion of this asset in rate base is specified in the Regulatory Plan Stipulation and Agreement.

Q. What is the purpose of part (e)?

A. This adjustment was made to annualize FAS 88 expense.

Q. What is FAS 88?

A. FAS 88 is a financial accounting standard that addresses, among other issues, accounting for settlement of defined benefit plan obligations and curtailments of defined benefit plans.

Q. How was the FAS 88 adjustment determined?

A. The adjustment was calculated by taking the difference between annualized FAS 88 expense and FAS 88 expense recorded in the test year.

Q. How was annualized FAS 88 expense determined?

A. The annualized FAS 88 expense is based on information provided by the Company's actuarial firms.

IV. UNAMORTIZED STORM COSTS

Q. What storm do these costs relate to?

A. These costs relate to a January 2002 ice storm.

Q. What is the purpose of Adj-29?

A. This adjustment for ($3,421,501) rolls forward the deferred costs to September 30, 2006, the true-up date specified in this case.

Q. Did the MPSC authorize the Company to defer these costs?

A. Yes, the MPSC authorized deferral in Case No. EU-2002-1048.

Q. Over what period are these costs being amortized?

A. We are amortizing these costs over approximately five years, in accordance with the order granted in Case No. EU-2002-1048.

V. DEMAND RESPONSE, EFFICIENCY AND AFFORDABILITY PROGRAMS

Q: What are these programs?

A. These programs are described in detail in Appendix C to the Regulatory Plan Stipulation and Agreement and are to be implemented during the period 2005-2009. Company witness Susan K. Nathan further describes these programs in her direct testimony.

Q. Why are these costs being deferred?

A. In accordance with the Regulatory Plan Stipulation and Agreement, the Company established a regulatory asset to accumulate these costs as they are incurred during this five-year period.

Q. What is the purpose of Adj-31?

A. This adjustment has two components, one affecting rate base and the other affecting operating income.

Q. Why is there an adjustment to rate base?

A. In accordance with the Regulatory Plan Stipulation and Agreement these program costs are includable in rate base. The adjustments of $3,077,375 (Missouri programs) and $3,042,375 (Kansas programs) roll forward the deferred costs to September 30, 2006, the true-up date specified in this case.

Q. Why is there an adjustment to operating income?

A. The operating income adjustment of $694,128 provides a full-year amortization of the estimated September 30, 2006 deferred cost balances.

Q. Was amortization addressed in the Regulatory Plan Stipulation and Agreement?

A. Yes, the Regulatory Plan Stipulation and Agreement specifically states that the 2006 rate case will include an amortization of these deferred customer program costs.

Q. What was the amortization period used in the adjustment?

A. These costs are being amortized over a ten-year period as specified in the Regulatory Plan Stipulation and Agreement.

VI. REGULATORY EXPENSE

Q. What are Regulatory expenses?

A. While the term typically refers to various federal, state and local costs this adjustment addresses incremental rate case expenses in this case.

Q. What is the purpose of Adj-32?

A. This adjustment has two components, one affecting rate base and the other affecting operating income.

Q. Why is there an adjustment to rate base?

A. Regulatory expense costs are included in rate base and this adjustment of $2,250,000 ($1,125,000 each for both Missouri and Kansas incremental rate case expenses) rolls forward the deferred costs to September 30, 2006, the true-up date specified in this case.

Q. Why are these costs being deferred?

A. Rate case expenses are included as a component of revenue requirements.

Q. Why is there an adjustment to operating income?

A. The operating income adjustment of $1,510,105 provides a full-year amortization of the estimated September 30, 2006 deferred cost balance.

Q. What was the amortization period used in the adjustment?

A. These costs are being amortized over a two-year period. Typically, rate case expenses are amortized over the period during which the revised rates are expected to be in effect. For this case there is some uncertainty as to when rates will again be revised. The Regulatory Plan Stipulation and Agreement allows for rate cases to be filed in 2007 and 2008, with a required rate case in 2009. Therefore, the revised rates in this case may be in effect for as little as one year, or for as long as four years. A two-year amortization period was chosen as a reasonable mid-point.

VII. BAD DEBT EXPENSE

Q: What is the purpose of these adjustments?

A. Adj-41 for $810,030 is an annualization of bad debt expense based on the test year. Adj-49 provides bad debt expense for the following revenue adjustments:

Adj-49a	Weather and other	($55,544)
Adj-49b	Customer growth and other	$45,501

The *pro forma* bad debt expense adjustment of $320,236 shown in Schedule DAF-1 (Sch 1, Col 605, line 1-019) attached to the direct testimony of KCPL witness Don A. Frerking reflects the bad debt expense effect of the requested revenue adjustment.

Q. Please explain Adj-41 in more detail.

A. This adjustment represents the difference between annualized bad debt expense and bad debt expense recorded in the test period.

Q. How was annualized bad debt expense determined?

A. Annualized bad debt expense was calculated by applying a bad debt write-off factor to test period revenue.

Q. What bad debt write-off factor was used, and how was the factor determined?

A. We used a bad debt percentage of 0.43%, determined by examining recent net bad-debt write-off experience.

Q. The term "net" write-offs is used. What does it mean?

A. "Net" write-offs refer to the net of accounts written off and recoveries received on accounts previously written off.

Q. Was the bad debt factor used in Adj-41 also used for Adj-49?

A. Yes, the same factor was used.

Q. How was the *pro forma* bad debt expense adjustment determined?

A. This adjustment was calculated as the requested rate adjustment times the bad debt factor.

Q. Why is such an adjustment necessary?

A. It is reasonable to assume that increased revenue resulting from this rate request will result in increased bad debt expense.

VIII. WOLF CREEK REFUELING ACCRUAL

Q: What is the Wolf Creek refueling accrual?

A. The Wolf Creek Nuclear Operating Corporation's ("WCNOC's") refueling cycle is normally about 18 months. During the 18 months leading up to a refueling the Company accrues monthly its share of the projected incremental costs to be incurred during the scheduled refueling. Incremental costs include operating, maintenance and replacement power expenses. Changes to or variances from the estimates are recorded when known or are probable.

Q. What is the purpose of Adj-42?

A. This adjustment for $580,000 ($224,000 O&M and $356,000 replacement power) annualizes the Wolf Creek refueling accrual expense by adjusting the test year accrual to an annualized amount.

Q. Why is a refueling accrual adjustment necessary in this case?

A. The test period includes accrued expenses related to the Spring 2005 refueling and the Fall 2006 refueling. Annualized expense should reflect only the next scheduled refueling in the Fall of 2006. The annualization adjustment results in a full year's accrued expense for this upcoming refueling.

IX. BENEFIT EXPENSE

Q: What is the purpose of Adj-45?

A. This adjustment for $2,050,240 is necessary to state benefit expense at a current level.

Q. What types of benefits are included in this category?

A. The more significant benefits include Other Post-Employment Benefits ("OPEB"), 401K company match and medical costs. These three categories in total comprise about 85% of Benefit Expense.

Q. How were the adjustments calculated?

A. The adjustments were calculated as the difference between annualized benefit expense and benefit expense recorded during the test period.

Q. How was the OPEB annualized amount determined?

A. The annualized OPEB expense is based on information provided by the Company's actuarial firms.

Q. How was the 401K annualized amount determined?

A. We annualized 401K expense by determining the 401K expense associated with annualized payroll (Adj-20), based on the 2005 average matching percentage.

Q. How was annualized medical expense determined?

A. Annualized medical expense was set at the level expected to be in effect during the updated test period.

Q. Were benefit amounts billed to partners and charged to capital considered in these annualization adjustments?

A. Yes, these factors were taken into consideration.

X. TRANSMISSION REVENUE

Q. What is the purpose of Adj-48?

A. The adjustment for $1,170,013 is necessary to eliminate non-recurring revenue from the test period.

Q. What is the nature of this revenue?

A. Under an agreement between the Southwest Power Pool ("SPP") and participating SPP transmission owners, KCPL re-conductored the KCPL LaCygne to Stillwell 345 kV transmission line in 2003 to increase transmission capacity. The agreement provided for the receipt by KCPL of all revenue allocable to the SPP transmission owners associated with point-to-point transmission service reservations that could not have been approved without the upgrade. These incremental revenues were to be received until KCPL recovered its allocable costs. After that point, SPP would revert to the revenue distribution methodology in place before the agreement (i.e., no further incremental revenues).

Q. Why must the 2005 transmission revenues totaling $1,170,013 be eliminated from cost of service?

A. By early 2005, KCPL had recovered its allocable costs and henceforth did not receive further incremental transmission revenues. Therefore, amounts recorded in the test year must be eliminated from cost of service as a non-recurring item.

XI. PREPAYMENTS

Q: What accounts are included in prepayments?

A. While several types of accounts are included under this category, the more significant relate to prepaid insurance and capacity payments.

Q. What is the purpose of Adj-50?

A. This adjustment for $7,163,046 is necessary to reflect this rate base item on a 13-month average. Prepayment amounts can vary widely during the course of the year and an averaging method minimizes these fluctuations.

Q. How was the adjustment determined?

A. The 13-month average was calculated and compared to the actual prepayment balance at September 30, 2005.

Q. What period was used for the 13-month averaging?

A. September 2004 through September 2005.

Q. Has the Staff used 13-month averaging in prior rate cases, to the best of your knowledge?

A. Yes, to the best of my knowledge Staff has consistently used this approach to determine the Prepayment rate base amount.

Q: Does this conclude your 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 & Light Company to Modify Its Tariff to	)	Case No. ER-2006-____
Begin the Implementation of Its Regulatory Plan	)	

AFFIDAVIT OF LORI A. WRIGHT

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Lori A. Wright, being first duly sworn on her oath, states:

1. My name is Lori A. Wright. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Controller.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of seventeen (17) pages and Schedule LAW-1, all of which 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.

Lori A. Wright
Lori A. Wright

Subscribed and sworn before me this 27th day of January 2006.

Carol Sivils
Notary Public

My commission expires:

CAROL SIVILS
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires: June 15, 2007

CAROL SIVILS NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

Components of Adj-27, Pensions

(a)

Annualized FAS 87 pension expense for ratemaking purposes	35,335,237	
2005 FAS 87 pension expense for ratemaking purposes	17,041,346	
Adjustment	18,293,891	(1)

(b)

FAS 87 regulatory asset @ 9/30/2006	33,213,943
FAS 87 regulatory asset @ 12/31/2005	15,560,536
Adjustment	17,653,407

(c)

FAS 87 regulatory asset @ 9/30/2006	33,213,943	
Amortization period	5	
Annualized amortization	6,642,789	
Amounts billed to partners and charged to capital	(1,445,411)	
Adjustment	5,197,378	(1)

(d)

FAS 87 net prepaid pension asset @ 9/30/2006	24,654,165
FAS 87 net prepaid pension asset @ 12/31/2005	40,060,463
Adjustment	(15,406,298)

(e)

Annualized FAS 88 pension expense	77,739	
2005 FAS 88 pension expense	-	
	77,739	(1)

(1) The sum of these three components affecting operating income is $23,569,008