

Exhibit No.:

Issues: Employee Levels, Off System  
Sales Margin, and, Staff  
Corrections

Witness: Steve M. Traxler

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-up Direct Testimony

Case No.: ER-2006-0314

Date Testimony Prepared: November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

FILED<sup>2</sup>

NOV 17 2006

Missouri Public  
Service Commission

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri  
November 2006

\*\*Denotes Highly Confidential Information\*\*

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Staff EXHIBIT NO. 164  
Date 11-16-06 Case No. ER-2006-0314  
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**OF**  
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**KANSAS CITY POWER & LIGHT COMPANY**  
**CASE NO. ER-2006-0314**

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1                                   **TRUE-UP REBUTTAL TESTIMONY**  
2   **OF**  
3                                   **STEVE M. TRAXLER**  
4                                   **KANSAS CITY POWER & LIGHT COMPANY**  
5                                   **CASE NO. ER-2006-0314**

6           Q.     Please state your name and business address.

7           A.     Steve M. Traxler, Fletcher Daniels State Office Building, Room G 8,  
8     615 East 13<sup>th</sup> Street, Kansas City, Missouri 64106.

9           Q.     Are you the same Steve M. Traxler who has previously filed Direct, Rebuttal,  
10    Surrebuttal, and True-Up Direct testimony in this proceeding for the Staff?

11          A.     Yes, I am.

12          Q.     What is the purpose of your true-up rebuttal testimony?

13          A.     The purpose of this testimony is to address the true-up direct testimony of  
14    Kansas City Power & Light Company (KCPL) witness, Timothy M. Rush related to true-up  
15    issues between the Staff and KCPL regarding KCPL's proposed level of employees for  
16    determining annualized payroll cost as of the September 30, 2006 true-up date and the  
17    additional reduction to the level of Off-System Sales Margin reflected in KCPL's true-up  
18    revenue requirement. Additionally I will identify some changes in the Staff's true-up revenue  
19    requirement resulting from discussions with KCPL which will be reflected in the True-Up  
20    Reconcilement to be provided prior to the true-up hearing.

21    **EXECUTIVE SUMMARY**

22          Q.     Please briefly summarize your true-up rebuttal testimony.

1           A.     The Regulatory Plan approved in Case No. EO-2005-0329 established a true-  
2 up cutoff date of September 30, 2006 for KCPL's first rate case:

3                   (i) Schedule. Rate schedules with an effective date of January 1, 2007  
4 will be filed with the Commission on February 1, 2006. The test year  
5 will be based upon a historic test year ending December 31, 2005,  
6 (initially filed with nine (9) months actual and three (3) months budget  
7 data), with updates for **known and measurable** changes, as of June 30,  
8 2006 and with a true-up through September 30, 2006. (Page 30 KCPL  
9 Regulatory Plan Stipulation And Agreement, Emphasis added)

10           On pages 7-14 of my true-up direct testimony, I address Staff's opposition to KCPL's  
11 proposal to recognize 113 prospective employees in determining KCPL's annualized payroll  
12 costs who were not on KCPL's payroll as of the September 30, 2006 true-up date established  
13 for this case. KCPL witness Timothy M. Rush seeks to justify the KCPL proposal in his  
14 true-up direct testimony. I will offer rebuttal to his arguments for cost of service recognition  
15 for 113 prospective employees as of September 30, 2006.

16           On page 3 of his true-up direct testimony, Mr. Rush states that KCPL has changed its  
17 position on its proposed level of Off-System Sales Margin, based upon a revised level of fuel  
18 prices and availability, at the 25<sup>th</sup> percentile, which refers to the 2007 forecast sponsored by  
19 KCPL witness, Michael M. Schnitzer, who has not filed any true-up direct testimony. KCPL  
20 is proposing to reduce the actual 2005 Off-System Sales Margin by an additional \$10 million  
21 to \$\*\* \_\_ \*\* million (total company). (This number is not in Mr. Rush's true-up direct  
22 testimony but it is in his true-up direct testimony workpapers.) This revised proposal violates  
23 the Regulatory Plan Stipulation And Agreement for the same reasons as addressed in my  
24 Rebuttal and Surrebuttal testimony that KCPL's proposal in its case prior to true-up to reduce  
25 the test year 2005 Off-System Sales Margin by \$19 million for the purpose of providing an  
26 additional return on equity (ROE) to shareholders. Additionally, the Off-System Sales  
27 Margin level proposed by KCPL cannot be supported based upon KCPL's historical or

1 current experience. KCPL's revised adjustment to reduce its 2005 Off-System Sales Margin  
2 represents a further attempt to increase its allowed ROE in this case above the 11.5% ROE  
3 level proposed by KCPL witness, Samuel C. Hadaway. Adjusting KCPL's Off-System Sales  
4 Margin for the purpose of maximizing the ROE to KCPL's shareholders is a violation of the  
5 Regulatory Plan Stipulation and Agreement.

6 Finally, the Staff has been made aware of some errors in the accounting exhibits filed  
7 with the Staff's true-up direct testimony. I will provide an explanation for corrections of  
8 these errors.

9 **EMPLOYEE LEVELS AT SEPTEMBER 30, 2006**

10 Q. Please explain the issue between the Staff and KCPL regarding the employee  
11 level to be used in determining KCPL's annualized payroll cost.

12 A. KCPL's payroll cost annualization includes \$6.3 million for 113 employees  
13 who were not employed by KCPL or on the payroll as of September 30, 2006. The Staff is  
14 opposed to cost of service recognition for employee additions expected to occur beyond the  
15 September 30, 2006 true-up date established for this case in the Regulatory Plan Stipulation  
16 and Agreement in Case No. EO-2005-0329, agreed to by the parties in this case and  
17 accepted by the Commission in Case No. EO-2005-0329 and this case.

18 Q. On page 4 of his true-up direct testimony, Mr. Rush makes the following  
19 statement:

20 f. Payroll – reflects current pay levels and employee  
21 complements that were on the payroll or who had accepted a position  
22 with the Company prior to October 1, 2006 . . .

23 Is this an accurate statement?

1           A.     No. Employees "on the payroll," prior to October 1, 2006, are those  
2 individuals that had passed a required medical evaluation and background check and were  
3 employed and on the payroll as of September 30, 2006. None of the 113 prospective  
4 employees at issue had started work as of September 30, 2006. Fifty-five (55) of the  
5 prospective employees were not on the payroll because they had not passed a required  
6 medical examination and/or background check as of September 30. Six (6) more of the  
7 prospective employees had not accepted KCPL's offer for employment as of September 30.  
8 Neither KCPL nor a prospective employee was bound by an "offer of employment" made  
9 by KCPL by September 30, 2006.

10           The Staff issued Data Request Nos. 556 and 557 for the purpose of 1) getting the  
11 updated status of the 113 prospective employees as of November 1, 2006 and 2) identifying  
12 existing employees, as of September 30, 2006, who subsequently left the Company by  
13 November 1, 2006. The status of the 113 employees as of September 30 and November 1  
14 are summarized on Schedule SMT-1 attached to this true-up rebuttal testimony. Lines 5 and  
15 6 of Schedule SMT-1 illustrate that acceptance of an "offer of employment" by September  
16 30 does not mean that the individual is "on the payroll." Line 5 indicates that KCPL chose  
17 to rescind 3 offers of employment subsequent to September 30. Line 6 indicates that 5  
18 individuals, who "accepted an offer of employment" as of September 30, subsequently  
19 decided not to accept employment with KCPL. Mr. Rush's statement that the 113  
20 prospective employees, at issue, were "on the payroll" prior to October 1 is not factually  
21 correct.

22           Q.     Please explain the data summarized on Schedule SMT-1.

1           A.     In support of KCPL's position to include 113 prospective employees in the  
2 payroll cost annualization as of September 30, Mr. Rush has characterized these prospective  
3 employees as on the payroll as of September 30. The data summarized on Schedule SMT-1  
4 reflects that this was not the case. None of the 113 prospective employees had "started  
5 work" for KCPL by September 30. Fifty-five (55) of the 113 prospective employees, as of  
6 September 30, had not yet passed a medical evaluation and/or background check which is a  
7 condition of employment.

8           The status of the 113 employees as of November 1, reflected in the last column on  
9 Schedule SMT-1 indicates that as of November 1, 32 days beyond the September 30  
10 true-up date, 16 of the 113 prospective employees have still not started work for KCPL.  
11 Twenty-eight (28) have still not completed their required medical evaluation and/or  
12 background check. Three (3) individuals will never work for KCPL as a result of KCPL's  
13 decision to rescind the offer of employment subsequent to September 30. Finally, five (5)  
14 individuals will not be employed by KCPL because although they had received and/or  
15 accepted an offer of employment as of September 30, they ultimately decided to decline  
16 KCPL's offer of employment. Mr. Rush's testimony indicating that the 113 prospective  
17 employees were on the payroll was not accurate as of September 30, 2006 and was still not  
18 accurate as of November 1, 2006, a date which is 32 days beyond the September 30 true-up  
19 and cutoff date for calculating KCPL's true-up cost of service .

20           Q.     How does Mr. Rush attempt to justify cost of service recognition for all  
21 113 prospective employees in KCPL's payroll annualization?

22           A.     Mr. Rush makes the following statement on page 10, of his true-up direct  
23 testimony:

1 Including the 113 employees in the payroll annualization simply  
2 recognizes that we have had people leave the Company and we must  
3 replace those jobs. **All of the positions will be filled by the time the**  
4 **rates go into effect.** (Emphasis added)

5 Q. Is Mr. Rush's justification referenced in your prior answer contrary to the  
6 intent of the September 30, 2006 true-up date agreed to in the Regulatory Plan Stipulation  
7 And Agreement in Case No. ER-2005-0329?

8 A. Yes. There is no indication in the Stipulation And Agreement in Case No.  
9 EO-2005-0329 or the Commission's Report And Order approving that Stipulation And  
10 Agreement that would give KCPL any impression that the Signatory Parties to the  
11 Stipulation And Agreement were committing to considering changes to KCPL's cost of  
12 service subsequent to the September 30, 2006 true-up cutoff date just because the change  
13 was expected to occur prior to the January 1, 2007 effective date for rates established in this  
14 case. In fact the clear language of the Stipulation And Agreement is to the contrary of Mr.  
15 Rush's testimony. The long standing Staff policy regarding a true-up date is that the Staff  
16 has committed to provide the utility a significant benefit by matching all the utility's cost of  
17 service components – rate base, cost of capital, revenues and expenses – as close as possible  
18 to the operation-of-law date and still allow the parties to audit all the required data. Mr.  
19 Rush's justification for recognizing the payroll cost for 113 employees who were not on the  
20 payroll as of September 30, because "all positions will be filled by the time rates go into  
21 effect" is both contrary to the intent of the September 30, 2006 true-up date and the  
22 "matching principle" underlying all true-up audits conducted by the Staff for decades.  
23 Additionally, as reflected on Schedule SMT-1, KCPL's proposal is not internally consistent  
24 because it fails to recognize actual reductions in employee levels which have occurred as of  
25 November 1, 2006.



1           Q.     Why is KCPL's proposal to include all of the 113 prospective employees at  
2     September 30, internally inconsistent?

3           A.     As reflected on lines 5 and 6 of Schedule SMT-1, subsequent to September 30,  
4     2006, KCPL has rescinded the offer of employment to three (3) prospective employees and  
5     five (5) more have subsequently decided not to accept the employment offer by KCPL.  
6     Even if the Commission were to accept Mr. Rush's argument that any change in employee  
7     levels occurring prior to the January 1, 2007 operation-of-law date should be reflected in  
8     this case, consistent logic would require that employee reductions also be recognized. Mr.  
9     Rush's proposed recognition of all 113 prospective employees ignores the fact that eight (8)  
10    of the 113 prospective employees will not be employed by KCPL and also fails to consider  
11    that seven (7) additional employees have retired or been terminated subsequent to the  
12    September 30 true-up date. KCPL's proposal is both 1) one-sided in that considers **only**  
13    prospective increases to KCPL's employee level and 2) ignores the long standing "matching  
14    principle" which applies to a "known and measurable date" and/or a "true-up date" which  
15    requires that all cost of service components - rate base, cost of capital, revenues and  
16    expenses - be measured consistently at the same point in time.

17          Q.     Referring to Schedule SMT-1, line 1 reflects that 61 of the 113 prospective  
18    employees as of September 30 had started employment with KCPL by November 1, 2006.  
19    Why is Staff opposed to using KCPL's actual employee levels as of November 1, 2006 in  
20    lieu of the employee level at the September 30, 2006 true-up date?

21          A.     Moving to November 1 for employee levels and remaining at September 30 for  
22    cost of capital, rate base, revenues and all other expenses results in a one-sided distortion of  
23    the matching principle which applies to all "known and measurable dates" (June 30, 2006

1 for KCPL) and "true-up dates" (September 30, 2006 for KCPL). KCPL has made no  
2 attempt to recognize any reductions to its cost of service which will occur prior to the  
3 January 1, 2007 effective date for rates set in this case. As one example, KCPL's updated  
4 cost of service calculation provided in July 2006 did not reflect any assumed customer  
5 growth between June 30 and September 30, 2006. KCPL's explanation to the Staff was that  
6 no customer growth was expected. This expectation of no additional revenue to offset  
7 expected cost increases through September 30 was not accurate. Staff's Missouri  
8 jurisdictional revenue at September 30, 2006 is \$2.8 million higher than the level at June 30,  
9 2006. It is a reasonable assumption that there would be additional revenue from customer  
10 growth after the September 30 true-up date. KCPL has made no attempt to consider any  
11 additional revenue from customer growth which would offset the cost for additional  
12 employees added after September 30.

13 Additionally, KCPL's Missouri jurisdictional accumulated depreciation and  
14 amortization reserve will increase approximately \$16.5 million between September 30, 2006  
15 and January 1, 2007. If Missouri jurisdictional plant additions are less than \$16.5 million,  
16 KCPL's rate base will be lower at January 1, 2007 than at September 30, 2006. The Staff's  
17 long standing policy has been that a known and measurable date and/or true-up date  
18 represents the cutoff date for the matching of all cost of service components at the same  
19 point in time in order to avoid a one-sided distorted result which will occur if KCPL's  
20 proposal for recognizing prospective employee levels is adopted for this case.

21 Q. Is KCPL's proposal to consider changes subsequent to the September 30, 2006  
22 contrary to the procedural schedule for this case?

1           A.     Yes. The September 30, 2006 cutoff date for calculating KCPL's cost of  
2     service date was the latest date agreed to by the parties and accepted by the Commission  
3     that allowed the Staff and other parties to audit **all** of KCPL's cost of service components  
4     and still provide the Commission sufficient time to consider all of the relevant facts through  
5     September 30, 2006. Most of the other parties to the case rely on the Staff to perform the  
6     most complete financial audit of KCPL to be performed by any party. September 30, 2006  
7     was intended by the Staff to provide the Staff a date certain for completing its audit of  
8     KCPL so that Staff resources could be directed to other cases pending before the  
9     Commission and the Staff would not be engaged in a continuous audit of KCPL up to the  
10    operation-of-law date of this case. There is no additional time for the Staff to audit KCPL's  
11    other cost of service components beyond September 30 in order to avoid the one-sided  
12    mismatch which results from KCPL's proposal on this employee level issue. Once the  
13    parties agree to a true-up date, then all parties should be expected to comply with the agreed  
14    upon date. The significant additional time required to address this issue in true-up direct  
15    and rebuttal testimony and additional hearing time would have been avoided had KCPL  
16    complied with the agreed upon cutoff date of September 30, 2006.

17           Q.     Prior to filing its true-up revenue requirement, was KCPL aware of  
18    1) prospective employees who were not going to be employed by KCPL and 2) actual  
19    employees who were terminated or retired after the September 30, 2006 true-up date?

20           A.     Yes. KCPL's true-up revenue requirement calculation was not filed until  
21    November 7, 2006. KCPL's responses to Staff Data Request Nos. 556 and 557 summarized  
22    on Schedule SMT-1 reflect the following facts:

1           3 Prospective employees had their offers of employment rescinded by KCPL  
2 prior to the filing of KCPL's true-up direct testimony on November 7.

3           5 Prospective employees decided not accept offers of employment from KCPL  
4 prior to the filing of KCPL's true-up direct testimony on November 7.

5           7 Existing KCPL employees were either terminated or retired prior to the  
6 filing of KCPL's true-up direct testimony on November 7.

7           Q. Did KCPL's true-up payroll cost annualization eliminate **any** of the salaries for  
8 the 15 prospective and /or terminated employees identified in your last answer?

9           A. No. The fact that KCPL had full knowledge that there were 15 people who  
10 were not employed as of November 1, 2006 and were not going to be employed illustrates  
11 how one-sided and unreasonable KCPL's position is on this issue. However, Mr. Rush  
12 justifies including all of the 113 prospective employees by stating on page 10 of his true-up  
13 direct testimony: "All of these positions will be filled by the time rates go into effect"  
14 (Rush true-up direct, page 10, lines 10-11).

15 **OFF-SYSTEM SALES MARGIN**

16           Q. Has KCPL changed its recommended level of Off-System Sales Margin in its  
17 September 30, 2006 true-up cost of service calculation?

18           A. Yes. On page 3, lines 6-8, Mr. Rush states that KCPL's recommended level of  
19 Off-System Sales Margin is being updated to the 25<sup>th</sup> percentile. It is the Staff's  
20 understanding that the 25<sup>th</sup> percentile refers to an updated forecast for 2007 prepared by  
21 KCPL witness Michael M. Schnitzer, who has not filed true-up direct testimony.

22           Q. What level of Off-System Sales Margin is reflected in KCPL's true-up cost of  
23 service calculation?

1           A.     KCPL's recommended level of Off-System Sales Margin has been reduced  
2     \$10 million from \$\*\* \_\_ \*\* million (total company) to \$\*\* \_\_ \*\* million. (This number  
3     is not in Mr. Rush's true-up direct testimony but it is in his true-up direct testimony  
4     workpapers.)

5           Q.     How does KCPL's recommended \$\*\* \_\_ \*\* million level of Off-System  
6     Sales Margin compare to KCPL's actual level for the year ending October 31, 2006?

7           A.     KCPL's actual Off-System Sales Margin was \$\*\* \_\_ \*\* million for the year  
8     ending September 30, 2006.

9           Q.     Can KCPL's recommended Off-System Sales Margin level of \$\*\* \_\_ \*\*  
10    million be justified on any basis?

11          A.     Certainly not. KCPL's recommended Off-System Sales Margin level is  
12    \$28 million less than KCPL's actual level for the test year 2005 and \$26 million less than  
13    KCPL's actual Off-System Sales Margin for the year ending October 31, 2006. Based upon  
14    Mr. Schnitzer's forecast, KCPL has a 75% probability that the actual 2007 Off-System  
15    Sales Margin will be higher than \$\*\* \_\_ \*\* million forecast at the 25<sup>th</sup> percentile. KCPL  
16    has not experienced an Off-System Sales Margin level below \$\*\* \_\_ \*\* million since  
17    2003.

18          Q.     Does KCPL's true-up adjustment to reduce the test year level of Off-System  
19    Sales Margin by \$28 million represent a violation of the Regulatory Plan Stipulation And  
20    Agreement in Case No. ER-2005-0329?

21          A.     Yes. As explained in my Rebuttal and Surrebuttal testimony, KCPL's  
22    Off-System Sales Margin adjustment represents an attempt to maximize KCPL's ROE to  
23    shareholders at a level which exceeds the 11.5% ROE recommendation by KCPL witness

1 Samuel C. Hadaway. Any adjustment to KCPL's Off-System Sales Margin for this purpose  
2 is a violation of the Regulatory Plan Stipulation And Agreement.

3 Q. Does KCPL witness Schnitzer's September 30, 2006 forecast for 2007 support  
4 the Staff's recommended level of Off-System Sales Margin?

5 A. Yes. Mr. Schnitzer's forecasted level for 2007 at the 50<sup>th</sup> percentile is in the  
6 range of \$\*\* \_\_ \*\* to \$\*\* \_\_ \*\* million. The level at the 50<sup>th</sup> percentile has an equal 50%  
7 probability of being higher or lower than the actual level for 2007. Mr. Schnitzer's  
8 forecasted level at the 50<sup>th</sup> percentile has been recommended by DOE witness  
9 James Dittmer and Public Counsel witness Ralph Smith. Mr. Schnitzer's forecasted level at  
10 the 50<sup>th</sup> percentile is only slightly less than the \$\*\* \_\_ \*\* million Off-System Sales Margin  
11 recommended by the Staff.

12 **CHANGES TO STAFF'S COST OF SERVICE CALCULATION**

13 Q. Has the Staff made any changes to its cost of service calculation filed with its  
14 true-up direct testimony on November 7, 2006?

15 A. Yes. Changes and corrections have been made in the following areas:

16 **Rate Base Changes**

17 Accumulated Depreciation Reserve – Wolf Creek

18 Regulatory Asset – Demand Side Management Costs

19 Recognition of Additional Invoice – Wind Generating Facility

20 13 month Average of Prepayments

21 **Income Statement Changes**

22 Elimination of Non-recurring Transmission Revenue

1 Revised Level of Decommissioning Expense to reflect the change in the Life  
2 for the Wolf Creek Nuclear Plant

3 Revised Regulatory Plan Amortization to Reflect Changes Above

4 Q. What impact did these changes have on the Staff's true-up cost of service  
5 result?

6 A. These changes have reduced Staff's excess revenue requirement (prior to  
7 recognition of a Regulatory Plan Amortization calculation) from \$29 million to \$28 million.  
8 These changes will be reflected in an updated Trued-Up Reconciliation to be filed with the  
9 Commission and the parties prior to the true-up hearing scheduled for this case.

10 Q. Does this conclude your True-Up Rebuttal testimony?

11 A. Yes, it does.

## Status of Prospective Employees as of September 30 and November 1, 2006

### Response to Staff Data Request 556 & KCPL True-Up Payroll Work Papers

Line No.	Status of 113 Prospective Employees	Status of 113 Prospective Employees September 30	Status of 113 Prospective Employees November 1
1	Prospective Employees who Started Work	0	61
2	Prospective Employees who had not Accepted an Offer of Employment by 9/30	6	
3	Prospective Employees with an expected Start Date after September 30, but have not yet Started Work.	52	16
4	Prospective Employees pending a Medical or Background Check	55	28
5	Employment Offers Rescinded by KCPL subsequent to September 30		3
6	Prospective Employees who Accepted Employment Offers at September 30, but subsequently Declined Employment by November 1		5
7	Total Prospective Employees included in KCPL's 9/30 Payroll Cost Annualization	<u>113</u>	<u>113</u>