Exhibit No.:	
Issue:	True-up, Employee Complements, Inconsistencies within Staff's case, Regulatory Plan Amortization and Off-system sales margin
Witness:	Timothy M. Rush
Type of Exhibit:	Rebuttal True-up Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2006-0314
Date Testimony Prepared:	November 13, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-0314

REBUTTAL TRUE-UP TESTIMONY

OF

TIMOTHY M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
November 2006

KCPL Exhibit No. 55
Case No(s). ER-2006-0314
Date 11/16/06 Rptr MV

Q: Please state your name and business address.

A: My name is Timothy M. Rush. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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 Director, Regulatory Affairs.

Q: Are you the same Timothy M. Rush who filed direct, rebuttal and direct true-up testimony in this case?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to certain statements in the testimony of Staff witness Steve Traxler that address the Company's payroll annualization adjustment and how Staff's position in its true-up is inconsistent with proper ratemaking treatment. Additionally, I will address a correction to the amortization amount and a change in presentation of the amount to clarify the Company's position. I will also address the update of the Off-System Sales Margin as presented in this case by Mr. Michael M. Schnitzer.

Q: What is your understanding of the purpose of the true-up?

A: The purpose of the true up is to include all costs as much as possible that are known and measurable. The Regulatory Plan approved by the Commission in Case No. EO-2005-0329 was an attempt to recognize cash is critical to the Company to meet credit ratios during major construction and the Company needs to have a realistic opportunity to earn its authorized Return on Equity (ROE). To the extent known and measurable expenses are excluded as Staff proposes in its payroll annualization, such exclusion will result in the Company being short of its cash requirement and will not allow a realistic opportunity to earn the authorized ROE. The Company, Staff and other parties have gone through a process of normalizing and annualizing test year data, and reflecting updates and true-up to that data for known and measurable changes in order to represent ongoing operations. This is particularly critical in this time of construction. This was the spirit of the regulatory plan the Company entered into.

PAYROLL ANNUALIZATION

Q: Please describe your understanding of the payroll annualization issue that Staff addressed in its Direct True-up Testimony by Staff witness Steve Traxler?

A: Staff witness Steve Traxler presents the position that the Company exceeded the test period boundaries by including 113 employees, who were offered and had accepted positions with the Company prior to September 30, 2006, in the payroll annualization. The payroll annualization was addressed in my True-up Direct Testimony. Mr. Traxler contends that including the employee levels used in the annualization goes beyond the test period and they should not be included in the rate case. Company witness Lora Cheatum addresses this issue in more detail in her Rebuttal True-up Testimony.

Q: Mr. Traxler pointed out that one of the reasons for waiting so long to fill these positions was to increase the Company's earnings in 2006 and then fill the positions to be included in the rate case. How do you respond?

A: Mr. Traxler's implication as described in his testimony on page 9, regarding postponing the hiring of employees to help increase earnings is absolutely untrue, is unsupported by the facts and is somewhat ridiculous given the Company's current hiring needs. The Company has been in an intense hiring situation for many months. The Company has had numerous meetings with all the parties throughout this case and has had discussions with the parties on its employee hiring needs and issues. As will be discussed by Ms. Cheatum, the Company went through a workforce realignment in 2005 up through March 31, 2006, that resulted in over 100 employees leaving the Company. In August and September, additional employees left who were eligible for retirement. These employees elected to take retirement before the September 30 cut off for the pension plan year in order to be eligible for the more advantageous interest rate conditions under the current plan year. The Company's workforce is aging and a significant number of the employees at the Company are eligible for retirement.

Q: Would you respond to the statement by Mr. Traxler regarding a discussion with Cary Featherstone on employees?

A: Yes. The Company submitted to all of the parties on October 21st, its updated case reflecting the September 30, 2006 true-up. The Company followed-up by submitting the Company work papers a few days later. The workpapers contained the payroll annualization. At a meeting with Mr. Traxler and Cary Featherstone shortly thereafter, Cary Featherstone asked about the payroll annualization. It was at that meeting that Mr. Featherstone indicated that only people actually employed and on the payroll as of September 30, 2006 would be considered for cost of service recognition in this case. The employee issue is an issue that is not going away. We have agreed in the next rate case to use the same test period and the true-up will occur as of September 30. As a result, we anticipate the same issue of people taking retirement by the end of September and the need for additional employee hiring during and after that period. Employees interested in taking advantage of the lump sum option under the pension plan often wait until the interest rates for the next plan year are announced in August before deciding whether to retire under the current plan year. Consequently, we will always have the possibility of a large amount of retirement activity immediately before the September 30 end of a plan year.

Q: What would be one way to address Staff's concern and meet Mr. Featherstone's position of having employees on the payroll and at the job site by the end of the test period?

A: One way to do this would be to hire in anticipation of possible retirements and actually have them on the payroll registers prior to the end of period.

Q: What would be the possible implications of taking such action?

A: It would have the affect of double counting employment levels in anticipation of retirements. It would be like adding extra workforce "just in case". It would allow Staff to use its method, but would overstate the employment levels expected to occur when rates are in effect. We would most likely have staffing levels in excess of the need, which would not be a good use of resources. There may be other ways of dealing with this issue, but the simple fact is that the Company experienced a number of retirements toward the end of the test period and extended offers to over 110 employees who are either currently on the payroll and at the job site or will be before rates from this case are implemented. These employees were not hired to replace people who may retire, but to fill positions currently needed. By using Staff's proposal to exclude the 113 employees, the payroll annualization will be based on employee levels below those at any time in recent history. The Company would not be able to function for very long at these levels without reduced services, construction cutbacks, or some major outsourcing of job duties.

Q: Mr. Traxler described a retirement party for a long-term employee on a day when he was over at a meeting. Can you expand on this party?

A: Yes. At one of the meetings with Staff, the normal meeting room was unavailable because it contained food and treats. The meeting room that was unavailable was not for a person leaving, but for a new hire that was just starting in the Regulatory Affairs department on the day of the meeting. The retirement gathering for a long-term employee on the same day was in a different location. This position was not included in the 113 extended offers and will have to be replaced.

Q: Do you believe that the Company's treatment violates the matching principle or any other ratemaking principle?

A. No. Including the 113 employees in the payroll annualization simply recognizes that we have had people leave the Company and we replaced those individuals. All of the positions will be filled by the time the rates go into effect.

<u>INCONSISTENCIES WITHIN STAFF'S CASE</u>

Q: Mr. Traxler's testimony on payroll annualization on page 12 implies that the Company wants to reflect all changes in the test period that are increases in costs, but is "not aware of any attempt by KCPL to identify any offsetting cost reductions which occur after the agreed upon true-up date." How do you respond?

A: The Company did not go beyond the test period in reflecting either increases or decreases in its cost of service. However, numerous changes have occurred during the course of this case that have been reflected in the Company's case through updates and true-ups.

Some of the more significant changes that have been reflected in this case have been the changes in natural gas prices and the effect on both fuel and purchased power costs, as well as the effect this has on the off-system sales margin. The Company also reflected increases in a significant level of plant that was added in the test period. Numerous other changes were included and those were described in my Direct True-up Testimony. Staff witness Steve Traxler also addressed the adjustments that the Staff included in its True-up Testimony. Staff included nearly all true-up items, but a few "significant" items, which Staff neglected to include have become issues in this case. Some examples of these omissions are given below.

Q: As Mr. Traxler stated in his testimony on page 11, beginning on line 6, the idea of a true-up is to "establish a final cutoff date for measuring all of the components of cost of service – rate base, cost of capital, revenues and expenses at the same point in time. If all the cost of service components are not measured at the same point in time, a distortion is reflected in the final revenue requiremint [sic] result." Do you agree?

A. Yes. This is exactly why the Company has many of the issues it has with Staff. For example, Staff has not reflected the property taxes on any of the plant additions made in this case since December 31, 2005. Staff has accepted the plant additions for the wind and other plant additions through September 30, 2006, but ignores the taxes that will be paid on these additions and the payment in lieu of taxes ("PILOT") for the wind project. Staff includes all the benefits attributable to the wind project including the no-cost energy received and the income tax savings and production tax credits savings. Another example is that the Staff has reflected current market conditions, most notably lower natural gas costs, in its fuel and purchased power expense adjustments but has not reflected the resulting impact of those lower natural gas costs and other current market conditions on the off-system sales margins. Instead, Staff used 2005 off-system sales margins based on 2005 customers, weather, plant availability, market conditions, etc. Staff's use of 2005 off-system sales margins is not reflective of anything other than 2005. Staff normalized weather for retail sales and system requirements, annualized customers through September 30, 2006, annualized fuel costs and purchased power costs for retail customers, annualized the additional wind capacity and other plant capacity, and modeled all these changes into its cost of service, yet Staff did not update off-system sales margins, the one major issue in this case to reflect current market conditions. My last example will address the inconsistency of the Staff approach to its cost of service in its treatment of bad debt expense. Staff calculated a percentage for bad debts to be included in this case. The percentage was based on total bad debts divided by retail revenues over some historical period that would be representative of the test period. Staff then applied this percentage to the test period revenues prior to the rate increase requirements. The inconsistency is that the percentage was only applied to the revenues prior to rate increase, while the percentage should have been applied to the revenues including the increase.

REGULATORY PLAN AMORTIZATION

Q: **Have you made any changes to the schedule marked Schedule TMR-3 that you filed on November 7, 2006 with your Direct True-up Testimony for the September true-up?**

A: Yes. The filed Schedule TMR-3 showed total cash requirements of $55.36 million including both a traditional revenue requirement and a level of Regulatory Plan Amortizations necessary to maintain targeted credit metrics. Schedule TMR-3 Revised includes two changes. Most significantly, the traditional revenue requirement requested by the company of $42.2 million revenues as well as $16.5 million of associated income taxes and bad debt expense has been reflected in the amounts prior to the calculation of additional amortizations. This change makes Schedule TMR – 3 Revised consistent with the Staff's approach. Second, the Missouri Jurisdictional imputed interest expense on lines 56 and 57 for off balance sheet financings has been corrected to reflect a 6.1% interest rate. This correction does not change the overall result.

Q: What is the amount requested based on the true-up amounts?

A: As a result, new Schedule TMR-3 Revised shows the additional amortizations required to meet the credit metrics after including the $42.2 million traditional revenue requirement. Using this method increases overall revenue requirements by very minor amount from that provided in my Direct True-up Testimony. It increases the over all amount from $55,360,000 to $55,800,000.

Q: What is the value of revising the presentation of Schedule TMR – 3?

A Changing the presentation highlights the differences between the MPSC Staff case and the Company case regarding the components of the overall revenue requirements, that is, traditional revenue requirement vs. additional amortizations. Staff's September true-up reflects an overall revenue requirement increase of $35.4 million. This is comprised of a negative $29.2 million revenue requirement computed under traditional ratemaking and a positive revenue requirement of $64.6 million of additional amortizations to maintain credit metrics. KCPL's September true-up reflects a combined revenue requirement of $55.8 million increase, comprised of $42.2 million increase computed under traditional ratemaking and $13.6 million increase of additional amortizations to maintain credit metrics. Staff's revenue requirement increase is entirely due to additional amortizations while the Company's revenue requirement increase is substantially due to traditional ratemaking. Focusing only on the overall level of revenue requirements, $35.4 million Staff vs. $55.8 million KCPL, without considering the underlying components would misrepresent the significance of the differences between the two positions.

	KCPL	MPSC Staff
Traditional Revenue Requirement	$42.2	($29.2)
Amortization Amount	13.6	64.6
Total Rate Increase	$55.8	$35.4

OFF-SYSTEM SALES MARGIN

Q: **Did the Company update the off-system sales margin in the September 30, 2006 true-up?**

A: Yes. Mr. Michael M. Schnitzer provided to the Company the updated off-system sales margin, including the median value and the value with a 25th percentile. The Company included this in its September 30, 2006 true-up and parties received this information in the initial work-papers provided shortly after October 21st, when the Company submitted to the parties is updated case.

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

A: Yes.

Attachment 1 to Appendix F

Information from the Company's September Update

Line	Item	Source	Total Company Col 603	Jurisdictional Allocation Col 604/6	Jurisdictional Adjustments	Jurisdictional Proforma
	Rate Base	Surveillance Report Schedule 1, Line 1-058	2,409,080	1,272,765		
-	Jusrisdictional Allocator for Capital	Jurisdictional Rate Base / Total Company Rate Base		52.8%		
-	Additional Net Balance Sheet Investment	Line 9 - Line 6	(84,065)	(44,413)		
9	KCPL Total Capital	KCPL Operating Report Page 13 Lines 47+50+52+53	2,325,015	1,228,352		
10	GPE Total Capital	Surveillance Rpt Capitalization Worksheet - Misc % - Line %-031	2,555,657	1,228,352	-	1,228,352
11	Equity	Surveillance Rpt Capitalization Worksheet - Misc % - Line %-030	1,372,092	659,483	-	659,483
12	Preferred	Surveillance Rpt Capitalization Worksheet - Misc % - Line %-029	39,000	18,745		18,745
13	Long-term Debt	Surveillance Rpt Capitalization Worksheet - Misc % - Line %-028	1,144,565	550,124		550,124
14	Cost of Debt	Surveillance Rpt Capitalization Worksheet - Misc % - Line %-032	6.21%	6.21%		6.21%
15	Interest Expense	Line 13 * Line 14	71,077	34,163	-	34,163
16						
17	Retail Sales Revenue	Surveillance Report Schedule 1, Line 1-010	887,852	528,730	13,600	542,330
18	Other Revenue	Line 19 - Line 17	151,075	78,748		78,748
19	Operating Revenue	Surveillance Report Schedule 1, Line 1-014	1,038,927	607,478	13,600	621,078
20						
21	Operating & Maintenance Expenses	Surveillance Report Schedule 1, Lines 1-017 through 1-019	609,855	337,057		337,057
22	Depreciation	Surveillance Report Schedule 1, Line 1-020	129,876	70,043		70,043
23	Amortization	Surveillance Report Schedule 1, Line 1-021	8,580	4,658	13,600	18,258
24	Interest on Customer Deposits	Surveillance Report Schedule 1, Lines 1-022 and 1-023	500	457		457
25	Taxes other than income taxes	Surveillance Report Schedule 1, Line 1-024	70,087	37,815		37,815
26	Federal and State income taxes	Surveillance Report Schedule 1, Line 1-025	52,741	42,677	0	42,677
27	Gains on disposition of plant	Surveillance Report Schedule 1, Line 1-026	0	0		0
28	Total Electric Operating Expenses	Sum of Lines 21 to 27	871,639	492,707	13,600	506,307
29						
30	Operating Income	Surveillance Report Schedule 1, Line 1-029	167,288	114,771	0	114,771
31	less Interest Expense	- Line 15	(71,077)	(34,163)	-	(34,163)
32	Depreciation	Surveillance Report Schedule 1, Line 1-020	129,876	70,043	-	70,043
33	Amortization	Surveillance Report Schedule 1, Line 1-021	8,580	4,658	13,600	18,258
34	Deferred Taxes	Surveillance Report Schedule 7, Column 601, Line 7-114	16,530	8,247	(5,221)	3,026
35	Funds from Operations (FFO)	Sum of Lines 30 to 35	251,197	163,556	8,379	171,935
36						
37	Net Income	Line 30 + Line 31	96,211	80,608	-	80,608
38	Return on Equity	Line 37 / Line 11	7.0%	12.2%	0.0%	12.2%
39	Unadjusted Equity Ratio	Line 11 / Line 10	53.7%	53.7%	0.0%	53.7%
	Additional financial information needed for the calculation of ratios					
43	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100	2,305	1,218		1,218
44	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	80,600	42,583		42,583
-	Short-term Debt Interest	KCPL T.B. accts 831014, 831015, 831016	6,713	3,547		3,547
	Adjustments made by Rating Agencies for Off-Balance Sheet Obligations					
49	Debt Adjustments for Off-Balance Sheet Obligations					
50	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 6.1%	86,835	45,877		45,877
51	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 6.1%	20,742	10,958		10,958
52	Accounts Receivable Sale	KCPL Trial Balance account 142011	70,000	36,982		36,982
53	Total OBS Debt Adjustment	Sum of Lines 50 to 52	177,577	93,817	-	93,817
54						
55	Interest Adjustments for Off-Balance Sheet Obligations					
56	Present Value of Operating Leases	Line 50 * 6.1%	5,297	2,798	-	2,798
57	Purchase Power Debt Equivalent	Line 51 * 6.1%	1,265	668	-	668
58	Accounts Receivable Sale	Line 52 * 5%	3,500	1,849	-	1,849
59	Total OBS Interest Adjustment	Sum of Lines 56 to 58	10,062	5,316	-	5,316
	Ratio Calculations					
63	Adjusted Interest Expense	Line 15 + Line 45 + Line 59	87,853	43,025	-	43,025
64	Adjusted Total Debt	Line13 + Line 43 + Line 44 + Line 53	1,405,047	687,742	-	687,742
65	Adjusted Total Capital	Line 10 + Line 43 + Line 44 + Line 53	2,816,139	1,365,969	-	1,365,969
66						
67	FFO Interest Coverage	(Line 35 + Line 63) / Line 63	3.86	4.80	0.19	5.00
68	FFO as a % of Average Total Debt	Line 35 / Line 64	17.9%	23.8%	1.2%	25.0%
69	Total Debt to Total Capital	Line 64 / Line 65	49.9%	50.3%	0.0%	50.3%
	Changes required to meet ratio targets					
73	FFO Interest Coverage Target		3.80	3.80	0.00	3.80
74	FFO adjustment to meet target	(Line 73 - Line 67) * Line 63	(5,209)	(43,085)	(8,379)	(51,464)
75	Interest adjustment to meet target	Line 35 * (1 / (Line 73 - 1) - 1 / (Line 67 - 1))	1,860	15,388	2,993	18,380
76						
77	FFO as a % of Average Total Debt Target		25%	25%	0%	25%
78	FFO adjustment to meet target	(Line 77 - Line 68) * Line 64	100,065	8,379	(8,379)	0
79	Debt adjustment to meet target	Line 35 * (1 / Line 77 - 1 / Line 68)	(400,261)	(33,517)	33,517	(0)
80						
81	Total Debt to Total Capital Target		51%	51%	0%	51%
82	Debt adjustment to meet target	(Line 81 - Line 69) * Line 65	31,184	8,903	(0)	8,903
83	Total Capital adjustment to meet target	Line 64 / Line 81 - Line 65	(61,145)	(17,456)	0	(17,456)
	Amortization and Revenue needed to meet targeted ratios					
	FFO adjustment needed to meet target ratios	Maximum of Line 74 , Line 78 , or Zero	100,065	8,379	(8,379)	0
	Effective income tax rate	Surveillance Report Schedule 7, Line 7-070 / Line 7-047 (MISC%-017	38.39%	38.39%	38.39%	38.39%
	Deferred income taxes *	- Line 87 * Line 88 / (1 - Line 88)	(62,352)	(5,221)	5,221	(0)
90	Total amortization required for the FFO adjustment	Line 87 - Line 89	162,417	13,600	(13,600)	0
91						
92	Retail Sales Revenue Adjustment	Adj=Sum(Line 21 to Line 25)+Line 27-Line 18-Line 31+(Line 11*Line 38)/(1-Line 88)		528,730	13,600	542,330
93	Percent increase in retail sales revenue	Line 92 Jurisdictional Adjustments / Line 92 Jurisdictional			2.6%	

* Adjusted for known and measurable changes including changes related to new plant in-service

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 Begin the Implementation of Its Regulatory Plan	)))	Case No. ER-2006-0314

AFFIDAVIT OF TIMOTHY M. RUSH

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Timothy M. Rush, being first duly sworn on his oath, states:

1. My name is Timothy M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal True-Up Testimony on behalf of Kansas City Power & Light Company consisting of nine (9) pages and Schedule TMR-3 Revised, 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.

Timothy M. Rush

Subscribed and affirmed to before me this 13th day of November, 2006.

Nicole A. Wehry
Notary Public

My commission expires:
Feb. 4 2007

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007