

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater Missouri
Operations Company's Request for
Authority to Implement a General Rate
Increase for Electric Service

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)
) **Case No. ER-2012-0175**
) Tracking No. YE-2012-0405
)
)

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Ag Processing Inc; Federal Executive Agencies; Midwest Energy Consumers Group; Midwest Energy Users' Association; and Missouri Industrial Energy Consumers in this proceeding on their behalf.

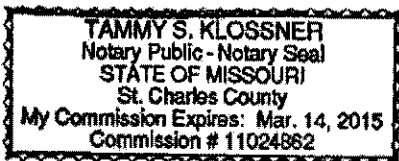
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission Case No. ER-2012-0175.

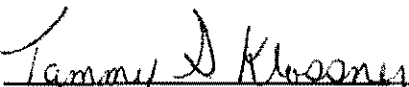
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Greg R. Meyer

Subscribed and sworn to before me this 9th day of October, 2012.





Notary Public

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Surrebuttal Testimony of Greg R. Meyer

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

2 A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME GREG R. MEYER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes. I have previously filed direct testimony on August 9, 2012 in this proceeding
7 regarding revenue requirement issues.

8 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
9 **THAT TESTIMONY?**

10 A Yes. This information is included in Appendix A to my direct testimony on revenue
11 requirement issues.

12 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13 A This testimony is presented on behalf of Ag Processing Inc; Federal Executive
14 Agencies; Midwest Energy Consumers Group; Midwest Energy Users' Association;

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1 and Missouri Industrial Energy Consumers (collectively referred to as the
2 "Industrials"). These companies purchase substantial amounts of electricity from
3 KCP&L Greater Missouri Operations Company ("GMO" or "Company") and the
4 outcome of this proceeding will have an impact on their cost of electricity. GMO
5 operates two rate divisions – the Missouri Public Service ("MPS") division and the St.
6 Joseph Light and Power ("L&P") division.

7 **Q WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?**

8 **A** I am providing surrebuttal testimony addressing various GMO witnesses' rebuttal
9 testimony. Specifically, I am addressing the following issues:

- 10 • Renewable Energy Standard Cost recovery procedures;
- 11 • Organizational Realignment and Voluntary Separation Program ("ORVS") cost
12 recovery;
- 13 • Annualized level of Bad Debts expense;
- 14 • Implementation of a Property Tax Tracker;
- 15 • Annualized level of Overtime expense;
- 16 • Crossroads Generating Station ADIT
- 17 • St. Joseph Infrastructure Program

18 The fact that I do not address an issue should not be interpreted as approval
19 or acceptance by the Industrials of any position taken by GMO, unless I state
20 otherwise in my testimony.

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1 **Renewable Energy Standard Cost**

2 **Q PLEASE BRIEFLY EXPLAIN THIS ISSUE.**

3 A This issue concerns the recovery of Renewable Energy Standard ("RES") costs. The
4 Industrials have recommended deferral and accumulation of all RES costs incurred
5 between rate cases, accrual of carrying cost on the deferred balance at the
6 Company's short-term debt rate, amortization of the deferred RES cost over a
7 six-year period, rate base inclusion of the unamortized deferred balance, no ongoing
8 expense level in the cost of service, other than amortization expense for prior
9 deferrals and no tracker. Staff is proposing an ongoing expense level in the cost of
10 service, a three-year amortization of the amount deferred through true-up, no
11 inclusion in rate base of the unamortized deferred balance and no tracker. The
12 Company recommends an ongoing expense level in the cost of service, inclusion in
13 rate base of the unamortized deferred balance, a five-year amortization of deferrals,
14 carrying cost on the deferred balance and a tracker that defers the amount actually
15 incurred compared to the ongoing expense level.

16 **Q WHAT WAS THE COMPANY'S RESPONSE TO YOUR PROPOSAL?**

17 A Company witness Rush has agreed with me that the appropriate carrying cost is the
18 Company's short-term debt rate, as specified by the Commission's RES Rule and the
19 Stipulation and Agreement in Case No. EU-2012-0131. However, he believes the
20 language in the Commission's RES Rule allows for an ongoing expense level to be
21 included in the cost of service, and that none of the parties presented specific
22 reasons for their recommendations regarding the length of the amortization period.
23 Mr. Rush states that his five-year amortization period is an appropriate middle ground
24 between Staff's three-year recommendation and my six-year recommendation. In

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1 addition, Company witness Ives recommends tracking of the RES costs GMO
2 proposes to include in ongoing expense.

3 **Q IS MR. RUSH CORRECTLY INTERPRETING THE RES RULE REGARDING THE**
4 **INCLUSION OF AN ONGOING EXPENSE LEVEL IN GMO'S COST OF SERVICE**
5 **OTHER THAN THE AMORTIZATION EXPENSE OF PREVIOUS RES**
6 **EXPENDITURES?**

7 A No. The language from the RES Rule is very clear. RES costs incurred between rate
8 cases may be deferred and all questions regarding the recovery of these costs, which
9 are being deferred, will be decided in the next case. RES costs not already being
10 amortized are being deferred for recovery in the future. Clearly, it is the recovery of
11 previously deferred RES costs that will be determined in the next case and not
12 whether or how much estimated future cost will be included in ongoing expenses.
13 This language cannot be teased to Mr. Rush's interpretation.

14 **Q CONTRARY TO MR. RUSH'S STATEMENTS ON PAGE 47 OF HIS REBUTTAL**
15 **TESTIMONY, HAVE YOU PROVIDED SPECIFIC REASONS FOR A SIX-YEAR**
16 **AMORTIZATION?**

17 A Yes. As I stated on page 7 of my direct testimony, the language in the RES Rule
18 regarding solar-related RES costs actually justifies a ten-year amortization period.
19 However, I am recommending a six-year amortization period, which the Commission
20 has recognized as a timely recovery period with regard to demand-side management
21 ("DSM") energy efficiency costs. Mr. Rush cites the regulatory treatment of DSM
22 costs in his rebuttal testimony regarding rate base treatment, but contrary to that
23 order, requests a shorter amortization period.

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1 Q WHAT IS YOUR RESPONSE TO STAFF'S THREE-YEAR AMORTIZATION AND
2 NO RATE BASE RECOGNITION FOR RES COSTS?

3 A Staff's shorter amortization period is balanced in conjunction with its recommendation
4 for no inclusion in rate base of the unamortized deferrals.

5 Q WILL YOUR RECOMMENDATION PROVIDE FULL RECOVERY OF ALL RES
6 COSTS?

7 A Yes. Deferral plus carrying cost between rate cases, amortization of deferrals in the
8 cost of service, and rate base recognition of the unamortized balance provides full
9 recovery of all RES costs in compliance with the Commission's RES Rule. This
10 approach has also been accepted by the Commission for recovery of DSM costs.

11 Q DOES THE RES RULE LANGUAGE PROVIDE FOR TRACKING AGAINST SOME
12 LEVEL OF ONGOING RES EXPENSE IN THE COST OF SERVICE, OTHER THAN
13 AMORTIZATION, AS PROPOSED BY COMPANY WITNESS IVES?

14 A No. Such language does not appear in the RES Rule for a company like GMO that
15 does not have an approved RESRAM. Including a level of ongoing expense in the
16 cost of service and tracking this level will place GMO out of compliance with the
17 Commission's RES Rule. According to the Commission's RES Rule, a company may
18 recover its compliance costs through a RESRAM or through deferral and
19 amortization. Without written Company notification and approval of a waiver by the
20 Commission, there is no "alternative three" that allows for the recovery of RES costs
21 through an ongoing expense level and a RES tracker as preferred by GMO.

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1 Q DOES THE RECOGNITION OF A CARRYING COST BRIDGE THE REGULATORY
2 LAG BETWEEN THE TIME RES EXPENDITURES OCCUR AND WHEN THESE
3 COSTS ARE INCLUDED IN RATES?

4 A Yes. Deferral of a carrying cost at GMO's short-term debt rate, as specified by the
5 RES Rule, appropriately reflects the short-term funding cost of these assets until the
6 RES costs are included in rates.

7 Q PLEASE SUMMARIZE YOUR TESTIMONY ON RES COST.

8 A My recommendation of deferral plus carrying cost between rate cases, inclusion in
9 rate base of the unamortized deferred balance and a six-year amortization period is
10 completely consistent with the RES Rule for companies that do not have an approved
11 RESRAM. My recommendation is also consistent with the timely recovery accepted
12 by the Commission for DSM costs. The Company, on the other hand, is relying on an
13 incorrect interpretation of the RES Rule in seeking an ongoing expense level and
14 tracker for RES cost and an abbreviated, unjustified amortization period for deferred
15 RES cost.

16 **Organizational Realignment and**
17 **Voluntary Separation Program ("ORVS")**

18 Q PLEASE EXPLAIN THIS ISSUE.

19 A According to the table on page 44 of Company witness Ives' rebuttal testimony, on a
20 GPE basis, shareholders will realize \$35.4 million in savings from the implementation
21 date of ORVS until rates from this case become effective. Implementation costs of
22 \$12.7 million were incurred, not including pensions and other post-retirement
23 benefits, to achieve these savings. While the Company wants to include a five-year

1 amortization of the cost in the rates from this case, Staff and the Industrials
2 recommend no recognition of amortization expense for the implementation costs of
3 ORVS in GMO's cost of service.

4 **Q PLEASE EXPLAIN HOW GMO REALIZED THESE SAVINGS.**

5 A In the last case, the Commission ordered and the parties used a true-up date of
6 December 31, 2010. While the case was still being considered, but after the true-up
7 date, GMO announced the implementation of the ORVS program. Recognizing the
8 true-up date as well as the need to maintain a proper relationship between revenues,
9 expenses and rate base, no party believed that it was appropriate to seek to account
10 for the expected payroll reduction in the rates resulting from the last case. Instead,
11 payroll expense was included at the inflated pre-ORVS levels. Therefore, GMO
12 realized an immediate windfall associated with its delay of the ORVS program until
13 after the true-up date in that case. This is a classic example of a utility reaping the
14 benefits of regulatory lag. Specifically, until rates are set in this case, the GMO
15 shareholders will keep the entirety of the benefits associated with the decision to
16 implement ORVS and time its implementation until after the true-up in the last case.

17 **Q IN LIGHT OF THE SIGNIFICANT SAVINGS RETAINED BY GMO, WHAT IS MR.**
18 **IVES' RATIONALE FOR INCLUDING AN AMORTIZATION EXPENSE FOR ORVS**
19 **IN THE COST OF SERVICE?**

20 A Mr. Ives believes that GMO's shareholders should enjoy all the benefits of what he
21 refers to as the positive regulatory lag associated with the implementation of ORVS
22 prior to the effective date of rates in this case. Mr. Ives proposes to amortize the cost

1 of ORVS over five years because the ORVS will provide substantial benefits through
2 reduced payroll expense over that time frame.

3 **Q WHAT IS YOUR RESPONSE?**

4 A The Industrials are quite simply matching the costs with the benefits generated by
5 ORVS. Matching costs and benefits is an accepted regulatory practice. According to
6 Mr. Ives' rebuttal testimony, the short-term benefits from ORVS prior to the
7 implementation of rates are almost three times the non-pension non-OPEB cost. Mr.
8 Ives is proposing to allow shareholders to retain all the benefits of ORVS prior to the
9 effective date of rates while charging ratepayers for all the costs of implementing
10 ORVS.

11 **Q ARE THE INDUSTRIALS PROPOSING TO ALLOW GMO TO RETAIN A**
12 **SIGNIFICANT PORTION OF THE BENEFITS GENERATED BY ORVS THAT**
13 **OCCUR PRIOR TO THE EFFECTIVE DATE OF RATES?**

14 A Yes. GMO will retain its portion of \$22.7 million of benefits from the implementation
15 of ORVS not including the related non-pension and OPEB cost. The Company began
16 enjoying the benefits of ORVS approximately 20 months before any benefits of the
17 program will be realized by ratepayers.

18 **Bad Debts Expense**

19 **Q PLEASE EXPLAIN THIS ISSUE?**

20 A GMO has proposed to include a level of bad debts expense of \$5.4 million in its cost
21 of service, \$4.1 million for MPS and \$1.3 million for L&P. The \$5.4 million is
22 comprised of: (1) the test year level of bad debts expense as recorded on the books

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1 of GMO of \$3.9 million; (2) an increase in the test year level of bad debts expense of
2 \$0.9 million as a result of applying a bad debt factor based on write-offs for the
3 12 months ended September 30, 2012 to the annualized revenues; and (3) an
4 increase in bad debts expenses of \$0.6 million that will allegedly arise as a result of
5 the increased revenue requirement for this case.

6 I have recommended a level of bad debts expense of \$3.9 million (\$3 million
7 for MPS and \$0.9 million for L&P) based on an application of the average bad debt
8 factor for the four years ended June 30, 2011 to the annualized revenues. I am also
9 opposing the application of a bad debt factor to the increased revenue requirement.
10 As a result, I am recommending that GMO's proposed level of bad debts expense be
11 reduced by \$1.5 million (\$1.1 million for MPS and \$0.4 million for L&P).

12 **Q WHAT ARE GMO'S CRITICISMS OF YOUR ADJUSTMENTS?**

13 **A** GMO believes that the data shows an upward trend in bad debts, which justifies the
14 use of the most recent data in determining the bad debt factor.

15 Regarding the factoring up of the rate increase for additional bad debts, the
16 Company believes it is logical to assume that increased revenues will result in
17 increased write-offs, if all other factors remain constant. In addition, Mr. Weisensee
18 cites a favorable Commission Order from 2006.

19 **Q DO YOU AGREE WITH MR. WEISENSEE THAT THERE IS AN UPWARD TREND**
20 **IN THE BAD DEBT FACTOR?**

21 **A** No. Apparently, Mr. Weisensee's assessment is based on the fact that, as shown in
22 the table on page 12 of my direct testimony, the bad debt factor increased in 2010
23 through September 2011 for MPS and increased during the test year compared to

1 2010 for L&P. However, these less than two full years of increase do not indicate a
2 trend of higher bad debts anymore than the immediate preceding two years of decline
3 in the L&P division indicates a trend of lower bad debts. Two or less years is simply
4 too short of a period to indicate a trend that supports reliance on the most recent
5 experience.

6 **Q HAS GMO EXPLAINED OR JUSTIFIED THE RECENT INCREASE IN BAD DEBT**
7 **WRITE-OFFS?**

8 A No. GMO has not addressed the large increase in the bad debt factor since 2009 for
9 MPS and since 2010 for L&P. The Company has simply used a method relied on in
10 the past without any explanation of the significant increase in the bad debt factor.
11 The factor has increased by over 28% since 2009 for MPS and over 34% in the test
12 year compared to 2010 for L&P.

13 **Q WHAT FACTOR DO YOU PROPOSE FOR ANNUALIZING BAD DEBTS EXPENSE**
14 **FOR THIS RATE CASE?**

15 A I propose a weighted four-year average, based on calendar revenues for 2007
16 through 2010 and actual write-offs for the 12 months ended June 2008 through
17 June 2011. Until GMO is able to justify the significant recent increase in the bad debt
18 factor and provide support that it reflects the ongoing level, it should not be relied
19 upon as an appropriate basis for setting ongoing rates.

1 Q ARE MR. WEISENSEE'S STATEMENTS PERSUASIVE REGARDING WHAT HE
2 ASSUMES TO BE THE "LOGIC" SUPPORTING GMO'S FACTORING-UP OF THE
3 REVENUE REQUIREMENT FOR BAD DEBTS?

4 A No. On page 6 of his rebuttal testimony he states, "It is logical and intuitive that
5 increased revenue will result in increased bad debt write-offs, assuming all other
6 factors remain constant." The problem with such rationale is that all other factors do
7 not remain constant and bad debt write-offs are influenced by other factors besides
8 increased revenues.

9 Q WHAT IS YOUR RESPONSE TO THE 2006 COMMISSION ORDER CITED BY
10 MR. WEISENSEE?

11 A The Commission's decision was based on the evidence in that case. I do not believe
12 that simply increasing revenues leads to an increase in bad debts expense and Mr.
13 Weisensee has not provided any analysis to support this proposition or justify the
14 Company's adjustment to bad debt expense.

15 Q IS THERE AN ADDITIONAL PROBLEM WITH THIS ADJUSTMENT?

16 A Yes. As I said in my direct testimony, considering the effective date of rates and the
17 six-month lag between revenues and write-offs, the adjustment proposed by GMO will
18 not be fully recognized on its books after June 2014. This is far beyond the true-up
19 date of August 31, 2012 and the January 26, 2013 operation of law date in this case.
20 GMO is attempting to collect rates for a cost that won't fully be realized for another 18
21 months following the operation of law date. This adjustment clearly violates the test
22 year concept of considering all relevant factors at a consistent point in time.

1 Therefore, I oppose GMO's adjustment to factor up the revenue requirement for
2 additional bad debts expense.

3 **Property Tax Tracker**

4 **Q DID GMO FILE REBUTTAL TESTIMONY ADDRESSING THE ISSUE OF A**
5 **PROPERTY TAX TRACKER?**

6 A Yes. GMO witness Darrin Ives addressed the issue in his rebuttal testimony.

7 **Q DOES MR. IVES CONTINUE TO ADVOCATE FOR A PROPERTY TAX TRACKER?**

8 A Yes. Mr. Ives argues that property taxes are a significant component of the
9 Company's cost of service, and, due to the change in the level of historic property
10 taxes, a property tax tracker is justified.

11 **Q DO YOU AGREE WITH MR. IVES?**

12 A No. GMO's property taxes for the Missouri jurisdiction represent approximately 3.7%
13 of GMO's total operating expense. I do not believe 3.7% represents a significant
14 component of the Company's cost of service that justifies a new tracker.
15 Furthermore, the purpose of the tracker would be to track the incremental change in
16 property taxes. The incremental change in property taxes will represent a much
17 smaller percent of GMO's cost of service.

18 **Q MR. IVES ALSO TESTIFIED THAT GMO HAS LITTLE CONTROL OVER**
19 **PROPERTY TAXES. DO YOU ACCEPT THIS CHARACTERIZATION?**

20 A No. As Mr. Ives admits on page 2 of his rebuttal testimony, the Company has control
21 over the timing of projects. He states that this control is only for the short-term, but

1 that is all the control necessary to manage this cost in conjunction with the rate case
2 process. Since property taxes are only paid every 12 months, and rate cases are an
3 11-month process, the ability to delay projects in the short-term can provide the
4 control necessary to capture property tax increases in the regulatory process. In
5 addition, the Company has the ability to protest property tax assessments.

6 **Q WHEN YOU SUGGESTED AN ACCOUNTING AUTHORITY ORDER ("AAO") AS**
7 **AN ALTERNATIVE FOR THE TRACKER, WERE YOU REFERRING TO ROUTINE**
8 **FLUCTUATIONS IN THE COST OF PROPERTY TAXES?**

9 A No. As I stated in my testimony, the Company could pursue an AAO to address
10 significant changes in property tax expense between rate cases. An AAO should only
11 be employed for changes such as the addition of a new power plant that would
12 significantly affect the level of property taxes. Absent such circumstances, the
13 Company should manage its rate case filings to capture property tax increases.

14 **Q DO YOU HAVE A GENERAL OPPOSITION TO AND CONCERN REGARDING**
15 **TRACKERS?**

16 A Yes. I am generally opposed to the use of trackers for expense items. Trackers
17 selectively capture changes in individual items of the cost of service rather than
18 considering all relevant facts when setting rates. In addition, there appears to be a
19 proliferation of trackers being requested and implemented, for even routine ongoing
20 costs such as property taxes. In this case, the Company is requesting new trackers
21 for property taxes, RES costs and transmission costs. This is in addition to trackers
22 GMO already has for OPEBs, pensions, fuel and purchased power costs and latan 2
23 costs. In my mind, the proliferation of trackers is designed to eliminate the

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1 Company's risk that rates will be insufficient. On the other hand, it will increase the
2 possibility that rates will be excessive.

3 **Overtime**

4 **Q PLEASE EXPLAIN THIS ISSUE.**

5 A GMO has included an amount of overtime based on an average of the actual
6 experience during the 2.75 years ended September 30, 2011. As part of the average
7 calculation, GMO also increased the actual prior year's overtime amounts for union
8 wage increases (indexing).

9 In his rebuttal testimony, Company witness Weisensee continues to support a
10 multi-year average because he says there is no discernible trend and indexing to
11 achieve what he refers to as an apples-to-apples comparison. Mr. Weisensee also
12 states that he will update his average to a full three years as part of true-up.

13 **Q DO YOU AGREE WITH THIS LEVEL OF OVERTIME?**

14 A No. My analysis shows an overall reduction in total company overtime and does not
15 support an adjustment to increase expense for additional overtime. As stated in my
16 direct testimony, I will continue to monitor this level of overtime through the true-up
17 period to determine if adjustment is necessary.

18 **Q HAS MR. WEISENSEE EXPLAINED THE REDUCTION IN THE LEVEL OF**
19 **OVERTIME AS SHOWN IN THE INDUSTRIALS' ANALYSIS?**

20 A No. As my analysis and Mr. Weisensee's table on page 4 of his rebuttal testimony
21 show, overtime has declined during the test year compared to 2010 and has
22 continued to decline through May 2012.

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1 **Crossroads Generating Station ADIT**

2 **Q PLEASE PROVIDE SOME BACKGROUND TO THIS ISSUE.**

3 A. In 2002, Aquila Merchant constructed four 75 MW combustion turbines at a facility in
4 Clarksdale, Mississippi. This facility was called Crossroads. With the acquisition of
5 Aquila in 2008, Great Plains also acquired the Crossroads facility. Shortly thereafter,
6 the Crossroads units were transferred to the regulated books of GMO and used for
7 service for MPS. In Case No. ER-2010-0356, the Commission was asked to value
8 the Crossroads unit for purposes of setting rates for MPS.

9 **Q WHAT POSITIONS WERE ADVANCED REGARDING THE VALUE OF**
10 **CROSSROADS?**

11 A In that case, GMO argued that rates should be set at a net book value of \$104 million.
12 In contrast, Staff asserted that the Commission should value Crossroads based upon
13 the fair market value of Crossroads at the time of its acquisition by Great Plains.
14 Specifically, Staff pointed to a May 8, 2007 SEC filing where Great Plains indicated
15 that the fair market value of Crossroads was approximately \$51.6 million. As an
16 alternative, Staff offered a valuation that was based on the sale of identical
17 combustion turbines made at approximately the same time in arm's length
18 transactions. Specifically, referencing the sale of the Goose Creek and Raccoon
19 Creek Energy Centers by Aquila Merchant to Union Electric Company, Staff
20 determined that the value of this installed capacity was \$205.88 per kW. Recognizing
21 that Crossroads had a capacity of 300 MWs, the installed capacity using this proxy
22 valuation was \$61.8 million.

1 **Q WAS THE PROXY SALE OF GOOSE CREEK AND RACCOON CREEK TO UNION**
2 **ELECTRIC AN IDENTICAL MATCH FOR THE TRANSFER OF CROSSROADS TO**
3 **THE MPS REGULATED BOOKS?**

4 A No. When Union Electric purchased Goose Creek and Raccoon Creek from Aquila
5 Merchant, it was purchasing capacity that was located within the same RTO as its
6 service area. As such, Union Electric did not incur additional expenses in transmitting
7 the energy from Raccoon Creek and Goose Creek to its service area. Crossroads is
8 also physically located in a portion of SPP. However, because it is not contiguous
9 with the rest of SPP, it must incur transmission costs to deliver its power over
10 Entergy's transmission system. As such, MPS incurred transmission expenses in
11 order to move the energy from Mississippi to its service area.

12 **Q WHAT DID THE COMMISSION DETERMINE WAS THE APPROPRIATE VALUE**
13 **FOR CROSSROADS?**

14 A In its Report and Order in ER-2010-0356, the Commission rejected both GMO's
15 inflated net book value and Staff's valuation based upon the SEC filing. Instead,
16 finding a middle ground, the Commission's valuation consisted of three components.
17 First, the Commission accepted the valuation based upon the installed capacity of
18 Raccoon Creek and Goose Creek (\$61.8 million). Second, the Commission
19 recognized that, unlike Raccoon Creek and Goose Creek, the Crossroads facility was
20 not located in the same RTO as the service area. Therefore, the Commission
21 disallowed, on a going forward basis, all expenses associated with transmitting the

1 energy from Mississippi to Missouri.¹ The third part of the Commission's valuation
2 was to recognize the entirety of the deferred taxes associated with Crossroads.²

3 **Q PLEASE DESCRIBE THE CURRENT ISSUE REGARDING DEFERRED TAXES**
4 **ASSOCIATED WITH CROSSROADS.**

5 A In her rebuttal testimony on page 3, GMO witness Hardesty claims that the
6 Commission's inclusion and calculation of deferred taxes as a rate base offset in the
7 last case was incorrect. Specifically, she alleges that "the amount of deferred income
8 taxes were not computed consistent with the value of Crossroads as determined by
9 the Commission in the last case."

10 **Q DO YOU AGREE WITH MS. HARDESTY'S ASSERTIONS?**

11 A No. GMO's argument is premised on its misplaced belief that the entirety of the
12 Commission's Crossroads valuation was simply the Raccoon Creek / Goose Creek
13 proxy valuation. Based upon this misunderstanding, GMO believes that the level of
14 deferred taxes should flow mathematically out of that valuation.³

15 GMO fails to recognize that the deferred taxes were not simply a
16 mathematical calculation that flowed out of the Commission's adoption of the
17 Raccoon Creek / Goose Creek valuations. In that case, deferred taxes were not

¹The Commission further determines that it is not just and reasonable for GMO customers to pay the excessive cost of transmission from Mississippi and it shall be excluded." *Report and Order*, at page 100. See also, "In addition to the valuation, the Commission concludes that but for the location of Crossroads customers would not have to pay the excessive cost of transmission." *Id.* at page 99.

²"Finally, deferred income taxes shall also be an offset to rate base." *Report and Order*, at page 100. See also, "The accumulated deferred taxes associated with Crossroads should be applied as an offset to MPS's rate base." *Id.*, at page 96.

³Staff's testimony suffers from the same misunderstanding of the Commission's Report and Order. "Deferred taxes would start accumulating at the time of the theoretical purchase. In essence, deferred taxes would be synchronized with GMO's acquisition of the "new" plant valued at the \$61.8 million." Featherstone Direct, at page 47.

1 designed to be simply "synchronized" with the Raccoon Creek / Goose Creek
2 valuation. Rather, the deferred taxes were part and parcel of three unique aspects of
3 the Commission's Crossroads valuation. Specifically, the Commission found that the
4 Crossroads valuation was based upon all of the following components: (1) the
5 Raccoon Creek / Goose Creek proxy valuation; (2) the elimination of all transmission
6 expenses and (3) the recognition of all deferred taxes.

7 Indeed, the fact that deferred taxes were part of the Commission's valuation
8 and not a mathematical result of that valuation was reflected in the Commission's
9 order denying GMO's request for rehearing. In its response to GMO's application for
10 rehearing on this issue, the Industrials noted that GPE "would have conducted due
11 diligence on the magnitude of the Crossroads deferred tax balance and 'would have
12 considered' that deferred tax balance when it valued Aquila as well as the underlying
13 Crossroads asset." In its Order denying GMO's rehearing, the Commission adopted
14 the Industrials suggestion that deferred taxes were part of GPE's due diligence and
15 should necessarily be included in the valuation decision of the Commission. "The
16 Commission set the value of Crossroads considering all relevant factors presented
17 and found that GPE had conducted due diligence in its purchase of Aquila, Inc.
18 Therefore, the Commission need not clarify this point [deferred taxes] in the Report
19 and Order."⁴

⁴*Order of Clarification and Modification*, Case No. ER-2010-0356, issued May 27, 2011, at page 3.

1 Q WHAT WAS THE ULTIMATE VALUE THAT THE COMMISSION PLACED ON
2 CROSSROADS?

3 A After considering all aspects, the Commission included Crossroads in rate base at a
4 value that was greater than the \$51.6 million valuation that GPE stated in its May 8,
5 2007 SEC filing.

6 Q DO YOU AGREE WITH MS. HARDESTY'S ARGUMENT FOR NOT REFLECTING
7 THE FULL AMOUNT OF DEFERRED TAXES ASSOCIATED WITH THE
8 CROSSROADS UNITS?

9 A No. In Ms. Hardesty's rebuttal testimony she attempts to make a distinction between
10 a regulated and non-regulated subsidiary. Her testimony seems to suggest that if the
11 sale of the Crossroads units were from a regulated entity to GMO, then the deferred
12 taxes at issue here would have already been reflected in the purchase price.
13 However, because the purchase of the Crossroads units was from a non-regulated
14 entity to GMO, Ms. Hardesty argues that no deferred taxes should be recognized in
15 the purchase price. If Ms. Hardesty's proposed theory is adopted, an incentive and
16 motivation would be created for utilities to transfer assets to a non-regulated
17 subsidiary prior to the sale of those assets to another regulated entity. The decision
18 to include the deferred taxes in the purchase price should not be determined by an
19 investigation into whether the customers are regulated or non-regulated. Ultimately,
20 ratepayers would be affected even through a non-regulated subsidiary ownership.
21 Ms. Hardesty is arguing a distinction here without a purpose.

22 In addition, Ms. Hardesty is inconsistent in her arguments since GMO's
23 purchase price for the Crossroads units was at net book value. Net book value
24 equals the gross asset value less the accumulated depreciation of that unit while it

1 was in service. The purchase price that GMO paid recognized the accumulated
2 depreciation reserve associated with that unit during the time it was in the ownership
3 of the non-regulated subsidiary. Accumulated depreciation is the sum of monthly
4 depreciation charges on the asset. Given Ms. Hardesty's argument, the accumulated
5 depreciation balance should not be reflected in the sale price as non-regulated
6 customers paid the depreciation expense. However, this is not part of Ms. Hardesty's
7 argument. This is clearly an inconsistent approach.

8 **St. Joseph Infrastructure Program ("Program")**

9 **Q DID GMO FILE REBUTTAL TESTIMONY ADDRESSING THE ST. JOSEPH**
10 **INFRASTRUCTURE PROGRAM?**

11 **A** Yes. GMO witnesses Wolf and Weisensee filed rebuttal testimony addressing this
12 issue.

13 **Q DO YOU HAVE ANY COMMENTS REGARDING THEIR REBUTTAL**
14 **TESTIMONIES?**

15 **A.** Yes. I found reading their testimonies to be somewhat confusing. In my direct
16 testimony, I testified that the St. Joseph Infrastructure Program would generate
17 additional revenues and decrease maintenance expense. I noted that GMO failed to
18 account for these benefits. In their rebuttal testimonies, the GMO witnesses appear
19 to contradict each other regarding my arguments.

1 Q PLEASE DESCRIBE THE ADDITIONAL REVENUE ISSUE.

2 A In my direct testimony, I noted the lack of recognition of additional revenue by GMO
3 that this program will generate. On page 3 of Mr. Wolf's rebuttal testimony, he states
4 the following regarding the expected increase in revenues.

5 Q: Is the five-year as-filed plan expected to increase revenue?

6 A: No. This effort is structured around prudently addressing specific
7 system infrastructure conditions and upgrading the system to
8 modern construction standards.

9 On page 22 of Mr. Weisensee's rebuttal testimony he states the following regarding
10 the expected increase in revenues:

11 A: Any potential revenue impact would be realized not at the
12 beginning of the program but much later in the program, and can
13 be addressed in a future rate case.

14 It is clear from the above testimony that GMO cannot agree whether there will be
15 increased revenues. The simple facts of the issue must lead one to recognize that
16 additional revenues would be generated. If this program is designed to address the
17 worst performing portions of the L&P system and, as a result of the Program
18 customers have reduced interruptible minutes of service, their revenues will increase
19 as a result of reducing those interruptible minutes. Quite simply, the more minutes of
20 service a customer is able to receive, the more revenues they will generate.

21 In addition, as I discussed in my direct testimony, one of the projects for the
22 Program is to replace a substation that is reaching its maximum capacity. The reason
23 cited for the needed upgrade is the growth rate of 4% per year. Clearly, higher
24 growth in this area will generate higher revenues.

1 Q PLEASE DESCRIBE THE REDUCED MAINTENANCE EXPENSE ISSUE.

2 A In my direct testimony, I discussed GMO's failure to recognize the reduction of
3 maintenance expense that will occur as a result of the Program.

4 Once again, when asked about the possibility of reduced maintenance
5 expense, GMO witness Wolf states on page 3 of his rebuttal testimony the following:

6 Q: Is the St. Joseph Infrastructure Program intended to generate
7 maintenance savings?

8 A: No. This plan is primarily designed to improve system reliability
9 and, therefore, service to customers within the City of St. Joseph,
10 on the worst performing portions of the L&P system. It is not
11 intended, or expected, to generate maintenance savings.

12 Not surprisingly Mr. Wolf and Mr. Weisensee don't agree on this issue as well. Mr.
13 Weisensee on page 22 of his rebuttal testimony states the following:

14 A: Although the program's emphasis is not on generating
15 maintenance savings, logically replacing aging infrastructure with
16 new facilities will reduce overall maintenance costs. Any potential
17 impact to maintenance costs would be incorporated in future rate
18 cases as such savings is realized, similar to the revenue issue.

19 As can be seen from the above quotes, GMO cannot even agree internally if the
20 program will generate additional revenues and / or reduce maintenance. I contend
21 that Mr. Weisensee is correct and Mr. Wolf's comments are misleading and incorrect.

22 Again, Mr. Wolf's arguments do not follow simple logic. GMO's Program
23 proposes to replace the worst performing circuits in and around St. Joseph. Yet,
24 when those circuits are replaced, GMO claims that it will not experience a reduction in
25 maintenance expense. I simply reject Mr. Wolf's illogical conclusion.

1 Q DO YOU HAVE ANY FURTHER COMMENTS REGARDING THIS PART OF THE
2 ISSUE?

3 A Yes. It is quite interesting that GMO proposes to defer for future rate recovery the
4 depreciation expense and return on plant investment, yet asserts that the increased
5 revenues and decreased maintenance costs associated with those projects should
6 wait to be reflected in customer rates until GMO's next rate case. GMO's proposal is
7 a win / win for GMO.

8 Q MR. WEISENSEE CLAIMS THAT THE COMMISSION HAS APPROVED THIS
9 METHOD OF ACCOUNTING TREATMENT IN THE PAST PRIMARILY FOR
10 GENERATION PLANT ADDITIONS. DO YOU AGREE?

11 A Yes. This treatment has generally been reserved for the end of the construction
12 period associated with a generating facility. KCPL received construction accounting
13 treatment for latan 2, which cost approximately \$2 billion. GMO's request is for
14 distribution facilities and the associated \$25 million cost will be spread out over 5
15 years.

16 Q PLEASE SUMMARIZE YOUR POSITION.

17 A GMO witnesses contradict each other on two key arguments that I presented in my
18 direct testimony. Without question, the Program will generate additional revenues
19 and reduced maintenance expense. GMO refuses to recognize these offsets to its
20 proposed Program. GMO's capital investment is not material especially when
21 considered over a five-year period. GMO wants a win / win situation for its
22 shareholders. The Commission should reject GMO's Program request.

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1 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A Yes, it does.

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