

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

CHRISTINE M. DAVIDSON

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO CONTINUE THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 07-KCPE-____-RTS

1 **Q: Please state your name and business address.**

2 A: My name is Christine M. Davidson. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106-2124.

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

5 A: I am employed by Kansas City Power & Light Company (“KCPL”) as a Senior
6 Regulatory Analyst.

7 **Q: What are your responsibilities?**

8 A: My responsibilities include assistance in general regulatory matters and in preparation of
9 the jurisdictional cost of service included in KCPL’s rate filings.

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

11 A: I have a Bachelor of Science degree with a major in accounting from Kansas State
12 University and a Master of Science degree with an emphasis in accounting from the
13 University of Missouri – Kansas City. I am a Certified Public Accountant with a license
14 to practice in both Kansas and Missouri. I have been employed by KCPL for 31 years,

1 the first 29 of which were spent in various supervisory and managerial positions in the
2 Accounting Department. For the past two years, I have been responsible for multiple
3 accounting-related analyses in the Regulatory Affairs Department. I was actively
4 involved in the preparation and reconciliation of KCPL's 2006 rate filing (Docket No.
5 06-KCPE-828-RTS) and the preparation of the current filing. As part of the 2006 rate
6 filing, I completed a lead/lag study for cash working capital. For the 2007 filing, KCPL
7 reflected certain updates to the lead/lag factors about which I am filing testimony today.

8 **Q: Have you previously testified in a proceeding at the Kansas Corporation**
9 **Commission ("KCC") or before any other utility regulatory agency?**

10 A: Yes, I have filed written testimony in previous cases before the KCC, including
11 testimony in KCPL's 2006 rate case, Docket No. 06-KCPE-828-RTS. I have also filed
12 written testimony before the Missouri Public Service Commission in Case No.
13 ER-2006-0314 and Case No. ER 2007-0291.

14 **Q: What is the purpose of your testimony?**

15 A: The purpose of my testimony is to support the amount of cash working capital included
16 in rate base as summarized on Schedule 15 of the revenue requirement model, which is
17 attached to the direct testimony of KCPL witness John P. Weisensee as part of
18 Schedule JPW-1 ("Schedule 15").

19 **Q: Why is it necessary to calculate an amount of cash working capital?**

20 A: Cash Working Capital is the amount of cash required by a utility to pay the day-to-day
21 expenses incurred to provide utility service to its customers. A lead/lag study is generally
22 used to analyze the cash inflows from payments received by the company and the cash
23 outflows for disbursements paid by the company. When the utility receives payment

1 from its retail customers for utility service less quickly than it makes the disbursements
2 for utility expenses, then the company would have positive cash working capital
3 requirements. Conversely, when the utility receives payment from its retail customers for
4 utility service more quickly than it makes the disbursements for utility expenses, then the
5 company would have negative cash working capital requirements.

6 **Q: How did you determine the amount of cash working capital?**

7 A: I applied lead/lag factors from Docket No. 06-KCPE-828-RTS to appropriate cost of
8 service amounts, after first modifying certain factors for changes in circumstances. The
9 application of the individual factors to applicable amounts is shown on Schedule 16 of
10 the revenue requirements model, which is attached to the direct testimony of KCPL
11 witness John P. Weisensee as part of Schedule JPW-1 (“Schedule 16”).

12 **Q: Where are the factors used in this case identified?**

13 A: The factors used in this case are identified on Schedule CWC% of the revenue
14 requirement model, which is attached to the direct testimony of KCPL witness
15 John P. Weisensee as part of Schedule JPW-1 (“Schedule CWC%”). It is also attached to
16 my testimony as Schedule CMD-1.

17 **Q: What was the basis for these factors?**

18 A: The underlying basis for these factors was a cash working capital lead/lag study that I
19 completed for use in Docket No. 06-KCPE-828-RTS.

20 **Q: Which factors required updating from those used in Docket No. 06-KCPE-828-
21 RTS?**

22 A: I updated three factors: 1) retail revenue, 2) bulk power sales & other revenues, and
23 3) Wolf Creek refueling outage.

1 **Q: Please explain why you updated the revenue lag factor.**

2 A: I revised the retail revenue lead/lag factor to reflect the proper collection lag. The
3 original retail revenue factor used by KCPL in Docket No. 06-KCPE-828-RTS, was
4 21.075 days. The 21.075 days was made up of three components: service period lag,
5 billing lag and collection lag. The original service period and billing lags were retained
6 in this case at 15.21 and 2.00 days, respectively. However, KCPL reflected a change in
7 the collection lag from 3.866 days to 7.867 days. This resulted in a total retail revenue
8 lag of 25.075 days. The calculation of this retail revenue lag can be found on Schedule
9 CMD-2.

10 **Q: Why was this necessary?**

11 A: This was necessary to reflect a lower level of receivable sales than was assumed in the
12 original cash working capital study and used in the 2006 case. During 2006, KCPL sold
13 \$70 million of its receivables and expects to sell the same level of receivables during
14 2007. For 2006, this volume of sales equated to 63.28% of KCPL's receivables. The
15 collection lag used in the 2006 case of 3.866 days anticipated that 81.95% of KCPL
16 receivables would be sold, reflecting a higher level of receivable sales anticipated during
17 the months of June through October 2006.

18 **Q: How did this impact the calculation of the collection lag?**

19 A: Reduced receivable sales resulted in a longer collection lag. Collection lag was
20 calculated in two pieces relating to 1) receivables included in the accounts receivable sold
21 under various agreements entered into by KCPL, and 2) receivables not included in the
22 accounts receivable sold. The agreements entered into by KCPL (collectively referred to
23 as the "Receivable Sale Agreement") result in the sale of up to \$100 million of eligible

1 receivables to an affiliate of The Bank of Tokyo-Mitsubishi UFJ, Ltd. To calculate the
2 weighted collection lag, the following steps were performed:

3 1) The amount of receivables expected to be sold throughout a normalized 12-month
4 period was compared with total receivables for the period, excluding off-system sales.
5 KCPL sold \$70 million of its receivables during 2006 and expects to sell the same
6 amount during 2007.

7 2) A percentage of receivables sold to total receivables was calculated using the
8 actual eleven months ended November 2006 with a projection for December 2006.
9 Based on its experience in 2006 KCPL expects to sell an average of 63.28% of its
10 receivables from retail revenues. This percentage of revenues was given a zero (0) day
11 collection lag because sold receivables are assumed to be collected when billed.

12 3) A collection lag was also calculated for the 36.72% of receivables not expected to
13 be sold under the Receivable Sale Agreement. The collection lag for this group of
14 revenues was based on a twelve-month average of Days Sales Outstanding, reflecting a
15 21.42-day lag.

16 4) A weighted collection lag of 7.867 days was calculated as $(63.28\% \times 0 \text{ days}) +$
17 $(36.72\% \times 21.42 \text{ days}) = 7.867 \text{ days}$.

18 **Q: Is there an additional reason that you believe it more appropriate to use the**
19 **\$70 million of anticipated accounts receivable sales rather than the maximum level**
20 **allowed under the agreements?**

21 A: Yes. When preparing its rate filing in Docket No. 06-KCPE-828-RTS, KCPL used the
22 maximum level of receivable sales allowed under the Receivable Sale Agreement as the
23 basis to calculate both its retail revenue collection lag and the banking fee expense related

1 to such sales. In this case, KCPL has included in cost of service only the projected
2 banking fee expense that relates to the actual level of receivables expected to be sold. A
3 consistent amount of expected sales under the Receivables Sale Agreement is therefore
4 used for both the cost of service and working capital calculations.

5 **Q: Please explain why you updated the bulk power sales & other revenues factor.**

6 A: I modified the presentation of the lead/lag factor for bulk power sales and other revenues,
7 but did not change the number of lag days calculated in the original cash working capital
8 study.

9 **Q: Why was it necessary to modify the presentation?**

10 A: The presentation used in this case more clearly represents the impact of the cash
11 transactions related to bulk power sales. The factor that is applied to the bulk power sales
12 and other revenues on Schedule 16 of the revenue requirements model is now reflected in
13 a manner consistent with the other factors included on Schedule CWC% of the revenue
14 requirements model.

15 **Q: Why is the clarification necessary?**

16 A: Overall, the proceeds from bulk power sales and other revenues reduce the amount that
17 must otherwise be recovered from retail customers through retail revenues. However,
18 retail customers receive the benefit of cash proceeds from bulk power sales based on the
19 25.08-day retail revenue lag. KCPL, on the other hand, does not receive payment from
20 its bulk power customers until after a 36.88-day lag. This results in a net negative lag of
21 11.8 days during which KCPL must provide the cash from other sources, increasing the
22 amount of cash working capital requirements that must be included in rate base.

23 **Q: Please explain why you updated the Wolf Creek refueling outage factor.**

1 A: On September 8, 2006, the Financial Accounting Standards Board issued a new FASB
2 Staff Position, FSP AUG AIR-1 (“FSP”), Accounting for Planned Major Maintenance
3 Activities. This FSP is described by KCPL witness John P. Weisensee in his direct
4 testimony. KCPL adopted this FSP in the fourth quarter of 2006.

5 **Q: What impact did the adoption of the FSP have on the related cash working capital**
6 **factor?**

7 A: Under the provisions of the FSP, KCPL will defer the operations and maintenance
8 expenses incurred during each Wolf Creek refueling outage and amortize them to
9 expense over the subsequent eighteen months until the next outage. As shown on
10 Schedule CMD-3, the eighteen-month amortization period results in a difference of
11 292.5 days between the cash disbursement for refueling outage expenses and inclusion of
12 such costs in expenses recovered as part of cost of service.

13 **Q: Did you make any other changes to the cash working capital lead/lag factors**
14 **determined in Docket No. 06-KCPE-828-RTS?**

15 A: No, I did not.

16 **Q: Were there any additional changes in KCPL’s processes, other than those described**
17 **above, which would cause any of the other lead/lag factors to require modification**
18 **from those used in Docket No. 06-KCPE-828-RTS?**

19 A: No, there were not.

20 **Q: How were the resulting lead/lag factors used?**

21 A: Lags for both retail revenues and payments were posted to Schedule CWC%, included
22 herein as Schedule CMD-1. On this schedule, the net retail revenue/payment lag for each
23 payment group was calculated and the result was divided by 365 days to arrive at a net

1 lead/lag factor. These factors were subsequently applied to the applicable cost of service
2 amounts on Schedule 16 of the revenue requirement model, where individual components
3 of cash working capital were calculated. The total resulting cash working capital amount
4 was then carried forward to Schedule 15.

5 **Q: Does that conclude your testimony?**

6 **A: Yes, it does.**

