

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

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**REBUTTAL TESTIMONY OF**

**CHRISTINE M. DAVIDSON**

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

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

**DOCKET NO. 06-KCPE-828-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  
3 City, Missouri 64106.

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: Are you the same Christine M. Davidson who pre-filed direct testimony in this**  
8 **case?**

9 A: Yes, I am.

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

11 A: The purpose of my testimony is to rebut the testimony of Kansas Corporation  
12 Commission ("KCC") Staff witness George D. Rohrer, concerning KCPL's cash  
13 working capital and Staff Adjustment No.7 (RB-7) which decreases KCPL's cash  
14 working capital component of rate base by \$7,501,140 before pro forma adjustments.

1 **Q: Do you disagree with Staff's adjustment to cash working capital?**

2 A: Yes, I do. Staff's adjustment is almost entirely due to Staff's treatment of revenues  
3 received by KCPL that are not retail revenues. These revenues are primarily revenues  
4 from the sale of bulk power but also include miscellaneous revenues such as forfeited  
5 discounts and rental income. In the remainder of my testimony, when I refer to bulk  
6 power sales revenues, I am referring to bulk power sales and these miscellaneous  
7 other revenues.

8 **Q: How did KCPL treat these revenues in its cash working capital study?**

9 A: KCPL treated them as negative expenses. They reflect amounts returned to the  
10 ratepayers, reducing KCPL's revenue requirement.

11 **Q: What was the result of this treatment?**

12 A: The proceeds from bulk power revenues were shown as being returned to the  
13 ratepayers using the same 21.075-day time period that was used to reflect the lag by  
14 which ratepayers provide revenues to KCPL. Because, in this case, the proceeds are  
15 flowing from KCPL to the ratepayers rather than from the ratepayers to KCPL, I  
16 showed the revenue lag as negative 21.075 days or (21.075) days.

17 **Q: In what amount of time does KCPL receive payment for bulk power sales from  
18 its bulk power customers?**

19 A: KCPL receives payment from its bulk power sales customers with a 36.88-day lag.  
20 Thus, KCPL returns the benefits to its ratepayers more quickly than it receives  
21 payment from its bulk power customers. Since receipt of payment from bulk power  
22 customers results in non-retail revenues (negative expenses), it was shown in KCPL's  
23 cash working capital schedule as negative 36.88 days or (36.88) days. To cover the

1 15.805-day interval between the time it returns the benefit to its ratepayers  
2 (21.075 days) and the time it receives payment from its bulk power customers  
3 (36.88 days), KCPL must use its own cash, generating a need for cash working  
4 capital.

5 **Q: How has staff reflected the cash working capital impact of bulk power sales?**

6 A: Staff shows bulk power sales as being *contributed by* the ratepayers with a  
7 21.075-day lag with cash being *paid out by* KCPL with a 36.88-day lag, implying that  
8 ratepayers provide funds to KCPL in advance of when KCPL pays for the bulk power  
9 sales. This is exactly backwards. It is possible that Staff is confusing the proceeds  
10 (revenues) from the sale of bulk power with the cost (expense) of generating the  
11 kwh's of bulk power sold. The cost of providing the bulk power is considered in the  
12 fuel expense, and to a lesser extent in the purchased power expense, calculations.  
13 The item in question is solely related to the revenue side of the transaction as it relates  
14 to the return of the bulk power sales benefit to the ratepayers.

15 **Q: What change to the Staff's accounting schedules do you propose?**

16 A: If the Staff's cash working capital Schedule A-3 was corrected to reflect that KCPL  
17 has a positive cash working capital requirement due to the 15.805-day difference  
18 caused by returning the benefit of bulk power sales proceeds to the ratepayers more  
19 quickly than it is received, Staff's negative adjustment of (\$7,501,140), before cash  
20 working capital impacts of Staff's pro forma adjustments, would become a positive  
21 adjustment of \$2,576,233. This is the difference between KCPL's negative cash  
22 working capital requirement of (\$28,059,858) and the re-calculated amount of Staff's  
23 negative cash working capital requirement of (\$25,483,619). This re-calculated

1 amount is shown in the re-calculation of the Staff's Schedule A-3 attached as  
2 Exhibit CMD-2.

3 **Q: Is there another way that the revenues received for bulk power and other**  
4 **miscellaneous revenues could be treated in the cash working capital calculation?**

5 A: Yes. Although KCPL prefers stand-alone treatment of these non-retail revenues as a  
6 negative expense, the revenues from both retail and non-retail sources could be  
7 considered together and a blended revenue lag could be calculated.

8 **Q: Please explain how this would be calculated.**

9 A: Costs incurred by KCPL, including fuel and purchased power, are covered by two  
10 sources of revenues, retail revenues and revenues from bulk power and other  
11 miscellaneous sources. The ratepayers provide retail revenues with a 21.075-day lag.  
12 The bulk power customers provide revenues with a 36.88-day lag. The lags could be  
13 weighted by their respective revenues and a blended lag for use with all revenues  
14 could be calculated.

15 **Q: Using the Staff's current accounting schedules B-1, Staff Adjusted and**  
16 **Pro Forma Operating Income Statement, what would this weighted revenue rate**  
17 **be?**

18 A: The weighted revenue rate would be 24.34 days, the calculation of which is shown on  
19 the attached Exhibit CMD-3.

20 **Q: How would the weighted rate be applied?**

21 A: The revenue lag reflected on Staff's Schedule A-3, Staff Adjusted and Pro forma  
22 Cash Working Capital, would be changed to 24.34 days, the entire section titled

1           “Non-Retail Revenue-Related CWC” beginning on line 27 would be eliminated and  
2           the cash working capital requirements for all lines would be re-calculated.

3   **Q:    Does this method result in any difficulties?**

4   A:    Yes. The blended rate would need to be re-calculated any time any of the component  
5           parts changed, impacting the original weighting.

6   **Q:    Despite this concern, would you be willing to accept this method should the Staff  
7           elect it?**

8   A:    Yes.

9   **Q:    Would you summarize the results of your rebuttal testimony?**

10  A:    KCPL provides the benefits of the proceeds from bulk power sales to its ratepayers  
11           approximately 15 days prior to the time that it receives those proceeds from its bulk  
12           power customers. This interval results in a need for positive cash working capital in  
13           rate base for this cash item. Therefore, Staff’s adjustment RB-7 is inappropriate and  
14           should not be accepted by the Commission. Under the revised calculation shown in  
15           Exhibit CMD-2, Staff’s adjustment should be a positive \$2,576,233 before impact of  
16           pro forma adjustments.

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

18  A:    Yes, it does.

Kansas City Power & Light  
 Kansas Jurisdiction  
 Adjusted and ProForma Cash Working Capital as Modified by KCPL  
 For the Test Year Ended December 31, 2005

LINE NO.	A Kansas Jurisdictional Income Statement	B Staff Adjustments To Cash Working Cap	C Staff Adjusted Cash Working Capital	D Revenue Lag Days	E Expense Lead Days	F Net Lag Days	G Net % of Year	H Staff Cash Working Capital As Adjusted	I Kansas Jurisdictional Pro Forma Income Stmt	J Staff Pro Forma Cash Working Capital	
1	<b>Total O&amp;M Expenses</b>	301,338,670	(14,763,472)	286,575,198	21.075				286,575,198		
	<b>Payroll Related CWC</b>										
2	Federal, State & city Income Tax With	12,499,541	(880,905)	11,618,636	21.075	14.34	6.74	0.018452	214,388	11,618,636	214,388
3	FICA Taxes Withheld-Employee	4,504,504	(317,429)	4,187,075	21.075	14.31	6.77	0.018534	77,604	4,187,075	77,604
4	Other Employee Withholdings	10,556,697	(743,974)	9,812,723	21.075	15.40	5.68	0.015548	152,568	9,812,723	152,568
5	Accrued Vacations	5,102,602	0	5,102,602	21.075	344.83	(323.76)	(0.887000)	(4,526,008)	5,102,602	(4,526,008)
6	WCNOC Prod Payroll	15,273,888	(904,178)	14,369,710	21.075	13.81	7.27	0.019904	286,016	14,369,710	286,016
7	WCNOC A&G Payroll	1,784,306	(103,854)	1,680,452	21.075	13.81	7.27	0.019904	33,448	1,680,452	33,448
8	Net Other Payroll	24,830,518	(2,109,547)	22,720,971	21.075	14.44	6.64	0.018178	413,024	22,720,971	413,024
	<b>Fuel and Purchased Power Related CWC</b>										
9	Purchased Coal and Freight	60,716,887	0	60,716,887	21.075	21.08	(0.00)	(0.000014)	(832)	60,716,887	(832)
10	Purchased Gas and Transport	15,709,709	0	15,709,709	21.075	28.62	(7.55)	(0.020671)	(324,739)	15,709,709	(324,739)
11	Purchased Oil and Transport	1,874,162	0	1,874,162	21.075	8.50	12.58	0.034452	64,569	1,874,162	64,569
12	Nuclear Fuel less Oil (Non-labor)	34,187	0	34,187	21.075	13.81	7.27	0.019904	680	34,187	680
13	Purchased Power	28,485,142	0	28,485,142	21.075	26.09	(5.02)	(0.013740)	(391,378)	28,485,142	(391,378)
	<b>Other O&amp;M Related CWC</b>										
14	Pension Fund Payments	18,095,551	(1,510,205)	16,585,346	21.075	0.00	21.08	0.057740	957,633	16,585,346	957,633
15	Other Post Employment Benefits	1,919,890	(659,920)	1,259,970	21.075	20.36	0.72	0.001959	2,468	1,259,970	2,468
16	Wolf Creek Outage Accrual	6,127,710	0	6,127,710	21.075	215.07	(194.00)	(0.531493)	(3,256,836)	6,127,710	(3,256,836)
17	Nuclear Orod O&M excl Fuel & Payroll	13,734,332	(1,640,411)	12,093,921	21.075	13.81	7.27	0.019904	240,719	12,093,921	240,719
18	<b>O&amp;M Expenses Not Reflected in Lines Above</b>	80,089,044	(5,893,049)	74,195,995	21.075	39.15	(18.08)	(0.049521)	(3,674,226)	74,195,995	(3,674,226)
	<b>Interest and Taxes Related CWC</b>										
19	Interest Expense	27,940,511	(1,930,252)	26,010,259	21.075	86.55	(65.48)	(0.179384)	(4,665,813)	26,010,259	(4,665,813)
20	Currently Payable Income Taxes	23,727,053	9,607,759	33,334,812	21.075	45.63	(24.56)	(0.067274)	(2,242,565)	37,274,599	(2,507,610)
21	Ad Valorem / Property Taxes	27,354,166	(2,274,715)	25,079,451	21.075	200.42	(179.35)	(0.491356)	(12,322,943)	25,079,451	(12,322,943)
22	Wolf Creek Payroll Taxes	1,166,833	0	1,166,833	21.075	13.81	7.27	0.019904	23,225	1,166,833	23,225
23	KCPL Payroll and Other Misc Taxes	3,979,140	(388,245)	3,590,895	21.075	14.42	6.66	0.018233	65,472	3,590,895	65,472
24	KS Franchise Taxes	11,716,349	0	11,716,349	21.075	47.67	(26.60)	(0.072863)	(853,688)	10,858,537	(791,186)
25	Sales Taxes-KS	16,723,831	0	16,723,831	21.075	24.24	(3.17)	(0.008671)	(145,016)	15,500,236	(134,406)
26	Use Taxes-KS	264,708	0	264,708	21.075	73.65	(52.58)	(0.144041)	(38,129)	264,708	(38,129)
	<b>Non Retail Revenue-Related CWC</b>										
27	Miscellaneous Revenue	5,720,761		5,720,761	(21.075)	(36.88)	15.81	0.043301	247,717	5,720,761	247,717
28	Bulk Power Sales	83,526,683	12,941,034	96,467,717	(21.075)	(36.88)	15.81	0.043301	4,177,184	96,467,717	4,177,184
29	Sales For Resale	42,471		42,471	(21.075)	(36.88)	15.81	0.043301	1,839	42,471	1,839
30	<b>Total Cash Working Capital Requirements</b>								(25,483,619)		(25,675,552)
									(34,336,643)		(34,527,658)
									8,853,024		8,852,106

As Filed by Staff  
Correction

Cash Working Capital Rebuttal Testimony of Christine M. Davidson

Calculation of Weighted Revenue Lag Factor

	a	b	c	d = b x c	e = d/b
	Staff	Staff Adjusted		Amount x Lag	Weighted
	Schedule/	Jurisdictional	Lag Days	Days	Days Lag
	Line	Amount			
Electric Revenues	B-1/1	392,338,106	21.075	8,268,525,584	
Miscellaneous Revenue		5,720,761	36.88	210,981,666	
Bulk Power Sales		96,467,717	36.88	3,557,729,403	
Sales for Resale		42,471	36.88	1,566,330	
		<u>494,569,055</u>		<u>12,038,802,983</u>	<u>24.342</u>

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

In the Matter of the Application of Kansas City                    )  
Power & Light Company to Modify Its Tariffs to                ) Docket No. 06-KCPE-828-RTS  
Begin the Implementation of Its Regulatory Plan                )

**AFFIDAVIT OF CHRISTINE M. DAVIDSON**

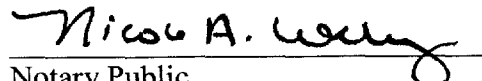
STATE OF MISSOURI    )  
  ) ss  
COUNTY OF JACKSON    )

Christine M. Davidson being first duly sworn on his oath, states:

1. My name is Christine M. Davidson. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Regulatory Analyst.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of 5 pages and Exhibits CMD-2 - CMD-3, 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.

  
Christine M. Davidson

Subscribed and sworn before me this 7<sup>th</sup> day of September 2006.

  
Notary Public

My commission expires: Feb. 4, 2007

