

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

REBUTTAL 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 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.

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>

