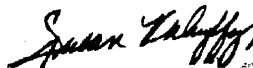


BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

MAR 01 2007



Docket
Room

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.

**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. 07-KCPE-____-RTS
Continue 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 her 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 a Senior Regulatory Analyst.

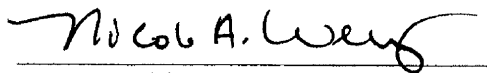
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages and Schedules CMD-1 through CMD-3, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



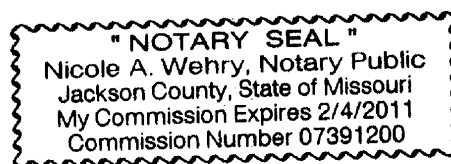
Christine M. Davidson

Subscribed and sworn before me this 28th day of February 2007.



Notary Public

My commission expires: Feb. 4 2011



KANSAS CITY POWER & LIGHT CO.
KANSAS REVENUE REQUIREMENT
CASH WORKING CAPITAL PERCENTS
2006 TEST YEAR INCL KNOWN & MEAS TO 9-30-07

LINE NO.	DESCRIPTION	ALLOCATION BASIS	(A) REVENUE LAG	(B) EXPENSE LAG	(C) NET LAG (A-B)	(D) CWC FACTOR (C/365)
CWC-009	Operations and Maintenance Expense					
CWC-010	Cash Vouchers, excl itemizations below	ASSIGN	25.08	39.15	(14.07)	-3.8548%
CWC-011	WCNOC Operations & Nucl fuel	ASSIGN	25.08	13.81	11.27	3.0877%
CWC-012	Wolf Creek Refueling Outage Accrual	ASSIGN	25.08	(292.51)	317.59	87.0110%
CWC-013	Purchased Coal & Freight	ASSIGN	25.08	21.08	4.00	1.0959%
CWC-014	Purchased Gas & Transportation	ASSIGN	25.08	28.62	(3.54)	-0.9699%
CWC-015	Purchased Oil & Transportation	ASSIGN	25.08	8.50	16.58	4.5425%
CWC-016	Purchased Power	ASSIGN	25.08	26.09	(1.01)	-0.2767%
CWC-017	Bulk Power Sales & Other Rev	ASSIGN	25.08	36.88	(11.80)	-3.2329%
CWC-018	Pension Fund Payments	ASSIGN	25.08	-	25.08	6.8712%
CWC-019	Other Post Employment Benefits (OPEB)	ASSIGN	25.08	20.36	4.72	1.2932%
CWC-020						
CWC-021						
CWC-022	Payroll-Related O&M					
CWC-023	Federal, State & City Income Tax Withh	ASSIGN	25.08	14.34	10.74	2.9425%
CWC-024	FICA Taxes Withheld - Employee	ASSIGN	25.08	14.31	10.77	2.9507%
CWC-025	Other Employee Withholdings	ASSIGN	25.08	15.40	9.68	2.6521%
CWC-026	Net Payroll	ASSIGN	25.08	14.440	10.64	2.9151%
CWC-027	Accrued Vacation	ASSIGN	25.08	344.83	(319.75)	-87.6027%
CWC-028						
CWC-029	Taxes					
CWC-030	Ad Valorem / Property	ASSIGN	25.08	200.42	(175.34)	-48.0384%
CWC-031	FICA Taxes - Employers	ASSIGN	25.08	14.42	10.66	2.9205%
CWC-032	Unemployment Taxes - FUTA / SUTA	ASSIGN	25.08	68.28	(43.20)	-11.8356%
CWC-033	KS-City Franchise Taxes	ASSIGN	25.08	47.67	(22.59)	-6.1890%
CWC-034	MO Gross Receipts Taxes - 6%	ASSIGN	25.08	(11.94)	37.02	10.1425%
CWC-035	MO Gross Receipts Taxes - 4%	ASSIGN	25.08	19.21	5.87	1.6082%
CWC-036	MO Gross Receipts Taxes - Other Cities	ASSIGN	25.08	13.46	11.62	3.1836%
CWC-037	Sales Taxes-MO	ASSIGN	25.08	23.54	1.54	0.4219%
CWC-038	Sales Taxes-KS	ASSIGN	25.08	24.24	0.84	0.2301%
CWC-039	Use Taxes	ASSIGN	25.08	73.65	(48.57)	-13.3068%
CWC-040						
CWC-041						
CWC-042	Currently Payable Income taxes	ASSIGN	25.08	45.63	(20.55)	-5.6288%
CWC-043	Interest Expense	ASSIGN	25.08	86.55	(61.47)	-16.8411%
CWC-044						
CWC-045						
CWC-046						
CWC-047	Total Gross Payroll (projected 12 MO ended 12-2006)		203,812,513			
CWC-048	Less : Gross Payroll paid by WCNOC		39,888,065			
CWC-049	Gross Payroll - incurred internally		<u>163,924,448</u>			
CWC-050						
CWC-051	Payroll Withholdings - incurred internally -% based on 2005 CWC stud					
CWC-052	Federal, State & City Income Tax Withheld		32,764,100	19.9873%		
CWC-053	FICA Taxes Withheld - Employee		11,807,315	7.2029%		
CWC-054	Other Employee Withholdings		27,671,470	16.8806%		
CWC-055	Total Withholdings		<u>72,242,886</u>	44.0708%		

KANSAS CITY POWER & LIGHT CO.

**KANSAS REVENUE REQUIREMENT
CALCULATION OF CASH WORKING CAPITAL RETAIL REVENUE LAG
2006 TEST YEAR INCL KNOWN & MEAS TO 9-30-07**

Retail Revenue Lag = the elapsed time between the delivery of electricity to customers and the customer's payment

1. Service Lag: measured from the middle of the month for which service is billed

365 days / 12 months / 2 = 15.208 days

2. Billing Lag: the time delay between reading a meter and processing a bill

2.000 days

* meters are read on day 1, reads are uploaded to CIS on day 2, bills are mailed on day 3

3. Collection Lag: the time delay between mailing bills and receipt of revenues

7.867 days

* All A/R sold by KCPL to KCREC, KCREC sells \$70 million of A/R to BTM

** % of A/R Sold = 63.28%

Days Collection Lag	Applicable %	Weighted Collection Lag
21.423	36.72%	7.867
0	63.28%	0
		<u>7.867</u> days

4. Float Lag: the time delay between the receipt of payments and availability of funds

0.000 days

* Same day availability under A/R sale

25.075 days

KANSAS CITY POWER & LIGHT CO.

KANSAS REVENUE REQUIREMENT
 SCHEDULE OF COSTS INCURRED FOR WOLF CREEK REFUELING OUTAGE
 2006 TEST YEAR INCL KNOWN & MEAS TO 9-30-07

Period	524900 Operations Expense	530900 Maintenance Expense	Total	Percentage	Lead days	Weighted
Jan-05	-	691.84	691.84	0.00%	1,178	0.05
Feb-05		3,574.20	3,574.20	0.02%	1,148	0.27
Mar-05		2,933.78	2,933.78	0.02%	1,118	0.21
Apr-05		-	-	0.00%	1,088	-
May-05	-	128,548.80	128,548.80	0.83%	1,058	8.79
Jun-05	6,703.71	-	6,703.71	0.04%	1,028	0.45
Jul-05	(702.74)	(247.63)	(950.37)	-0.01%	998	(0.06)
Aug-05	702.74	11,374.67	12,077.41	0.08%	968	0.76
Sep-05	-	3,163.52	3,163.52	0.02%	938	0.19
Oct-05	3,210.13	11,415.10	14,625.23	0.09%	908	0.86
Nov-05	5,745.33	23,019.95	28,765.28	0.19%	878	1.63
Dec-05	121,356.44	86,474.91	207,831.35	1.34%	848	11.39
Jan-06	29,312.84	421,824.79	451,137.63	2.92%	818	23.86
Feb-06	8,663.35	80,110.41	88,773.76	0.57%	788	4.52
Mar-06	81,501.75	203,949.13	285,450.88	1.85%	758	13.99
Apr-06	13,289.71	527,104.12	540,393.83	3.49%	728	25.43
May-06	74,810.13	23,631.16	98,441.29	0.64%	698	4.44
Jun-06	91,460.27	12,634.13	104,094.40	0.67%	668	4.50
Jul-06	39,164.84	564,225.81	603,390.65	3.90%	638	24.89
Aug-06	311,991.04	232,872.74	544,863.78	3.52%	608	21.42
Sep-06	469,919.73	1,263,283.12	1,733,202.85	11.20%	578	64.76
Oct-06	2,372,631.66	6,599,612.73	8,972,244.39	58.00%	548	317.85
Nov-06	760,550.72	848,196.36	1,608,747.08	10.40%	518	53.87
Dec-06	10,928.75	19,254.57	30,183.32	0.20%	488	0.95
Jan-07	-	-	-	0.00%	458	-
GRAND TOTAL	4,401,240.40	11,067,648.21	15,468,888.61	100.00%		

CWC lead (lag) days

585.01
 x 1/2
292.51