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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Hearing

October 19, 2006  
Jefferson City, Missouri  
Volume 7

In the Matter of the Application )  
of Kansas City Power & Light )  
Company for Approval to Make )  
Certain Changes in its Charges for ) Case No. ER-2006-0314  
Electric Service to Begin the )  
Implementation of Its Regulatory )  
Plan )

RONALD D. PRIDGIN, Presiding,  
REGULATORY LAW JUDGE.

CONNIE MURRAY,  
LINWARD "LIN" APPLING,  
COMMISSIONERS.

REPORTED BY:  
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1 P R O C E E D I N G S

2 JUDGE PRIDGIN: Good morning. We're on the  
3 record. We have resumed Hearing No. ER-2006-0314 on  
4 October 19, 2006. It's about 8:35 in the morning. As I  
5 understand, we will take Mr. Smith first as a witness, and  
6 he is OPC's witness on fuel and purchased power, Surface  
7 Transportation Board litigation and jurisdictional  
8 allocation and off-system sales; am I correct?

9 MR. MILLS: That's correct.

10 JUDGE PRIDGIN: Thank you. And after that,  
11 if I'm not mistaken, some weather normalization witnesses,  
12 Ms. Bolin, Mr. Lange, and then moving on to depreciation  
13 witnesses. Does that sound correct to the parties?

14 (No response.)

15 JUDGE PRIDGIN: I'm seeing some nods.  
16 Before we get Mr. Smith on the stand, let me see if  
17 counsel have any issues that they want to bring to my  
18 attention, especially discussing scheduling.

19 Mr. Fischer?

20 MR. FISCHER: Yes, your Honor. I  
21 circulated a revised proposed draft schedule, if you want  
22 to call it that, last night -- I think I provided you one  
23 at the Bench -- that would try to fill in most of the  
24 earlier days. We were at one point hoping to have Monday  
25 as an open day since we thought we'd be able to get it all

1 done yet by the end of the week, but at this point I still  
2 have the incentive compensation witness Dave Cross coming  
3 in for cross on that day.

4                   With that exception, I think we've got a  
5 pretty full week. We're also having a rate design call  
6 today at noon and -- or 12:30, and we'll have an  
7 understanding of what the status of that issue is after  
8 that call. If that would happen to go to hearing, which I  
9 personally am not hoping is going to have to happen, we  
10 would have to probably definitely adjust some schedules  
11 toward the end of the week, but I don't know. I'm open to  
12 other thoughts.

13                   One thought would be -- I know I saw an  
14 e-mail that suggested we could move the weatherization and  
15 other customer programs up into Monday. I believe KCPL  
16 would be okay with that. We need to check Sue Nathan's  
17 schedule, but I had no idea what the other three  
18 witnesses' schedules who happened to be from outside  
19 parties, Mr. Dias, Anita Randolph from DNR and then Robert  
20 Jackson of Kansas City, I didn't know what their  
21 availability would be.

22                   JUDGE PRIDGIN: Okay. So, Mr. Fischer, as  
23 I understand, Ms. Nathan could be available on Monday,  
24 you're not sure yet?

25                   MR. FISCHER: I believe she probably could

1 be, but I haven't checked with her.

2 JUDGE PRIDGIN: And we don't know about the  
3 other parties yet.

4 MR. FISCHER: Yes. And I also -- Jeff  
5 Keevil indicated to me, too, that I should have added Lois  
6 Liechti and Jan Pyatte to the Tuesday hearing on space  
7 heating discounts in the Trigen issue, so that will be two  
8 more witnesses there.

9 JUDGE PRIDGIN: Okay. I'm sorry. Go  
10 ahead.

11 MR. FISCHER: That's all I had. I just  
12 proposed this as a way to try to fill up the days, get  
13 finished.

14 JUDGE PRIDGIN: And I appreciate it, and  
15 with all your spare time, if you could try to discern  
16 whether those other witnesses who were set for the 27th  
17 would reasonably be available on Monday, the 23rd, because  
18 that looks like that could be a pretty fairly open day.

19 MR. FISCHER: Your Honor, I also  
20 received a notice from EFIS today that Mr. Dias has  
21 filed some sort of a motion asking for additional  
22 witnesses not on the issues list or not on the list of  
23 witnesses. Unfortunately, I was unable to print it off  
24 from EFIS. For some reason, that page was unavailable, it  
25 said. So I don't know what he's asking for, and that



1 might have to be resolved and could affect the schedule.  
2 I suspect we will -- suggest we should stay with our  
3 current list.

4 JUDGE PRIDGIN: I certainly want to give  
5 the parties an opportunity to respond to that. I just had  
6 a chance to glance at it briefly this morning. I think it  
7 was filed late last night. Any other -- I'm sorry. Do  
8 you need a moment?

9 MR. FISCHER: It actually shows rate design  
10 on Thursday.

11 MR. MILLS: We originally had rate design,  
12 I think, start as early as perhaps Wednesday afternoon,  
13 depending on how other issues went. There have been so  
14 many iterations of the revised schedule, I was just asking  
15 Mr. Fischer which one we were talking about right now.

16 I had some concern about putting off -- I  
17 think at one point we were talking about perhaps not  
18 starting rate design until Friday. I had some concern  
19 about that because it may settle entirely, it may settle  
20 not at all. We just don't know yet. But if we can push  
21 it up to Thursday or earlier, I think we should certainly  
22 have time to try that issue.

23 JUDGE PRIDGIN: Okay. Anything else from  
24 counsel?

25 MR. PHILLIPS: Yes, Judge Pridgin. We had

1 Mr. Dittmer in here tentatively here for Friday, and we've  
2 confirmed with him that he can be here tomorrow at 10 a.m.  
3 to stand cross on that issue, and he also would be  
4 available for the cross on the ice storm issue. I believe  
5 Kansas City Power & Light's the only counsel that's  
6 indicated they would have any questions for him on that  
7 one.

8                   The other issues he's testifying to, I  
9 think, still need to be next week as appears on this  
10 tentative schedule.

11                   JUDGE PRIDGIN: Okay. So, Mr. Phillips,  
12 you're saying Mr. Dittmer would be available tomorrow  
13 morning, but only on limited issues?

14                   MR. PHILLIPS: Well, we would make him  
15 available on all the issues, but I think the company would  
16 prefer that he stay Tuesday on off-system sales and  
17 Wednesday on that part relating to cost of capital.

18                   MR. FISCHER: Yes, your Honor. We have  
19 other counsel that won't be available tomorrow to address  
20 some of those issues.

21                   MR. PHILLIPS: And we don't have a problem  
22 with that. We'll bring him back.

23                   JUDGE PRIDGIN: And that might be -- even  
24 though I don't normally want to delay, if somebody is  
25 here, if he's going to be one of many witnesses on a big

1 topic such as cost of capital, I don't think I have a  
2 problem with that.

3 MR. PHILLIPS: Yeah, he really has a narrow  
4 issue related to that, but it makes sense for Mr. Dittmer  
5 and for Mr. Trippensee of Public Counsel to stay within  
6 that group, I think. That's agreeable with us.

7 JUDGE PRIDGIN: Okay. That's fine. How I  
8 foresee the day going is to go pretty hard this morning,  
9 and I understand counsel has a conference call at 12 or  
10 12:30, somewhere in that neighborhood, to discuss rate  
11 design, and then I anticipate recessing for the day  
12 because I anticipate that call will take some time.

13 And I want to give you some time to  
14 negotiate and then hopefully to let me know what has  
15 happened with that. It doesn't have to be through a  
16 pleading. It certainly can be, but just to give me some  
17 sort of idea maybe this afternoon if anybody knows, or no  
18 later than tomorrow, to say how that conference call went  
19 so we can start adjusting our schedules some more if need  
20 be.

21 And then I believe the Commission will also  
22 be in agenda discussing the Empire rate case this  
23 afternoon, and I want to give them ample time to deal with  
24 that without this case continuing to move on. Beginning  
25 tomorrow -- and I do show that jurisdictional allocations

1 could occur tomorrow; is that correct?

2 MR. FISCHER: Yes.

3 JUDGE PRIDGIN: And then Mr. Dittmer may be  
4 available for some cross tomorrow?

5 MR. PHILLIPS: He'll be here at 10.

6 JUDGE PRIDGIN: And I want to -- I want  
7 parties be aware that I hope for tomorrow to be a full  
8 day. My fear is we've taken yesterday off, we're taking  
9 part of today off, and when I say off, I understand you're  
10 still working, but we're away from the hearing process,  
11 and we still have quite a ways to go. I mean, I'm pleased  
12 with the speed at which this case is going, but I don't  
13 want to waste all of this time that we could be on the  
14 bench and moving forward with cross-examination.

15 So unless you have a witness that's out of  
16 state, I don't -- I don't think it's fair for parties to  
17 have to get witnesses who are out of state here at the  
18 last moment and spend a lot of extra money. I'm not  
19 talking about that. But Staff witnesses, KCPL witnesses,  
20 I mean, I think one day's notice is plenty of time to say,  
21 look, we're going to fill in.

22 I'm going to start putting people on the  
23 stand and we're going to go. We're going to have  
24 cross-examination. We need to keep going. I want to work  
25 with counsel as much as I can. I'm willing to listen

1 to -- willing to adjust schedules as much as we can, but  
2 we've still got quite a ways to go.

3 Mr. Fischer?

4 MR. FISCHER: Judge, we are contacting the  
5 DNR counsel and the counsel for City of Kansas City to  
6 check on the availability of those witnesses. I don't  
7 have a way to contact Bill Dias. I don't know if Public  
8 Counsel or Staff know how to get ahold of him or could  
9 check for the rest of the parties on his availability,  
10 but --

11 JUDGE PRIDGIN: All right. And I  
12 appreciate it. I know you're working hard trying to move  
13 people up. I'm sure that at the break or even during  
14 the -- before the rate design call, you can discuss that  
15 with them to see if he's available on Monday.

16 MR. KEEVIL: Judge, related to what you  
17 were saying just a second ago?

18 JUDGE PRIDGIN: Yes, Mr. Keevil?

19 MR. KEEVIL: We've agreed to move the  
20 discount electric rates up from Thursday to Tuesday. I  
21 just want to make sure that that's okay with you so I can  
22 have Mr. Herz make plans to be here Tuesday morning and  
23 we'll fairly -- we'll know fairly confidently that that's  
24 not going to be up to Monday or back to Wednesday, so if  
25 that's fine with you.

1 JUDGE PRIDGIN: Certainly.

2 MR. KEEVIL: Tuesday morning. Okay.

3 JUDGE PRIDGIN: Absolutely. Anything else  
4 regarding scheduling before Mr. Smith takes the stand?

5 (No response.)

6 JUDGE PRIDGIN: Okay. Mr. Smith, if you  
7 would come forward to be sworn, please, sir. If you'll  
8 raise your right hand to be sworn, please.

9 (Witness sworn.)

10 JUDGE PRIDGIN: Thank you very much, sir.  
11 If you would, please have a seat. And if I understand his  
12 topics again, Mr. Mills, they will be fuel and purchased  
13 power, Surface Transportation Board litigation,  
14 jurisdictional allocation, off-system sales?

15 MR. MILLS: That's correct. And he will  
16 stand cross on all of those issues at this one sitting and  
17 be done.

18 JUDGE PRIDGIN: Does counsel have a  
19 preference whether we -- as we're going, we've been going  
20 issue by issue. We've been having people take the stand,  
21 jump off, take the stand, jump off. We're going to have  
22 Mr. Smith on the stand. Does counsel have a preference  
23 whether we go issue by issue or whether we just open  
24 everything up at once and just cross him on all issues at  
25 once?

1                   MR. WOODSMALL: I think the only party  
2 crossing may be KCPL.

3                   MR. FISCHER: Judge, we would prefer to do  
4 issue by issue, just because we've got a couple of  
5 different attorneys doing it, but we could probably just  
6 switch off the attorneys as well, if that would be more  
7 efficient certainly.

8                   JUDGE PRIDGIN: Issue by issue makes sense  
9 to me. Does any other party anticipate crossing  
10 Mr. Smith?

11                   (No response.)

12                   JUDGE PRIDGIN: Okay. Issue by issue makes  
13 sense to me then. Mr. Mills, is there anything that we  
14 need to clarify before he's tendered for cross?

15                   MR. MILLS: No. This witness has no  
16 corrections, and I've informed him that we're going to  
17 dispense with all the usual formalities.

18                   So since this is his only appearance  
19 on the stand, I'd like to offer his testimony, Exhibits  
20 210 and 210HC, which is his direct testimony, 211 and  
21 211HC, which is his rebuttal testimony, and 212 and 212HC,  
22 which is his surrebuttal testimony.

23                   JUDGE PRIDGIN: Mr. Mills, thank you. Any  
24 objections to those exhibits?

25                   MR. THOMPSON: No objection from Staff.

1                   JUDGE PRIDGIN: Hearing no objections,  
2 Exhibits 210NP and HC, 211NP and HC and 212NP and HC are  
3 all admitted into evidence.

4                   (EXHIBIT NOS. 210NP, 210HC, 211NP, 211HC  
5 AND 212NP AND 212HC WERE RECEIVED INTO EVIDENCE.)

6                   JUDGE PRIDGIN: Mr. Mills, anything  
7 further?

8                   MR. MILLS: No. I think I'm ready to throw  
9 him to the wolves.

10                  JUDGE PRIDGIN: Mr. Mills, thank you very  
11 much. If the wolves are ready, do you have an issue that  
12 you prefer to take?

13                  MR. FISCHER: How about the Surface  
14 Transportation Board? That's a fairly short one.

15                  JUDGE PRIDGIN: Very well. When you're  
16 ready.

17 RALPH C. SMITH testified as follows:

18 CROSS-EXAMINATION BY MR. FISCHER:

19                  Q.        Good morning, Mr. Smith. My name is Jim  
20 Fischer and I represent Kansas City Power & Light on this  
21 issue. I just had a couple questions. We already heard  
22 testimony from Staff and the company on the Surface  
23 Transportation Board issue. Would you agree with Staff  
24 that it's in the best interest of KCPL's customers for  
25 KCPL to take actions to keep fuel costs as low as



1 possible?

2 A. Yes.

3 Q. And that would include transportation costs  
4 related to the delivery of coal?

5 A. It would.

6 Q. Is it your understanding that the Surface  
7 Transportation Board is the exclusive forum available for  
8 contesting rates for railroad service?

9 A. Yes.

10 Q. If I could refer you to your surrebuttal  
11 testimony, the very last page, on page 10, beginning on  
12 line 8, there you indicate that if despite OPC's  
13 recommendations to the contrary the Commission decides to  
14 permit KCPL to recover some STB-related costs in the  
15 determination of revenue requirement in the current case,  
16 paren, where there has been no benefit to ratepayers  
17 demonstrated, paren closed, at a minimum only the actual  
18 verifiable costs of the STB complaint incurred through the  
19 June 30, 2006 update period should be spread over a  
20 representative period such as five years or longer that  
21 reflects the relative infrequency of such cases in the  
22 future period benefited from the expenditure.

23 Do you see that?

24 A. Yes.

25 Q. Is it my understanding that's your

1 alternative recommendation to the Commission on how to  
2 handle this issue?

3 A. Yeah. It's not our primary recommendation.  
4 Our primary is to try to get the costs matched with the  
5 benefits, but if for some reason the Commission does not  
6 accept that, then this would be our less desirable  
7 alternative.

8 Q. Is it also your understanding that this  
9 recommendation matches pretty closely to what Staff and  
10 Kansas City Power & Light are suggesting in their  
11 testimony on how to handle this?

12 A. Yeah. I think there's some overlap  
13 there. I wasn't sure the amount that the company was  
14 recommending, whether that is the actual or they're still  
15 using their projection, but the five years as an  
16 amortization period, I think, is what the company and  
17 Staff are also recommending.

18 Q. Okay. Thank you. And then on the natural  
19 gas price issue that you referenced in your testimony on  
20 fuel costs, is it your understanding that the company and  
21 Staff are proposing to do a true-up of those natural gas  
22 prices now, after you've read the testimony?

23 A. I don't recall reading that specifically,  
24 but it would seem reasonable to do a true-up.

25 Q. If the true-up of the natural gas prices

1 were done, would that take care of your concerns related  
2 to the price of natural gas that you expressed in your  
3 testimony?

4 A. It likely would, but it would depend on how  
5 it was done.

6 MR. FISCHER: Okay. Thank you very much.  
7 That's all I have on those issues.

8 JUDGE PRIDGIN: Mr. Fischer, thank you.  
9 Any -- Mr. Mills?

10 MR. MILLS: Just so I'm keeping up with  
11 where we're going, did that cover both STB and fuel and  
12 purchased power?

13 MR. FISCHER: Yes, but not off-system  
14 sales.

15 MR. MILLS: Okay. Judge, would you like me  
16 to do redirect after each issue, or should I just wait to  
17 the end?

18 JUDGE PRIDGIN: I would give you the chance  
19 to do redirect now if you're ready. You can wait 'til the  
20 end if you prefer.

21 MR. MILLS: I'll just wait 'til the end and  
22 do it all at once. That's fine.

23 JUDGE PRIDGIN: That's fine. Thank you.  
24 Okay. We've done STB litigation and fuel and purchased  
25 power; is that correct?

1 (No response.)

2 JUDGE PRIDGIN: I'm seeing some nods. Any  
3 cross-examination on jurisdictional allocation and  
4 off-system sales?

5 MR. BLANC: A couple of questions.

6 JUDGE PRIDGIN: Yes, sir. Go ahead,  
7 Mr. Blanc.

8 CROSS-EXAMINATION BY MR. BLANC:

9 Q. Good morning, Mr. Smith.

10 A. Good morning.

11 Q. My name is Curtis Blanc. I'm also with  
12 Kansas City Power & Light. I just have a couple of  
13 questions for you. You note in your rebuttal testimony  
14 that KCPL has not previously proposed to allocate  
15 off-system sales margins using the unused energy  
16 allocation methodology; is that correct?

17 A. That's correct.

18 Q. To your knowledge, has KCPL ever sought to  
19 separately allocate off-system sales margins?

20 A. I think that in the past the -- they've  
21 allocated the off-system sales revenue as opposed to the  
22 margin.

23 Q. Okay. If Kansas, for example, adopted the  
24 unused energy allocation methodology and Missouri did not,  
25 is it possible that KCPL's allocators for these margins

1 would not add up to 100 percent?

2 A. Yes.

3 Q. And would the result of such inconsistent  
4 treatment potentially mean that KCPL under- or  
5 over-recovered its revenue requirements related to those  
6 margins or attributable to those margins?

7 A. If the numbers don't add up to 100 percent  
8 or if they add up to more than 100 percent, that's a  
9 possibility.

10 MR. BLANC: Thank you.

11 JUDGE PRIDGIN: Any further cross on  
12 off-system sales?

13 MR. RIGGINS: On off-system sales, your  
14 Honor.

15 CROSS-EXAMINATION BY MR. RIGGINS:

16 Q. Good morning, Mr. Smith. I'm Bill Riggins  
17 with Kansas City Power & Light.

18 A. Good morning.

19 Q. And I have more than a couple of questions  
20 for you about off-system sales. I think all my questions  
21 are going to be directed to your direct testimony, so you  
22 might want to have that handy.

23 A. Okay. I have it.

24 Q. All right. And in that testimony, there  
25 are a lot of numbers that are marked highly confidential,

1 and I'm going to attempt to question you about those  
2 numbers in such a way that we don't have to go in-camera  
3 and can do it in public, and I would appreciate your  
4 cooperation in terms of trying to answer those questions  
5 that way. If you feel like you can't answer a question  
6 that I ask without specifying a highly confidential  
7 number, just please tell me and we'll deal with it. All  
8 right?

9 JUDGE PRIDGIN: I'll caution you, counsel,  
10 please, and the witness -- and you're always very good  
11 about this, so if you're unsure if something's highly  
12 confidential, do verify before we speak, in case we do  
13 need to go in-camera. Thank you.

14 BY MR. RIGGINS:

15 Q. Let's start out on page 11 of your  
16 testimony, your direct testimony, and on that page at  
17 line 7 and 8, you state that off-system sales and  
18 resultant margins are a material component to KCPL  
19 earnings and can be volatile. Do you see that?

20 A. Yes.

21 Q. I assume, then, that you'd agree that  
22 off-system sales revenue and earnings are riskier and less  
23 predictable than revenue and earnings from regulated  
24 retail sales?

25 A. I think they could be more variable. I'm

1 not sure I'd call them risky. I think KCPL is positioned  
2 very well with its generating resources to make such sales  
3 and to make substantial amounts of such sales.

4 Q. Would you agree that they're less  
5 predictable than regulated retail sales?

6 A. Yes.

7 Q. What are some of the factors that can drive  
8 the uncertainty around the level and prices of off-system  
9 sales?

10 A. Some of the major factors would be the  
11 price of alternative energy in the market, the types of  
12 other generation that are available and the cost of that  
13 other generation, and basically whether it makes sense to  
14 buy power from KCPL versus buy it from somewhere else or  
15 generate it. I think those are the major factors. And,  
16 of course, in terms of the price of the power, the price  
17 of natural gas probably is a big factor in determining  
18 that.

19 Q. What about, for example, unplanned extended  
20 outages at a generating unit, would that have an impact on  
21 KCPL's ability to sell into the wholesale market?

22 A. Oh, sure, it could, yeah, if one of the  
23 KCPL units from which it would typically make off-system  
24 sales was down, especially on an unplanned basis, then, of  
25 course, that energy would not be available.

1           Q.       What about an extremely hot summer or an  
2 extremely cold winter where KCPL needed more of its  
3 generating capacity to serve its retail load, would that  
4 impact the ability of KCPL to sell into the wholesale  
5 market?

6           A.       Yeah. I think weather is another factor,  
7 and that could cut both ways. I mean, it could provide  
8 additional opportunity for off-system sales also.

9           Q.       Let's go to page 7 of your direct  
10 testimony.

11          A.       Yes.

12          Q.       And you indicate there at line 17 to  
13 20 that the median value contained in the testimony and  
14 exhibits of KCPL witness Schnitzer in your view represents  
15 the best estimate in this case of off-system sales  
16 margins; is that correct?

17          A.       Yes. And I guess I should caveat that a  
18 little bit in that --

19                    JUDGE PRIDGIN: Did you want to let him --

20                    MR. RIGGINS: That's fine.

21                    THE WITNESS: I'm not going to mention an  
22 amount, but I just want to mention the caveat that, you  
23 know, Mr. Schnitzer came out with a fairly consistent  
24 amount in his direct testimony and his rebuttal testimony,  
25 but now we see in his surrebuttal that the amount has



1 changed pretty drastically, and, you know, we haven't been  
2 able to probe that yet.

3                   So, I mean, I don't want to offer an  
4 endorsement of that amount before we can understand what  
5 some of the causes were of why it changed.

6 BY MR. RIGGINS:

7           Q.       Did Mr. Schnitzer explain in that testimony  
8 why he was changing those numbers or the factors that were  
9 driving it?

10          A.       I think he identified some of them,  
11 basically updating fuel prices.

12          Q.       And do you recall what some of those were,  
13 perhaps gas prices for example?

14          A.       Gas prices have been declining, so that  
15 it's possible that that's one of the factors, but we  
16 haven't been able to cross-examine him yet, so we  
17 certainly don't want to endorse a number at this point.

18          Q.       But nevertheless, in your direct testimony,  
19 you did indicate that that median value in your view was  
20 the best estimate in this case to use for off-system  
21 sales; is that correct?

22          A.       Yes. And keep in mind that this is in the  
23 context of using the median value versus the company's  
24 proposal of the 25th percentile number.

25          Q.       That's what I'm talking about. And when

1 we say the median value, can we call that the 50 percent  
2 value, because that's a level of off-system sales that  
3 Kansas City Power & Light has a 50 percent chance of not  
4 achieving? Does that make sense? I think that's the  
5 nomenclature we're using here.

6 A. It's at the 50th percentile, which means  
7 there is an equal chance of producing a higher or lower  
8 amount.

9 Q. There's a 50 percent chance that they'll  
10 exceed it and a 50 percent chance they'll be below it?

11 A. Correct.

12 Q. Okay. How does your position, in other  
13 words, that that 50 percent median number is the one to  
14 use differ from the recommendation of Staff witness  
15 Traxler in this case?

16 A. My understanding is that Staff witness  
17 Traxler has not endorsed the methodology that KCPL witness  
18 Schnitzer proposes for deriving a level of off-system  
19 sales. I think the Staff is looking at actuals as opposed  
20 to an estimated future estimate.

21 Q. Now, as you mentioned a few moments ago,  
22 you understand that KCPL's proposal in this case is to  
23 include a smaller number than the 50 percent value for  
24 off-system sales margin in its cost of service, correct?

25 A. Yes. We have some serious problems with

1 that.

2 Q. Can we call that smaller number the  
3 25 percent value because that's the number that KCPL  
4 estimates it has a 25 percent chance of not achieving?

5 A. I'm trying to figure if it's a 25 percent  
6 chance of not achieving.

7 Q. And a 75 percent chance of achieving?

8 A. It's at the 25th percentile of  
9 Mr. Schnitzer's probability distribution.

10 Q. And that means there is a 25 percent chance  
11 that KCPL will not achieve that level of off-system sales?

12 A. Yeah. I believe conversely there's a  
13 75 percent chance that the number will be higher, which  
14 seems contrary to KCPL's commitments.

15 Q. Well, we'll talk about that in a moment.  
16 But I'm just trying to make sure we've -- without saying  
17 specific numbers, that there's not confusion here about  
18 how we're referring to these numbers. So when I refer to  
19 that 25 percent number, that's that lower number that KCPL  
20 has proposed to include in cost of service that represents  
21 a 25 percent probability that KCPL will not meet that  
22 level of sales; is that right?

23 A. Subject to my previous answer about  
24 clarifying what the probability distribution means.

25 Q. Okay. Let's go to page 8 of your direct

1 testimony. At lines 4 to 8, you reference an OPC Data  
2 Request that I believe KCPL witness Chris Giles prepared.  
3 Do you see that?

4 A. Yes.

5 Q. I believe it's OPC Data Request 5005.

6 A. Yes.

7 (EXHIBIT NO. 47 WAS MARKED FOR  
8 IDENTIFICATION BY THE REPORTER.)

9 JUDGE PRIDGIN: I believe it's 47.

10 MR. FISCHER: 47 is what I have, too.

11 JUDGE PRIDGIN: This will be Exhibit 47,  
12 then. Thank you.

13 by MR. RIGGINS:

14 Q. Mr. Smith, you've been handed what's been  
15 marked for identification as Exhibit 47. Is that the Data  
16 Request that you're referencing in that part of your  
17 testimony?

18 A. Yes. This is a Data Request that explains  
19 KCPL's rationale for using the 25 percent.

20 Q. Right. And you indicate in your testimony  
21 that in the response to that Data Request, that KCPL used  
22 that lower number because the company was concerned about  
23 the potential impact on credit ratings if those sales  
24 levels were not achieved; is that correct?

25 A. Yes.

1           Q.       Isn't it true that in response to that Data  
2 Request, Mr. Giles also indicates that not only would  
3 failure to achieve the level of off-system sales margins  
4 included in rates potentially impact credit ratings, but  
5 it also could potentially impact KCPL's ability to earn  
6 its authorized return on equity?

7           A.       Well, any variation from the amount  
8 that's reflected in determining the revenue requirement  
9 in this proceeding will result in, you know, some impact  
10 on KCPL's earned ROE. If the number comes in above  
11 the 25th percentile, then those are excess earnings to  
12 KCPL, so that cuts both ways, and if you use only a  
13 25th percentile number, there's a 75 percent chance that  
14 KCPL is going to have excess earnings.

15          Q.       I understand the math, Mr. Smith. My  
16 question was, in the response to that Data Request,  
17 doesn't Mr. Giles indicate that not only is KCPL's concern  
18 about setting the level of off-system sales related to  
19 maintaining credit ratings, but also earning its  
20 authorized return on equity, does he not indicate that on  
21 the response to the Data Request?

22          A.       Yeah. He mentions that it's critical  
23 that KCPL meet its authorized return, but then when you  
24 look at his subsequent testimony, it appears that he's  
25 asking for --

1 Q. Thank you, Mr. Smith.

2 A. -- an opportunity to earn an excess return.

3 JUDGE PRIDGIN: After he said thank you,  
4 I'm going to strike that. If he asks you something to the  
5 effect of, does he not say that, the answer to a question  
6 like that would be yes or no or I don't know, rather than  
7 narrating. And you'll be able to narrate when Mr. Mills  
8 examines you. Thank you.

9 BY MR. RIGGINS:

10 Q. In fact, what he says in the response to  
11 that Data Request is that including off-system sales  
12 margins at the median level means KCPL has only a 50/50  
13 chance of earning its authorized rate of return and only a  
14 50/50 percent of meeting its cash flow requirements; is  
15 that correct?

16 A. Yes.

17 Q. Do you agree with Mr. Giles that if KCPL  
18 does not achieve the level of off-system sales included in  
19 its rates, that that could negatively impact KCPL's  
20 ability to earn its authorized return on equity?

21 A. If the number comes in lower, that will  
22 affect the earned ROE.

23 Q. Thank you. Would you agree that in this  
24 case the issues of, first, the level of off-system sales  
25 included in rates, second, the authorized return on

1 equity, and third, the level of amortization included in  
2 rates are all interrelated?

3 A. My testimony is basically focused on  
4 off-system sales, but I understand from previous  
5 discussions that those three are interrelated.

6 Q. Okay. Thank you. As you've already  
7 stated, you object to KCPL's proposal to use the lower  
8 25 percent value for ratemaking purposes because if KCPL,  
9 in fact, achieved higher sales that, quote, KCPL  
10 shareholders would achieve a windfall at the expense of  
11 ratepayers, end quote; is that correct?

12 I can direct you to it.

13 Q. If you were reading from my testimony, yes,  
14 that's correct.

15 Q. I am. It's page 8, lines 15 to 18.

16 A. Yes, that's correct.

17 Q. Your concern would be addressed, I assume,  
18 if instead of keeping those sales margins in excess of  
19 that lower 25 percent value, KCPL instead recorded those  
20 additional earnings in a regulatory liability account and  
21 then returned the benefit of those additional sales  
22 margins to customers in the next rate case?

23 A. That would be one way of addressing that  
24 concern, and we've proposed something similar, but the  
25 importance --

1 Q. I understand. We're going to talk about  
2 that in a minute. Let's go to page 10 of your testimony,  
3 direct testimony.

4 A. Yes, I have it.

5 (EXHIBIT NO. 48 WAS MARKED FOR  
6 IDENTIFICATION BY THE REPORTER.)  
7 BY MR. RIGGINS:

8 Q. On page 10 of your testimony you reference  
9 KCPL's response to OPC Data Request 5013, and I've handed  
10 you what's been marked for identification as Exhibit 48.  
11 Is that the Data Request and the response to the Data  
12 Request that's referenced in your testimony?

13 A. Yes, and that was actually attached to my  
14 testimony in Attachment RCS-1.

15 Q. Again, in your testimony you state that  
16 KCPL's response to that Data Request indicates that the  
17 company would endorse and support a mechanism to provide  
18 customers with all of the company's realized off-system  
19 sales margins as long as the mechanism would, quote, not  
20 cause substantial risks that KCPL may not be able to  
21 achieve certain minimum credit ratios, end quote, correct?

22 A. Yes, during the rate effective period.

23 Q. And again, if you'll refer to KCPL's actual  
24 response to the Data Request, does that not indicate again  
25 that the company's not only concerned with its ability to



1 meet its cash flow requirements, which did allow it to  
2 maintain its credit rating, but also with its ability to  
3 earn its authorized rate of return?

4 A. The response also mentions the authorized  
5 rate of return, yes.

6 Q. In fact, it says KCPL's position is that  
7 the treatment of off-system sales cannot be evaluated as a  
8 single issue, it must be evaluated in concert with the  
9 authorized rate of return, credit ratios and risk,  
10 correct?

11 A. Yes.

12 Q. You would agree with that statement?

13 A. Since it has such a large impact on the  
14 company's revenue requirements and earnings, it would make  
15 sense to look at that in the overall picture, but I  
16 suppose the issue of off-system sales could be addressed  
17 by itself, but it makes more sense to look at all the  
18 factors in determining the revenue requirement.

19 Q. Okay. Thank you. In your direct  
20 testimony, I think beginning on page 8, you propose a  
21 mechanism that you believe would address KCPL's concerns  
22 and at the same time ensure that off-system sales continue  
23 to be treated above the line; is that correct?

24 A. I indicate at page 10, starting on  
25 line 7, that OPC is willing to consider an alternative

1 treatment --

2 Q. Okay.

3 A. -- that would provide for an accounting of  
4 amounts over or under the amount that's reflected in  
5 determining the revenue requirement.

6 Q. And the way I understand that mechanism  
7 would work is that the amount of off-system sales margin  
8 included in KCPL's cost of service would be set at the  
9 median 50 percent value and KCPL would record the  
10 difference between that value and the actual off-system  
11 sales margins as either a regulatory asset or regulatory  
12 liability; is that correct?

13 A. Essentially, yes.

14 Q. So if actual margins exceeded the  
15 50 percent value, those additional margins would be  
16 returned to customers in some format at some point in the  
17 future, correct?

18 A. Correct.

19 Q. And conversely, if actual margins were less  
20 than the 50 percent value, KCPL would recover those  
21 missing margins in some form at some point in the future,  
22 correct?

23 A. Right. And by booking them into deferred  
24 account, they wouldn't reduce the company's earned ROE  
25 during the period of 2007.

1 Q. But that wouldn't eliminate all of the  
2 company's risk, would it, associated with off-system  
3 sales?

4 A. I think it would substantially eliminate  
5 the risks that the company's concerned about.

6 Q. Well --

7 A. There's a potential cash flow, you know,  
8 issue where the cash flow may not occur during the 2007  
9 rate effective period, but it would occur at some point.

10 Q. That's my question. Let's use a little  
11 example to make sure that it's clear. Let's just use some  
12 hypothetical numbers here. Let's just say that the  
13 off-system sales margins assumed in KCPL's 2007 rates is  
14 50 million, and for whatever reason the actual margins are  
15 only 10 million. Under your mechanism, KCPL may receive  
16 the benefits of that missing 40 million in some future  
17 year, but it's still 40 million short in 2007, correct?

18 MR. MILLS: I object to the form of the  
19 question. He used the phrase your mechanism. There's no  
20 evidence this is Mr. Smith's mechanism or OPC's mechanism  
21 or, in fact, anyone's mechanism in this case.

22 MR. RIGGINS: Well, it's contained in  
23 Mr. Smith's testimony, and I believe I was asking if he  
24 was proposing it, and I believe he answered that it was an  
25 alternative that could be used. I don't think the fine

1 distinction that Mr. Mills is pointing out is the basis  
2 for an objection.

3 MR. MILLS: My objection is to the form of  
4 the question. It assumes facts not in evidence, the fact  
5 being that this is not your mechanism, whether your means  
6 Mr. Smith or OPC. He phrased the question asking about  
7 your mechanism. It is not Mr. Smith's mechanism.

8 JUDGE PRIDGIN: I'll overrule. He's  
9 certainly free to explain, especially on redirect, whose  
10 mechanism this is. To the extent -- do you need -- do you  
11 understand the question?

12 THE WITNESS: I think so.

13 MR. RIGGINS: Do you --

14 MR. MILLS: I'd like to have the question  
15 read back just so I can be clear as to what it was.

16 (THE REQUESTED TESTIMONY WAS READ BY THE  
17 REPORTER.)

18 MR. MILLS: And this is the classic when  
19 did you stop beating your wife question. He cannot answer  
20 that question without conceding that it's your mechanism.

21 MR. RIGGINS: I'll modify the question if  
22 it makes Mr. Mills happy and change it from your mechanism  
23 to the mechanism described in your testimony. How's that,  
24 Mr. Mills?

25 MR. MILLS: That would be fine.

1 JUDGE PRIDGIN: Problem solved.

2 THE WITNESS: If there were some type of  
3 alternative accounting mechanism in place to capture the  
4 differences between the amount that's reflected in  
5 determining the revenue requirement, which in your  
6 hypothetical was 50 million, then whatever variation would  
7 occur from that amount would be addressed in this  
8 accounting mechanism, and in your hypothetical I believe  
9 that would be 40 million.

10 BY MR. RIGGINS:

11 Q. That's correct. But my question was, KCPL  
12 will still be \$40 million short in 2007, correct, in terms  
13 of the cash that it receives?

14 A. Under that hypothetical, they would be  
15 40 million short, and they have -- there will be a tax  
16 effect on that, so if we just say about a 40 percent tax  
17 rate, whatever that difference is, that's the amount that  
18 they would be short.

19 Q. Okay. But accounting for taxes aside, to  
20 the extent that less cash is received from off-system  
21 sales during that year, then what's in rates will be short  
22 that level of cash from off-system sales?

23 A. Under that particular hypothetical.

24 Q. Thank you. Let's just suppose, Mr. Smith,  
25 that KCPL could support the mechanism contained in your

1 testimony with one change. Instead of setting rates based  
2 upon 50 percent median value, rates were set on the lower  
3 value as proposed in KCPL's case, but otherwise your  
4 mechanism's still the same. You're just changing the  
5 amount that's included in cost of service.

6 JUDGE PRIDGIN: I can see Mr. Mills --

7 MR. MILLS: I'm going to have to object  
8 again. He's talking about -- once again, he said the  
9 mechanism you proposed and your mechanism.

10 MR. RIGGINS: No, I said the mechanism.

11 JUDGE PRIDGIN: I think you said your  
12 mechanism.

13 MR. MILLS: He did say your mechanism and  
14 the mechanism you proposed.

15 MR. RIGGINS: All right. I'll start over  
16 again.

17 MR. MILLS: Just so the record is clear,  
18 these are not really frivolous. I mean, there's an issue  
19 as to whether or not this mechanism is even on the table.  
20 We tried to get KCPL to bite on this issue and they  
21 refused to, and despite having two subsequent rounds of  
22 testimony, to say, yeah, we like this mechanism. Now here  
23 we are in the hearing room and they're trying to get  
24 something about this mechanism in the record when they  
25 didn't put it in their testimony.

1                   So I think it's an important point as to  
2 whether or not this mechanism is actually on the table,  
3 whether Public Counsel is affirmatively proposing it and  
4 whether KCPL ever proposed it. So those are the reasons  
5 behind my objections.

6                   JUDGE PRIDGIN: And I think I understand,  
7 and I think Mr. Riggins is willing to try to rephrase his  
8 question.

9                   MR. RIGGINS: Thanks for the speech,  
10 Mr. Mills. I'll rephrase the question.

11 BY MR. RIGGINS:

12                 Q.       Let's suppose that KCPL could support the  
13 mechanism contained in your testimony with one change:  
14 Instead of setting rates based on the 50 percent value,  
15 the median value, rates were set based upon the lower  
16 value as proposed in KCPL's testimony. Other than that,  
17 everything else is the same. Now, that would reduce the  
18 risk to KCPL of not actually achieving the cash and the  
19 earnings included in its 2007 rates, wouldn't it?

20                 A.       It would reduce KCPL's risk.

21                 Q.       Thank you.

22                 A.       I --

23                 Q.       But otherwise, it provides the same  
24 protections to the customers and to the company as the  
25 mechanism described in your direct testimony, correct?

1           A.       It provides for an accounting of the  
2 differences but at a much different level than what I  
3 recommended in my direct testimony.

4           MR. RIGGINS: I understand. I believe  
5 that's all I have, your Honor.

6           JUDGE PRIDGIN: Mr. Riggins, thank you. Is  
7 there any further cross from counsel?

8           (No response.)

9           JUDGE PRIDGIN: All right. Let me see if  
10 we have any questions from the Bench. Commissioner  
11 Murray?

12          COMMISSIONER MURRAY: I don't believe so.  
13 Thank you.

14          JUDGE PRIDGIN: Thank you. Commissioner  
15 Appling?

16          COMMISSIONER APPLING: I don't think so.

17          JUDGE PRIDGIN: All right. Thank you. I  
18 have no questions. Mr. Mills?

19          MR. MILLS: I'll have just some brief  
20 redirect.

21 REDIRECT EXAMINATION BY MR. MILLS:

22          Q.       And I apologize, I'm not even sure which  
23 attorney asked this question, but you were asked some  
24 questions about the uncertainty factors with respect to  
25 KCPL achieving any given level of margins on off-system



1 sales. Do you recall those questions?

2 A. Yes.

3 Q. And I think a couple of them you talked  
4 about were weather, fuel prices and outages. Do you  
5 recall admitting to those three factors at least affect  
6 off-system sales?

7 A. Those three factors would affect off-system  
8 sales.

9 Q. Don't those same factors also affect retail  
10 sales?

11 A. They do.

12 JUDGE PRIDGIN: I'm sorry to interrupt.  
13 Mr. Smith, as much as you're able, could you speak into  
14 the microphone so folks can hear you online? Thank you.

15 BY MR. MILLS:

16 Q. And thus would affect the earnings from  
17 retail sales, correct?

18 A. Weather, gas prices and outages would  
19 affect the company's earnings from retail sales as well.

20 Q. Mr. Smith, you've read all the KCPL  
21 testimony that has to do with the four issues on which  
22 you've provided testimony, have you not?

23 A. I think so.

24 Q. Are you aware of whether or not KCPL ever  
25 proposed any sort of a sharing mechanism in its testimony?

1           A.       To the best of my recollection, they did  
2 not.

3           Q.       Or sort of a tracking mechanism to  
4 reconcile levels of off-system sales to actual sales, did  
5 they propose anything like that?

6           A.       I didn't see any response to that  
7 particular section of my direct testimony in KCPL's  
8 rebuttal or surrebuttal testimony.

9           Q.       Mr. Riggins asked you some questions about  
10 setting up some sort of a tracking mechanism, only setting  
11 the level that's actually reflected in the rate setting  
12 calculations at the 25th percentile. Do you recall those  
13 questions?

14          A.       Yes.

15          Q.       If the Commission were to adopt such a  
16 mechanism, would that significantly lower KCPL's risk as  
17 compared to the mechanism that you've described in your  
18 direct testimony?

19          A.       Oh, it would substantially. By using a  
20 much lower level of off-system sales in the determination  
21 of the revenue requirement, KCPL's risk of not at least  
22 achieving that level of sales is substantially reduced,  
23 and there might need to be some further reduction in their  
24 ROE, their authorized ROE to account for that lower risk.

25          Q.       Do you know if there's any testimony in

1 this case that would talk about the amount by which you  
2 would lower ROE in that event?

3 A. I don't recall seeing testimony on how much  
4 you would need to lower the ROE. I think it would be  
5 probably the flip side of some testimony filed by company  
6 witness Giles which had some numbers which I understand  
7 are proprietary about how much excess ROE the company  
8 could earn if there's a difference in the amount of  
9 off-system sales margin that they achieve over what would  
10 be reflected in rates.

11 Q. But to your knowledge, since there's no  
12 testimony supporting such a tracking mechanism, there's no  
13 corresponding ROE testimony, is there, that would talk  
14 about the effects of such a tracking mechanism on ROE  
15 directly?

16 A. Not specifically on that subject, to the  
17 best of my knowledge.

18 MR. MILLS: I have nothing further for this  
19 witness.

20 JUDGE PRIDGIN: Mr. Mills, thank you.  
21 Anything further for this witness?

22 MR. RIGGINS: I have a couple of questions,  
23 your Honor.

24 MR. MILLS: No. I did redirect. This  
25 would be re-recross.

1                   MR. RIGGINS: No, it's recross. I've done  
2 cross-examination, but I haven't done recross yet.

3                   MR. MILLS: In all of the years that I've  
4 been doing PSC practice, there has not been the  
5 opportunity for anything after redirect, and it certainly  
6 has not been offered yet in this proceeding.

7                   JUDGE PRIDGIN: I'll give you just a few  
8 minutes, Mr. Riggins, and I'll give Mr. Mills a lot of  
9 leeway to ask questions on your recross, then we're  
10 finished.

11 RE-CROSS-EXAMINATION BY MR. RIGGINS:

12                  Q.       Mr. Mills asked you a couple of questions  
13 about the factors that affect wholesale sales. Do you  
14 recall that?

15                  A.       Yes.

16                  Q.       And how they also affect retail sales?

17                  A.       They do.

18                  Q.       And I agree with you on that. There is a  
19 distinction, however, is there not, in the sense that the  
20 company is obligated to make those retail sales? It has  
21 an obligation to meet the requirements of its retail  
22 customers while it is not obligated to sell into the  
23 off-system market, correct?

24                  A.       I'm not sure I would agree with that  
25 entirely. I mean, the obligation is different. I think

1 the company does have an obligation to maximize the  
2 economic viability of its system, and making off-system  
3 sales wherever it's economical to do so is one way that  
4 the company can do that, and I do think that's something  
5 they should be doing.

6 I wouldn't say that it's exactly equivalent  
7 to the obligation to serve retail load, but I'm not even  
8 sure if I'd call it an obligation, but I think it's  
9 something that the company should be doing, and if they  
10 weren't doing it, it might very well be imprudent.

11 Q. Well, I don't disagree with you, but that  
12 really wasn't my question. We were talking about a  
13 situation in which KCPL might for a number of reasons not  
14 have the capability of selling into the wholesale market  
15 at least at a certain level, and the only point I was  
16 trying to make is that if KCPL is experiencing some sort  
17 of circumstance that affects its ability to generate  
18 power, regardless of those circumstances, it still has an  
19 obligation to provide sufficient power to its retail  
20 customers; whereas, if it finds itself in a capacity short  
21 situation, it doesn't necessarily have any obligation to  
22 make off-system sales?

23 A. I would agree with that.

24 Q. Okay. Thank you. One other question.  
25 Mr. Mills asked you some questions about return on equity.

1 Do you recall that?

2 A. I'm not -- well, they were kind of in the  
3 context of the risk of using different levels of  
4 off-system sales.

5 Q. That's correct. But he was asking you  
6 about return on equity testimony in this case that you  
7 might or might not be familiar with. Do you recall that?

8 A. He did ask a question about the  
9 interrelationship and the impact on risk.

10 Q. But you're not here today to testify on the  
11 appropriate return on equity for the company, are you?

12 A. No. OPC has another witness addressing  
13 that.

14 Q. In fact, you're not qualified to testify as  
15 to appropriate level of return on equity, are you?

16 A. I probably am actually.

17 Q. Okay.

18 A. I'm a certified rate of return analyst and  
19 a member of the Society of Utility Financial Analysts, so  
20 I probably am qualified to testify on that. I'm just not  
21 offering testimony in this proceeding.

22 MR. RIGGINS: Okay. Fair enough. Thank  
23 you.

24 JUDGE PRIDGIN: Mr. Riggins, thank you.

25 Let me see if we have questions from the Bench.

1 Commissioner Murray?

2 COMMISSIONER MURRAY: No questions.

3 JUDGE PRIDGIN: Mr. Mills?

4 MR. MILLS: Just a couple of brief ones.

5 FURTHER REDIRECT EXAMINATION BY MR. MILLS:

6 Q. I think, Mr. Smith, you're shorting  
7 yourself when you say you're probably qualified. Wouldn't  
8 you say you're definitely qualified to provide ROE  
9 testimony?

10 A. I would say definitely, and actually I have  
11 in other proceedings and it was accepted, so the answer is  
12 definitely.

13 Q. Okay. Thank you. You agree that KCPL has  
14 a duty to serve its retail load; is that correct?

15 A. That's correct.

16 Q. Does it not also have a duty to maximize  
17 returns and a fiduciary duty to maximize returns to its  
18 shareholders?

19 A. Yes.

20 Q. Do you know of any quantitative way to  
21 balance those duties and say which one is more of a duty?

22 A. Not really. I think that's the function of  
23 the regulatory commission to make those balancing  
24 decisions.

25 MR. MILLS: I have nothing further. Thank

1 you.

2 JUDGE PRIDGIN: Mr. Mills, thank you.

3 Mr. Smith, you may step down, sir. Thank you very much.

4 Do I understand that the next witness will  
5 be Ms. Bolin from Staff?

6 MR. RIGGINS: Your Honor, I'd like to move  
7 admission of exhibits, I believe they're 47 and 48 that  
8 were previously marked.

9 JUDGE PRIDGIN: Mr. Riggins has offered 47  
10 and 48. Any objection?

11 MR. MILLS: No objection.

12 MR. THOMPSON: No objection.

13 JUDGE PRIDGIN: 47 and 48 are admitted.

14 (EXHIBIT NOS. 47 AND 48 WERE RECEIVED INTO  
15 EVIDENCE.)

16 JUDGE PRIDGIN: Ms. Bolin will be the next  
17 witness? Is that correct, Mr. Thompson, Ms. Bolin's on  
18 deck?

19 MR. THOMPSON: That is correct. I'm sorry,  
20 Judge.

21 JUDGE PRIDGIN: Ms. Bolin, come forward.  
22 Give Mr. Smith just a second, please.

23 Good morning, Ms. Bolin. You're still  
24 under oath from previously. I assume KCPL will wish  
25 cross-examination?



1                   MR. STEINER: We don't have any questions,  
2 your Honor.

3                   JUDGE PRIDGIN: Mr. Steiner, thank you.  
4 Any cross-examination of Ms. Bolin on weather  
5 normalization, customer growth? Going once, going twice.

6                   (No response.)

7                   JUDGE PRIDGIN: Commissioner Murray, any  
8 questions for this witness?

9                   COMMISSIONER MURRAY: Give me just a  
10 minute.

11                   JUDGE PRIDGIN: Certainly.

12 KIMBERLY K. BOLIN testified as follows:

13 QUESTIONS BY COMMISSIONER MURRAY:

14                 Q.     Ms. Bolin, good morning.

15                 A.     Good morning.

16                 Q.     Can you show me on the reconciliation where  
17 the two issues that you are testifying for appear?

18                 A.     Yes. They're on the first page on line 25  
19 is the customer growth.

20                 Q.     And the difference between the company and  
21 Staff on that issue?

22                 A.     Is 1,792,705, but we believe this will be  
23 trued up and everything will be settled. Corrections have  
24 been made to my testimony subsequent to the filing of it.

25                 Q.     Okay. And the other?



1                   MR. THOMPSON: We show that her testimony  
2 has been offered and received.

3                   JUDGE PRIDGIN: I can take your word for it  
4 or verify if you wish. I can check my -- I believe you're  
5 correct.

6                   MR. FREY: 106 and 107, I believe, Judge.

7                   JUDGE PRIDGIN: That's correct. We're  
8 ready for Mr. Lange.

9                   MR. THOMPSON: Yes, your Honor.

10                  JUDGE PRIDGIN: Mr. Lange, if you'll come  
11 forward to be sworn, please, sir.

12                                 (Witness sworn.)

13                  JUDGE PRIDGIN: Thank you very much. If  
14 you would please have a seat. Anything to take up before  
15 he's tendered for cross?

16                  MR. FREY: Yes.

17 SHAWN E. LANGE testified as follows:

18 DIRECT EXAMINATION BY MR. FREY:

19                  Q.       Mr. Lange, I believe you have a correction  
20 to your direct testimony, do you not?

21                  A.       Yes, I do. I have one correction that will  
22 affect Schedule 3 in my direct. It was brought to my  
23 attention that company use was being double counted, and I  
24 have since taken company use out of this table. So the  
25 total, the updated totals would now be for the NSI Energy

1 KWH with losses is now 15,932 -- I'm sorry --  
2 15,932,502,332, and the total KCPL normalized KWH is  
3 15,889,692,604.

4                   And I also have a correction to the body  
5 part of my testimony on page 7, lines 16 and 17, where I  
6 state the company use was also adjusted using the adopted  
7 annual system loss factor, that needs to be stricken or  
8 taken out of my direct. And also line 18 and 19 where I  
9 say the loss adjusted annualization adjustment growth  
10 adjustment and company use was then added to adopted  
11 weather normalized class of loads, which includes losses,  
12 if you could take and company use out of that sentence.

13                   MR. FREY: Okay. Thank you.

14                   JUDGE PRIDGIN: Anything further before  
15 cross?

16                   MR. FREY: That would be it, then, right?

17                   THE WITNESS: Yes, correct.

18                   MR. FREY: Okay. Tender Mr. Lange for  
19 cross, then, your Honor.

20                   JUDGE PRIDGIN: All right. Thank you. Any  
21 counsel wish to cross --

22                   MR. FREY: Oh --

23                   JUDGE PRIDGIN: I'm sorry. Mr. Frey?

24                   MR. FREY: Yes. I'd like to offer his  
25 testimony into evidence at this time, if possible.

1 JUDGE PRIDGIN: Let me verify that exhibit  
2 number.

3 MR. FREY: That would be his direct, which  
4 is Exhibit 120, and his surrebuttal, which is Exhibit 121.

5 JUDGE PRIDGIN: Exhibits 120 and 121 have  
6 been offered. Any objections?

7 (No response.)

8 JUDGE PRIDGIN: Hearing none, Exhibits 120  
9 and 121 are admitted.

10 (EXHIBIT NOS. 120 AND 121 WERE RECEIVED  
11 INTO EVIDENCE.)

12 JUDGE PRIDGIN: Anything further before  
13 cross?

14 (No response.)

15 JUDGE PRIDGIN: Okay. Hearing nothing.  
16 Any counsel wish to cross Mr. Lange?

17 (No response.)

18 JUDGE PRIDGIN: No questions from counsel.  
19 Questions from the Bench, Commissioner Murray?

20 COMMISSIONER MURRAY: Thank you.

21 QUESTIONS BY COMMISSIONER MURRAY:

22 Q. Mr. Lange, I apologize, but for some reason  
23 I'm down here without your testimony in front of me. Can  
24 you tell me on the weather normalization what empirical  
25 evidence that you use to support Staff's position that the

1 large power customers should not be normalized?

2 A. If you look on my surrebuttal, I show a --  
3 I show two different plots in my Schedule 1 of my  
4 surrebuttal, and the top showing the residential class and  
5 the bottom plot showing the large power customers. And if  
6 you compare the two visually, there is -- for the  
7 residential class, there is a normal V shape that is  
8 typical of a very sensitive weather -- a class that is  
9 very sensitive to weather. And if you look at the large  
10 power class, there is very little -- very little  
11 difference from January to December, showing that -- any  
12 change in temperature.

13 Q. And yet there is some, between, for  
14 example, January and December. If you just compare those  
15 two months, are you not allowing anything or are you  
16 assuming that that is caused by something other than  
17 weather?

18 A. Staff feels that that is caused by seasonal  
19 sensitivity for -- for the class.

20 Q. And by seasonal sensitivity, what are you  
21 referring to?

22 A. Seasonal sensitivity is factors that happen  
23 every year but they do not -- it is not due to day-to-day  
24 weather variations.

25 Q. More market conditions, that kind of thing,

1 is that --

2 A. Market conditions, industrial cycles,  
3 electric motors running more efficiently in the colder  
4 months.

5 Q. If electric motors run more efficiently in  
6 colder months, isn't that related to weather?

7 A. Yes, but it's not due to day-to-day weather  
8 variations.

9 Q. And the data that you used to prepare these  
10 graphs, where did you get the data?

11 A. This data was provided by KCP&L.

12 Q. And is this the only issue you're here on,  
13 weather normalization?

14 A. Yes.

15 COMMISSIONER MURRAY: Thank you.

16 THE WITNESS: Thank you.

17 JUDGE PRIDGIN: Commissioner, thank you.

18 Commissioner Appling, any questions for this witness?

19 COMMISSIONER APPLING: I don't think so.

20 JUDGE PRIDGIN: Thank you. I don't have  
21 any questions. Any recross? Mr. Mills?

22 RE-CROSS-EXAMINATION BY MR. MILLS:

23 Q. Mr. Lange, of the small variation in the  
24 graph showing the large power usage, can you estimate what  
25 percentage of that variation would be due to the impacts

1 of motors running more efficiently in cooler weather?

2 A. I cannot give a value to that, no.

3 Q. Would it be most of it, little of it?

4 A. I can't -- I cannot give a judgment call on  
5 that.

6 MR. MILLS: Okay. I have no further  
7 questions. Thank you.

8 JUDGE PRIDGIN: Further recross?

9 (No response.)

10 JUDGE PRIDGIN: Redirect?

11 MR. FREY: Just one, your Honor.

12 REDIRECT EXAMINATION BY MR. FREY:

13 Q. Mr. Lange, Commissioner Murray asked you  
14 some questions or a question about weather, applying  
15 weather to the large power class. Do you recall that?

16 A. Yes.

17 Q. And do you regard the application of a  
18 weather normalization to a class in which each -- well,  
19 let me ask you this: Each customer in the LP class is  
20 treated individually and annualized individually; is that  
21 correct?

22 A. That is correct, sir.

23 Q. And do you regard weather normalization  
24 application in that context when that approach is used to  
25 develop a usage for the LP class, do you regard the uses



1 of the application of a weather normalization to be  
2 compatible with that approach?

3 A. No. It's -- it's an either/or type of  
4 situation. You can weather normalize the class as a class  
5 and then apply a loss or a growth factor to it by customer  
6 numbers or you can look at each individual customer and  
7 annualize each individual customer, but you can't -- it's  
8 an either/or.

9 MR. FREY: Thank you, Mr. Lange.

10 That's all I have, your Honor.

11 JUDGE PRIDGIN: Mr. Frey, thank you.

12 COMMISSIONER MURRAY: Judge --

13 JUDGE PRIDGIN: I'm sorry. Commissioner  
14 Murray?

15 COMMISSIONER MURRAY: I apologize.

16 JUDGE PRIDGIN: That's quite all right.

17 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

18 Q. And the two and a half million dollar  
19 difference between Staff and the company on this issue, is  
20 that solely based on the fact that the Staff did not use  
21 the large power, did not normalize large power customers?

22 A. Yes.

23 COMMISSIONER MURRAY: All right. Thank  
24 you.

25 JUDGE PRIDGIN: Commissioner, thank you.

1 Any recross from counsel?

2 (No response.)

3 JUDGE PRIDGIN: Redirect?

4 (No response.)

5 JUDGE PRIDGIN: May this witness be  
6 excused?

7 (No response.)

8 JUDGE PRIDGIN: All right. Mr. Lange,  
9 thank you very much. You may step down.

10 Did I understand counsel anticipated going  
11 on to depreciation?

12 MR. FREY: I believe so, your Honor.

13 JUDGE PRIDGIN: Okay. Is it Mr. Frerking  
14 that would be the next witness?

15 MR. BLANC: Mr. Frerking.

16 JUDGE PRIDGIN: Mr. Frerking, I beg your  
17 pardon. If you'd come forward, sir. If you'll raise your  
18 right hand to be sworn, please.

19 (Witness sworn.)

20 JUDGE PRIDGIN: Thank you very much, sir.  
21 Please have a seat. Anything we need to cover before  
22 being tendered?

23 MR. BLANC: I believe Mr. Frerking has no  
24 corrections to make to his testimony.

25 THE WITNESS: That's correct.

1                   MR. BLANC:  So I tender him for  
2 cross-examination.

3                   JUDGE PRIDGIN:  Mr. Blanc, thank you.  Does  
4 counsel wish to cross-examine Mr. Frerking on  
5 depreciation?

6                   MR. FREY:  Your Honor, we have to have a  
7 moment here.

8                   JUDGE PRIDGIN:  Certainly.  Any other  
9 counsel wish to cross-examine on depreciation?

10                   Mr. Thompson, when you're ready.

11                   MR. THOMPSON:  I'm ready, your Honor, thank  
12 you.

13 DON A. FRERKING testified as follows:

14 CROSS-EXAMINATION BY MR. THOMPSON:

15                   Q.       Good morning, Mr. Frerking.

16                   A.       Good morning.

17                   Q.       As I understand your position, the company  
18 maintains that the regulatory plan approved by the  
19 Commission in Case EO-2005-0329 directs that the current  
20 depreciation rates should be retained.  Do I understand  
21 that correctly?

22                   A.       That was the company's understanding of  
23 what the stipulation was intended to do.

24                   Q.       And yet wouldn't you agree that the  
25 language of the Stipulation & Agreement specifically

1 authorizes parties to propose changes to depreciation  
2 rates?

3 A. Yes.

4 Q. And with respect to the depreciation study  
5 conducted by Staff and sponsored by Ms. Schad, you have  
6 some criticisms of her methods, do you not?

7 A. Yes, I do.

8 Q. Exactly what are those criticisms?

9 A. The criticisms revolved around the  
10 estimates of the lives on generating units, the cost of  
11 removal and salvage calculations, and some of the curve  
12 matching on transmission and distribution accounts.

13 Q. Now, with respect to lives on generating  
14 units, are you familiar with this Commission's decisions  
15 with respect to depreciation over the past several years?

16 A. I have some familiarity.

17 Q. Specifically are you familiar with this  
18 Commission's decision in the Empire Electric Company rate  
19 Case No. ER-2004-0570?

20 A. I'm not familiar with the details of that.  
21 I am -- I'm aware that the Commission sided with the  
22 Staff's position as opposed to the Empire position in that  
23 case.

24 Q. Do you know -- when you say you're not  
25 familiar with the details, are you saying that you do not

1 know whether or not that decision contained any sort of  
2 policy statement with respect to the lives for generating  
3 units to be used in depreciation?

4 A. I'm aware that the Commission sided with  
5 the Staff's position, and I'm paraphrasing here, but gave  
6 some indication that they weren't -- didn't feel that  
7 Empire's lives for generation, generating units were  
8 compelling in that case, but I'm not familiar with the  
9 details of what those lives were compared to what the  
10 Staff proposed.

11 Q. So am I correct that your understanding of  
12 that decision was simply that the Commission was not  
13 persuaded by the evidence that Empire put on?

14 A. That would be my understanding.

15 Q. If, in fact, Staff considers that decision  
16 to have stated a policy to be applied in other cases, do  
17 you have any reason to believe that Ms. Schad has not, in  
18 fact, followed that policy?

19 A. If Staff considers that to be a policy, I  
20 would expect that she would continue that. I don't  
21 consider it to be a policy. I consider it to be a  
22 decision in that case.

23 Q. With respect to cost of removal and  
24 salvage, is it the company position that the Staff has  
25 understated the negative degree of net salvage with

1 respect to certain accounts?

2 A. With respect to certain accounts, that's  
3 certainly the case, and it has more to do with the  
4 methodology that Ms. Schad used to normalize those  
5 accounts or to calculate that, and it resulted in for  
6 certain accounts certain years an understatement of the  
7 negative net salvage or the cost of removal.

8 Q. Do you recall the deposition that was taken  
9 in this case on September 29th?

10 A. Yes.

11 Q. Do you recall some questions at that  
12 deposition about KCPL's FERC Form No. 1?

13 A. Yes.

14 Q. And those were for the years 2003, 2004 and  
15 2005; isn't that right?

16 A. That's correct.

17 Q. And do you recall that those forms show a  
18 positive net salvage position?

19 A. That's correct.

20 Q. And with respect to curve matching, again  
21 at that deposition, do you recall admitting that two  
22 different engineers might reach two different conclusions  
23 with respect to matching an Iowa curve to a particular  
24 data set?

25 A. There's a certain degree of judgment

1 involved.

2 MR. THOMPSON: Thank you. No further  
3 questions.

4 JUDGE PRIDGIN: Mr. Thompson, thank you.  
5 Any further cross from counsel?

6 (No response.)

7 JUDGE PRIDGIN: Questions from the Bench,  
8 Commissioner Murray?

9 COMMISSIONER MURRAY: Thank you.

10 QUESTIONS BY COMMISSIONER MURRAY:

11 Q. Good morning.

12 A. Good morning.

13 Q. The methodology that was applied here by  
14 Staff, let me be clear on this, was the methodology that  
15 was applied in the Empire case that was cited earlier; is  
16 that correct?

17 A. With respect to the lives of the generating  
18 units, yes.

19 Q. And the difference, the dollar difference  
20 related to that amount, to that item would be?

21 A. I'm not sure of the dollar difference on  
22 that amount.

23 Q. For the depreciation in total, is there a  
24 line item we can look at on the reconciliation?

25 A. I believe there probably is. I'm not

1 completely familiar with the reconciliation.

2 Q. I'll ask Staff that question.

3 MR. THOMPSON: Pardon me, Judge. If I  
4 could just direct the Commissioner's attention to line 75  
5 of the reconciliation, that shows the amount of the  
6 depreciation expense difference.

7 COMMISSIONER MURRAY: Thank you,  
8 Mr. Thompson.

9 MR. THOMPSON: It may be line 72. I'm  
10 sorry. I have a revised reconcilment that was produced  
11 this morning.

12 COMMISSIONER MURRAY: That makes a little  
13 more sense.

14 BY COMMISSIONER MURRAY:

15 Q. So it's a large item we're talking about?

16 A. Yes.

17 Q. In fact, it is the largest single item in  
18 the entire case in terms of difference between Staff and  
19 the company, I believe, but if you don't know the answer  
20 to that question, that's all right.

21 A. I don't know for sure, but it's a large  
22 item. It certainly could be.

23 Q. And you've testified to all of the  
24 depreciation expense items that are involved in this case;  
25 is that correct?



1           A.       I've provided rebuttal testimony and  
2 surrebuttal testimony regarding -- probably I think just  
3 rebuttal testimony regarding depreciation. The company  
4 didn't file any direct testimony regarding depreciation  
5 because it was our belief that the intent of the  
6 Stipulation was to use the rates that were included in  
7 Appendix G of the regulatory plan Stipulation & Agreement,  
8 and I forget the number of that case, the EO-2005-0329, I  
9 believe.

10           Q.       And that was Appendix G you're speaking of?

11           A.       That's correct.

12           Q.       And it appears in Appendix G that  
13 depreciation and amortization rates were set out in pretty  
14 full detail there?

15           A.       That would be a listing of the depreciation  
16 rates for all of the accounts, and it would be, with the  
17 exception of the nuclear accounts and the accounts  
18 specifically relating to Hawthorn 5 rebuild amounts, would  
19 be an affirmation of the rates that are currently  
20 authorized for Kansas City Power & Light.

21                    The nuclear accounts were adjusted to  
22 reflect an assumed 60-year life span as opposed to a  
23 40-year life span that was -- that the previous rates were  
24 based upon. And the rationale for changing those by all  
25 the parties was assumption that a life extension for -- or

1 a license extension would be forthcoming. The company  
2 has -- or I mean, Wolf Creek, Wolf -- the operating  
3 company for Wolf Creek has applied for a license extension  
4 with the NRC. That application is on file, but no  
5 determination has been made on approval of that at this  
6 point in time. That could probably take a couple years.

7 Q. But there is no disagreement as to  
8 extending?

9 A. No. That was an agreement among all the  
10 parties, you know, if the license extension isn't  
11 approved, then that would have to be reevaluated  
12 obviously.

13 Q. And what about the Hawthorn 5 depreciation  
14 issue?

15 A. The Hawthorn 5 depreciation issue sets  
16 rates that are adjusted to reflect the large insurance and  
17 litigation -- subrogation litigation settlements that the  
18 company has received and booked to the depreciation  
19 reserve. So those are -- those Hawthorn 5 rebuild  
20 depreciation rates are -- have been -- are the authorized  
21 rates adjusted for those insurance proceeds and litigation  
22 amounts.

23 Q. And is there a disagreement on the  
24 Hawthorn 5?

25 A. The only disagreement would be that would

1 be the amount of those rates depending on whether or not  
2 you use the currently authorized rates for those -- for  
3 those accounts, for the nonrebuild accounts, the currently  
4 authorized rates for the production accounts, or whether  
5 you use Staff's proposed rates.

6 Q. And Staff's proposed rates are based on  
7 the --

8 A. Staff's proposed rates are based on  
9 Ms. Schad's study. Those rates for the coal-generating  
10 accounts are lower than what the currently authorized  
11 rates for the coal-generating accounts for Kansas City  
12 Power & Light. So if the starting point is lower, the  
13 adjusted rates for the Hawthorn 5 rebuild accounts will  
14 subsequently be lower.

15 Q. And to what extent is the total dollar  
16 figure for depreciation affected by the net salvage issue?

17 A. I'm not sure about that amount.

18 Q. Do you have any idea as far as is it a  
19 large portion of the total or --

20 A. I'm sorry. I would have to check. I'd  
21 have to offer up a guess.

22 Q. And the depreciation rates themselves that  
23 were set out in Appendix G of the Stipulation & Agreement  
24 and the proposed experimental regulatory plan, the rates  
25 that then were proposed by Staff, how much -- was there a

1 significant difference in the rates proposed?

2 A. Yes, that difference falls to the large  
3 dollar amount. I don't recall the exact dollar amount,  
4 but that ends up in the -- on the reconciliation line that  
5 you referred to. Some of the rates that Staff has  
6 proposed may be higher than what the company's currently  
7 authorized rates are. Some are obviously lower. But the  
8 net of all of them would be reduced depreciation in total.

9 Q. And this -- and you may not be familiar  
10 enough with this offhand to do so, but could you point me  
11 to a point within the Stipulation & Agreement other than  
12 Appendix G that refers to future treatment of depreciation  
13 and amortization rates?

14 A. I don't know that there's any specific  
15 language in there suggesting that. The company's position  
16 on the intent of that was that any -- any change in  
17 depreciation would be a -- would result in an offsetting  
18 level of regulatory plan amortization that was -- that was  
19 approved in that Stipulation & Agreement, so that a  
20 reduction in depreciation expense in this case would  
21 necessitate an offsetting increase in the regulatory plan  
22 amortization, which in the end would be applied to  
23 depreciation accounts. So the net result is, if you  
24 reduce depreciation, you increase the regulatory plan  
25 amortization and get back to the same place that you were

1 to start with.

2 Q. Is that what Staff has suggested?

3 A. That's going to -- that would be the result  
4 of what they have suggested.

5 Q. But the company is not in favor of doing  
6 that?

7 A. The company's belief of what -- of what  
8 was intended in the regulatory plan Stipulation &  
9 Agreement is to keep the existing rates and apply the  
10 necessary regulatory plan amortization, and then at a more  
11 appropriate time, probably at the in-service, the case  
12 resulting from the in-service of the Iatan 2 plant, that  
13 depreciation and the -- and how one deals with the  
14 accumulated regulatory plan amortization could be more  
15 appropriately known and dealt with at that time.

16 Q. I may be incorrect about this, but it was  
17 my understanding that the amortization -- regulatory  
18 amortization plan was to offset shortages that resulted  
19 from other things than a purposeful change in the  
20 depreciation rates.

21 A. That would be true. It's a result -- the  
22 regulatory plan amortization is intended to ensure the  
23 creditworthiness of the company with regard to the cash  
24 flow of the company. It acts very similar -- in fact, the  
25 same as depreciation expense. Depreciation is a -- is a

1 non-cash expense so that the level of depreciation or  
2 regulatory plan amortization in a case in the revenue  
3 requirement results in cash flow to meet the credit  
4 metrics. So they act very similar. So the result of a --  
5 that's why I said the result of a reduction in  
6 depreciation expense would result in an offsetting need  
7 for -- for additional regulatory plan amortization.

8 Q. But is it the company's position that that  
9 was not the intent of the regulatory plan amortization  
10 provision, that the intent of that was to cover shortfalls  
11 that resulted from things other than a voluntary change in  
12 the methodology of depreciation?

13 A. It was the company's intent that the  
14 regulatory plan amortization would be set in place to meet  
15 the cash flow metrics.

16 Q. Which would be involving things other than  
17 a change in the way depreciation rates are set?

18 A. It would be affected by a change in  
19 depreciation rates. The depreciation would result in cash  
20 flows as well.

21 Q. I understand it would be affected by that,  
22 but there are other things that would create the need for  
23 the regulatory plan amortization?

24 A. Absolutely, yes.

25 Q. And is it the company's position that it

1 was those other things that were contemplated in the  
2 Stipulation & Agreement rather than a change in the next  
3 rate case as to the methodology for depreciation?

4 A. That is correct. We didn't anticipate a  
5 change in the methodology for depreciation within the  
6 context of this case.

7 Q. Thank you.

8 A. I apologize for the confusion.

9 COMMISSIONER MURRAY: That's all right. I  
10 just wanted to clear that up. Thank you.

11 JUDGE PRIDGIN: Commissioner Appling?

12 QUESTIONS BY COMMISSIONER APPLING:

13 Q. Would you in a very few words summarize for  
14 me your criticism of Mrs. Schad, if you can, in a very few  
15 words. I'm going to ask her the same thing, so talk to me  
16 just a little bit about what you --

17 A. Well, this doesn't go specifically to  
18 Ms. Schad's areas. Her area is to do a depreciation  
19 study, but this goes back to the need to do it in the  
20 first place because of the offsetting need for the  
21 additional amortization if you reduce the depreciation,  
22 the company's position that this is not the right time to  
23 adjust depreciation rates.

24 But going specifically to Ms. Schad's  
25 study, we have concerns about the lives used with regard





1                   JUDGE PRIDGIN: I have no questions for  
2 this witness. Any recross?

3                   MR. THOMPSON: Why, yes.

4                   MR. WOODSMALL: I've got some recross. Do  
5 you go first or --

6                   MR. THOMPSON: You go first.

7 RE-CROSS-EXAMINATION BY MR. WOODSMALL:

8                   Q.       Just very briefly, Commissioner Appling was  
9 asking you and you were talking about rationale or need  
10 for doing depreciation changes at this time. Do you  
11 recall that question?

12                  A.       Yes, I do.

13                  Q.       And can you tell me what the purpose of  
14 depreciation is?

15                  A.       It would be a rational recovery of  
16 principal over the life of the assets in question.

17                  Q.       And can you tell me, have you heard of the  
18 concept of intergenerational equity?

19                  A.       Yes.

20                  Q.       And can you tell me what your understanding  
21 of that is?

22                  A.       It would be having the ratepayers that are  
23 benefiting from the assets in question pay for those.

24                  Q.       Okay. So given the concept of  
25 intergenerational equity, would you agree that, to the

1 extent that better depreciation rates are known at a time,  
2 that those should be implemented when they're known?

3 A. I believe that in the context of this case  
4 where the result is an offsetting level of regulatory plan  
5 amortization, that you would end up in roughly the same  
6 place, so I would suggest that now is not the appropriate  
7 time to change depreciation rates. And that's, of course,  
8 assuming that the company and the Staff were in agreement  
9 on what those -- what those proper depreciation rates  
10 would be, and that's not the case for a number of these  
11 accounts.

12 MR. WOODSMALL: No further questions.

13 JUDGE PRIDGIN: Mr. Woodsmall, thank you.  
14 Mr. Thompson?

15 MR. THOMPSON: Thank you, Judge.

16 RE-CROSS-EXAMINATION BY MR. THOMPSON:

17 Q. Mr. Frerking, you had questions from both  
18 Commissioners with respect to the company's concern with  
19 the way Ms. Schad has handled the lives of generating  
20 units.

21 A. That's correct.

22 MR. THOMPSON: May I approach, your Honor?

23 JUDGE PRIDGIN: You may.

24 BY MR. THOMPSON:

25 Q. Mr. Frerking, I'm going to show you a page

1 from the direct testimony of Ms. Schad, which includes an  
2 excerpt from the Commission's Report and Order in Case  
3 Er-2004-0570, and rate case of the Empire Electric  
4 Company, Empire District Electric Company. Do you see  
5 this excerpt here?

6 A. Yes.

7 Q. Could you read it, please?

8 A. Says, No. ER-2004-0570, page 53, Report and  
9 Order, quote, second, with respect to terminal net salvage  
10 of production plant accounts, this Commission has  
11 generally not allowed the accrual of this item. The  
12 reason is that generating plants are rarely retired, and  
13 any allowance for this item would necessarily be purely  
14 speculative, close quotes.

15 Q. Thank you, sir. And, Mr. Frerking, you've  
16 testified in response to a Commission question that it's  
17 the company position that the regulatory plan intended to  
18 use the depreciation rates contained in Appendix G of that  
19 plan for this case; isn't that right?

20 A. That was the company's belief, yes.

21 Q. Well, how do you reconcile that with your  
22 earlier testimony in response to my question that, in  
23 fact, the Stipulation & Agreement specifically authorizes  
24 parties to propose changes in depreciation?

25 A. It doesn't preclude them from doing so, and

1 this is my belief. I can't speak for all the parties  
2 obviously, but my belief was the intent of authorizing  
3 parties to propose depreciation changes was to place the  
4 regulatory plan amortization into specific plant accounts.

5 Q. And you indicated in response to a question  
6 from Commissioner Appling that the company was not  
7 comfortable with the depreciation recommendations made by  
8 Ms. Schad?

9 A. That's correct.

10 Q. Isn't it true that the reason the company  
11 is not comfortable is because if the Commission adopts  
12 those recommendations, it would mean a reduction in cash  
13 revenue of 10 to \$15 million per year?

14 A. That would be the result of the  
15 implementation of those rates, but we're also not  
16 comfortable with the way that they were arrived at and  
17 how -- and how you reach the methodology used to arrive at  
18 those rates.

19 MR. THOMPSON: Thank you, sir. No further  
20 questions.

21 JUDGE PRIDGIN: Mr. Thompson, thank you.  
22 Any further cross?

23 (No response.)

24 JUDGE PRIDGIN: Redirect?

25 MR. BLANC: Yes, your Honor.

1 REDIRECT EXAMINATION BY MR. BLANC:

2 Q. In response to a question from Commissioner  
3 Applling, you referred to the average service life  
4 treatment Ms. Schad performed with respect to Wolf Creek.

5 A. Yes.

6 Q. Do you recall what her assumption was for  
7 average service life for the Wolf Creek plant?

8 A. She's suggested that the average service  
9 life is 59 and a half years. And her surrebuttal  
10 testimony suggested she needed to use an average service  
11 life of 80 years, I believe, for Wolf Creek, when you  
12 factor in the depreciation reserve today. And my concern  
13 with what she has done is she's characterized that as an  
14 average service life when, in fact, what she's attempting  
15 to do is use a remaining life rate, but she's not  
16 characterized it as such.

17 The company -- the company's and the other  
18 parties, the depreciation rates that were used for the  
19 nuclear counts that were included in Appendix G in the  
20 regulatory plan Stipulation & Agreement are remaining life  
21 rates, and that's -- that's appropriate in this case  
22 because of the license extension that you would expect to  
23 have had a higher level of depreciation to this point in  
24 time because of the 40-year license assumption compared to  
25 the 60-year license assumption.

1           Q.       Thank you.  And I also had a couple of  
2 questions about Staff's position in the Empire case.

3           A.       Yes.

4           Q.       If I could just walk you -- or you could  
5 tell me how an example would work in that case.  Say there  
6 is a generation unit and a valve needs to be replaced.  
7 That valve has a depreciable life that everyone agrees to  
8 of approximately 30 years, and the plant is retired one  
9 year after that valve's installed.  How would the cost of  
10 that valve be treated for depreciation purposes?

11          A.       For deprecia--

12                   MR. THOMPSON:  I'm going to object, your  
13 Honor.  Mr. Frerking testified earlier that he's not  
14 familiar with the details of that decision, so I don't  
15 know how he can apply those principles that he doesn't  
16 know to this hypothetical.

17                   MR. BLANC:  I don't think he is  
18 inconsistent with his prior testimony.  I think he  
19 indicated that he was generally aware of the Staff's  
20 position in the Empire case, and I'm asking him to use an  
21 example, using his general understanding.  If he doesn't  
22 know enough about the Empire case to answer this question,  
23 he's free to say so.

24                   JUDGE PRIDGIN:  I agree.  I'll overrule.  
25 If he doesn't know enough about that Empire case, he can

1 say, I don't know.

2 THE WITNESS: In answer to that question,  
3 and in your hypothetical, that valve would have a one-year  
4 life as opposed to a 30-year life. I'll expand on my  
5 understanding if it helps counsel and the Bench. In the  
6 Empire case, while I'm not familiar with the details of  
7 the lives that were being proposed, Staff proposed no  
8 retirement date expectations for generating facilities.  
9 The -- I don't know what Empire proposed as far as life.

10 To me, it is unrealistic to assume that  
11 there's no retirement date expectations. Parties can have  
12 different assumptions on what those retirement date  
13 expectations might be, but to suggest that there's no  
14 final retirement date when all of the equipment at a power  
15 plant retires at the same time is unrealistic, in my  
16 opinion.

17 MR. BLANC: Thank you. No further  
18 questions.

19 JUDGE PRIDGIN: All right. Thank you.  
20 Commissioner Murray?

21 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

22 Q. I apologize for doing this out of order,  
23 but can you explain how the movement from depreciation to  
24 the regulatory plan amortization affects the company's  
25 cash flow?

1           A.       The cash -- whether the -- whether you have  
2 rates that cover depreciation and expense or rates or  
3 revenues that cover regulatory plan amortization, the net  
4 result is the same, the cash flow is the same resulting  
5 from those.

6           Q.       So there's no difference?

7           A.       It would -- the only difference would be in  
8 some minor differences on the tax -- additional tax  
9 depreciation, but that would be minor. The tax  
10 depreciation of those assets is going to be the same  
11 regardless of whether -- the tax depreciation of the  
12 assets is set by the IRS, not by what the book  
13 depreciation or regulatory plan amortization is.

14          Q.       Okay. So is there another reason other  
15 than cash flow? What is the primary reason that the  
16 company is opposed to the Staff's proposed treatment of  
17 depreciation?

18          A.       We would go back to our criticisms  
19 regarding the life estimates used, the characterization of  
20 the Wolf Creek rate as an average life rate as opposed to  
21 a remaining life rate, the proper level for the -- for the  
22 Hawthorn 5 rebuild rates, the methodology they used to  
23 arrive at the salvage and removal cost estimates and the  
24 curve estimates, the curve life match -- curve matching  
25 estimates for life of some of the other accounts.



1 Q. Are you finished?

2 A. Yes.

3 Q. In terms of the methodology, on a  
4 going-forward basis, that can make a significant  
5 difference for accounting, can it not, if Staff's  
6 methodology is adopted and is considered the policy of  
7 this Commission?

8 A. I guess could you clarify what you mean by  
9 policy of the Commission?

10 Q. All right. If we assume that Staff's  
11 treatment of depreciation, and particularly the net  
12 salvage issue, is the methodology that this Commission is  
13 adopting, that can potentially make a significant  
14 difference for companies coming before us for rate cases  
15 in the future, can it not?

16 A. I want to -- I probably need to clarify  
17 what I meant by methodology on the cost of removal and  
18 salvage. I think what you might be thinking of with  
19 regard to cost of removal would be the expensing cost of  
20 removal rather than accruing it through the depreciation  
21 rates.

22 The Staff has not proposed that in this  
23 case. What I was referring to was more of a calculation  
24 of how they determined what the proper -- what the percent  
25 of negative net salvage or positive gross salvage was for

1 inclusion into the depreciation rate.

2 Q. So the relevance of the Empire case that  
3 was cited in terms of the net salvage issue --

4 A. The relevance of the Empire case that was  
5 cited was, I believe, with regard to the lives, not the  
6 net salvage. The Empire case, the Commission ruled in  
7 favor of the Staff. I don't -- and rather than the  
8 company. The company, I don't know the specifics of what  
9 they were assuming with regard to retirement date  
10 expectations of the generating facilities.

11 Staff proposed no retirement date  
12 expectations for generating facilities and, like I said  
13 before, people can have differences of opinion on what  
14 those retirement expectations are. But to assume that  
15 there's no retirement date when all of the -- when all of  
16 the property at a generating unit regardless of age  
17 retires at the same time to me is unreasonable.

18 COMMISSIONER MURRAY: Okay. Thank you.

19 Thank you, Judge.

20 JUDGE PRIDGIN: Commissioner Murray, thank  
21 you. Any further Bench questions?

22 (No response.)

23 JUDGE PRIDGIN: Recross based on Bench  
24 questions?

25 MR. THOMPSON: Why, yes, your Honor.

1 RE-CROSS-EXAMINATION BY MR. THOMPSON:

2 Q. Mr. Frerking, do you know of any examples  
3 of generating plants that have, in fact, retired where all  
4 of the equipment went out of use at the same time?

5 A. Yes. The company has -- its Northeast  
6 Station, its Grand Avenue Station and its Hawthorn 1  
7 through 4 Stations all went out of service at the same  
8 time. And, in fact, the data that was provided to  
9 Ms. Schad for her analysis factors those final retirements  
10 of those generating units and treats them as though they  
11 were terminated exposures in depreciation language. So  
12 they're not treated as retirement. So those have not --  
13 those final retirements of all those generating units are  
14 not skewing the interim retirement curves.

15 So the data that was provided to Ms. Schad  
16 and that was made known to Ms. Schad does not have those  
17 final retirements included. So to the extent that she's  
18 not using a life span final retirement estimate, it's  
19 misapplying the data that we provided.

20 Q. Does that mean that you have plans as to  
21 when you're going to retire your present plants?

22 A. There are no retirement date expectations  
23 for any of the plants at this time.

24 Q. Well, if there are no retirement date  
25 expectations, how is she supposed to calculate

1 depreciation as though there were?

2           A.       As I mentioned before, that there is --  
3 certainly can be differences of opinion on what those  
4 retirement date expectations would be, but a complete  
5 abdication of responsibility of determining that  
6 there's -- that they're never going to retire to me is  
7 irresponsible.

8           Q.       Let me make sure I understand your  
9 testimony, sir. You've testified that the company has no  
10 retirement date expectations as to its plants that are  
11 presently in service, yet it is irresponsible for Staff to  
12 reflect that lack of expectation in its calculations;  
13 isn't that what you've just testified?

14           A.       I've testified that it -- one needs to make  
15 an estimate of what those retirement expectations might  
16 be. We don't have any current retirement date  
17 expectations for any of our existing plants, but to  
18 suggest that they're never going to retire I don't think  
19 gives you a reasonable estimate of depreciation and  
20 unnecessarily shifts cost to future generations of  
21 ratepayers.

22                   MR. THOMPSON: I have no further questions,  
23 your Honor.

24                   JUDGE PRIDGIN: Mr. Thompson, thank you.  
25 Any further recross?

1                   Mr. Blanc, recross?

2                   MR. BLANC: No, your Honor.

3                   JUDGE PRIDGIN: So this witness is excused  
4 on this issue. This looks to be a convenient time to  
5 break. If I understand, we will have Ms. Schad testify on  
6 depreciation after the break, and then we will move on to  
7 jurisdictional allocations. Is that counsel's  
8 understanding?

9                   MR. WOODSMALL: Your Honor, it was my  
10 understanding that we weren't moving on to jurisdictional  
11 allocations 'til tomorrow.

12                  JUDGE PRIDGIN: Any other counsel? I have  
13 it on what may be an obsolete revised schedule that  
14 jurisdictional allocations are today.

15                  MR. FISCHER: Your Honor, the draft  
16 schedule we proposed today that we circulated does have it  
17 beginning tomorrow. The company was willing to go  
18 forward, but several of the other parties preferred that  
19 it go Friday, and we can accept that proposal.

20                  JUDGE PRIDGIN: Okay. I think I see the  
21 new one. Let us -- let's go ahead and go on break and  
22 we'll take Ms. Schad. At the rate the depreciation is  
23 going and the conference call, it may be a moot point. We  
24 simply may not have time for it anyway.

25                  I'm showing 10:30 on the clock at the back

1 of the wall. Let's resume at 10:45. We're off the  
2 record.

3 (A BREAK WAS TAKEN.)

4 JUDGE PRIDGIN: We're back on the record.  
5 I understand that the next witness will be Ms. Schad from  
6 Staff to testify on depreciation; is that correct?

7 MR. THOMPSON: That is correct, your Honor.

8 JUDGE PRIDGIN: And then depending on the  
9 length of that, that might be the only witness that we get  
10 to today, or at least before the conference call that I  
11 understand parties have on rate design. is that the  
12 parties' understanding?

13 MR. THOMPSON: That is correct.

14 JUDGE PRIDGIN: We'll certainly see how her  
15 testimony goes and we'll go from there.

16 Ms. Schad, if you'll come forward, please.

17 (Witness sworn.)

18 JUDGE PRIDGIN: Thank you. If you would,  
19 please have a seat. And, Mr. Thompson, any housekeeping  
20 matters?

21 ROSELLA L. SCHAD testified as follows:

22 DIRECT EXAMINATION BY MR. THOMPSON:

23 Q. Do you have any corrections to your  
24 testimony, Ms. Schad?

25 A. No.

1                   MR. THOMPSON: At this time, your Honor, I  
2 would offer Exhibits 131 and 132. That is the direct  
3 testimony of Rosella Schad and the surrebuttal testimony.  
4 And the latter, your Honor, is both NP and HC.

5                   JUDGE PRIDGIN: Mr. Thompson, thank you.  
6 Exhibit 131 and 132NP and HC have been offered. Any  
7 objections?

8                   MR. BLANC: No, your Honor.

9                   MR. THOMPSON: Hearing no objections,  
10 Exhibits No. 131 is admitted and Exhibit No. 132, both NP  
11 and HC, is admitted.

12                   (EXHIBIT NOS. 131 AND 132NP AND 132HC WERE  
13 RECEIVED INTO EVIDENCE.)

14                   JUDGE PRIDGIN: Anything further,  
15 Mr. Thompson?

16                   MR. THOMPSON: No, your Honor. Tender the  
17 witness at this time.

18                   JUDGE PRIDGIN: Mr. Thompson, thank you. I  
19 assume KCPL will have cross-examination?

20                   MR. BLANC: Yes, sir, your Honor.

21                   JUDGE PRIDGIN: Any other counsel have  
22 cross-examination?

23                   (No response.)

24                   JUDGE PRIDGIN: All right. Mr. Blanc, when  
25 you're ready, sir.

1 CROSS-EXAMINATION BY MR. BLANC:

2 Q. Good morning, Ms. Schad.

3 A. Good morning.

4 Q. I just have some questions concerning your  
5 surrebuttal testimony about average service lives for  
6 transmission, distribution and generation assets.

7 A. Yes.

8 Q. Do you recall some back and forth between  
9 you and Mr. Frerking in your prefiled testimony concerning  
10 that issue?

11 A. Yes.

12 Q. Do you have a copy of Mr. Frerking's  
13 rebuttal testimony up there with you? If not, I can  
14 provide you with a copy.

15 A. I believe I do. Okay.

16 Q. Are you familiar with Mr. Frerking's  
17 testimony concerning his comparison of your proposed curve  
18 matches against the observed life data in KCPL's most  
19 recent depreciation study?

20 A. Yes.

21 Q. Would you please refer to page 19 of  
22 Mr. Frerking's rebuttal testimony.

23 A. Okay.

24 Q. There's a sentence beginning on line 1 that  
25 says the result of that. Do you see that sentence?



1 A. Yes.

2 Q. Could you please read from there to the end  
3 of that paragraph for me?

4 A. The result of that reasonableness check  
5 is that it appears that Staff's curve matching is  
6 questionable for Accounts 355, 358, 362, 364, 365, 367,  
7 369, 370, 371, 396 and 398. These curve plots are  
8 attached to testimony as Schedule DAF-9. The results of  
9 these questionable curve matches are average service  
10 lives for many of these accounts that are approximately  
11 10 to 20 years too long.

12 Q. Thank you. And are you familiar with what  
13 accounts -- the description of the accounts for those  
14 account numbers?

15 A. In general. I would, you know, like to  
16 look at a schedule just to --

17 Q. I can refer you to DAF-9, which you just  
18 referred to and is attached to that testimony. And I'm  
19 not sure there's a need to go through all of them. I just  
20 want to get a couple of examples of the type of accounts  
21 we're talking about.

22 A. Okay.

23 Q. So Account 355, what does that refer to?

24 A. Poles and fixtures.

25 Q. And Account 358, that's the one you refer

1 to in your testimony, correct?

2 A. Yes.

3 Q. And what does that refer to?

4 A. Underground conductors and devices.

5 Q. And that's transmission?

6 A. That is transmission.

7 Q. Okay. Thank you. And 362?

8 A. Station equipment excluding communication  
9 equipment.

10 Q. And 364?

11 A. Poles, towers and fixtures.

12 Q. And did you respond to Mr. Frerking's  
13 criticism that you just read in your surrebuttal?

14 A. I responded to one. We took a look at one  
15 and did a reasonable check of what he presented and what I  
16 had and presented that in my surrebuttal.

17 Q. Okay. Thank you. And for which of those  
18 11 accounts did you provide the response?

19 A. I believe Account 358.

20 Q. And of the accounts Mr. Frerking evaluated,  
21 does 358 have the most money in it in terms of KCPL's  
22 exposures?

23 A. I don't know, but I could look at a  
24 schedule. I did not consider that. I don't know.

25 Q. Would you be surprised if the amount of

1 KCPL's exposures in that account was approximately  
2 \$2.8 million?

3 A. I don't know. I did not get a -- I just  
4 chose an account and just looked at it.

5 Q. Would you be surprised to learn that some  
6 of the other accounts had significantly more money? Would  
7 that be surprising that KCPL's exposures were  
8 significantly greater with respect to some of the other  
9 accounts?

10 A. Oh, it could be.

11 Q. Would it -- and just I'm kind of getting a  
12 magnitude of greater than or less than. Would you be  
13 surprised if 355, poles and fixtures that you referred to,  
14 has \$85,000,000 in it?

15 A. Oh, I would not be surprised, no.

16 Q. Okay. And 362, station equipment,  
17 \$143 million?

18 A. Oh, I would agree that probably could be.

19 Q. And just one more, 346, poles, towers and  
20 fixtures, roughly \$200 million?

21 A. It very well could be.

22 Q. And then do you have an idea of the  
23 transmission underground conductors?

24 A. No. Again, I was just looking at trying to  
25 evaluate the approach that he did, and I just chose an

1 account and not with weight.

2 Q. Would you say less than 5 million? Could  
3 you say that?

4 A. It very well could be.

5 Q. Okay. Thank you. In terms of retirement  
6 activity, do you have a sense of how Account 358 compares  
7 to the other accounts that Mr. Frerking discussed in his  
8 testimony?

9 A. Well, I -- I would suspect underground  
10 would be considerably less. My concern --

11 Q. Okay. Go ahead. I'm sorry.

12 A. In just looking at it, my concern was with  
13 just one year's difference in the data, we -- what could  
14 be supporting that difference. I was just looking for the  
15 mechanism that -- what could be involved in all of them as  
16 a reason for why there was -- away from the judgment call,  
17 just the use of the software package, what was creating  
18 some differences, learning to understand those, the way  
19 the software may be working might be generating some of  
20 the differences between what he was coming up with and  
21 what I was.

22 Q. Sure, but you referred to all of them. Did  
23 you do such an analysis for all 11 accounts?

24 A. No, I did not.

25 MR. BLANC: No further questions.

1                   JUDGE PRIDGIN: Thank you. Any further  
2 cross from counsel?

3                   (No response.)

4                   JUDGE PRIDGIN: Questions from the Bench,  
5 Commissioner Murray?

6 QUESTIONS BY COMMISSIONER MURRAY:

7                   Q. Good morning, Ms. Schad.

8                   A. Good morning.

9                   Q. What made you decide that KCP&L's  
10 depreciation rates should be changed in this case rather  
11 than treated as they were in the regulatory plan  
12 Stipulation & Agreement?

13                  A. Well, to the basis that my decision as to  
14 do the study versus my -- I guess I would say that, as a  
15 depreciation employee, I take a look at what is the  
16 correct rates, when in the sense that you want to look at  
17 rates every so often to keep apace of changes and that  
18 kind of thing.

19                  So I was doing that in the context of what  
20 would be the proper rates versus the studies -- I'm  
21 sorry -- the regulatory plan's depreciation rates were  
22 something that I was not involved with. It was something  
23 that was part of a regulatory plan exhibit, I believe, but  
24 to my understanding wasn't something that we were using in  
25 this case.

1 Q. Okay. So did somebody direct you to do a  
2 depreciation study and change the recommendation from that  
3 Stip & Agreement?

4 A. Well, my only direction was to do the  
5 depreciation study. We didn't -- I mean, you don't know  
6 ahead of time what your rates are going to be, as far as I  
7 wasn't told to change the regulatory plan. I was just  
8 told to do the study.

9 Q. That it would be calculated in this rate  
10 case?

11 A. Yes.

12 Q. And who told you that?

13 A. Well, that comes through management.

14 Q. Name?

15 A. My division director, Rob Schallenberg.

16 Q. And was that -- was there any disagreement  
17 as to the fact that the depreciation study was to be done  
18 in this case, among the Staff I mean?

19 A. Well, I think that he mentioned it to us,  
20 and we were trying to look at -- you know, we didn't have  
21 the data, so we made a Data Request for it, but I believe  
22 that that was Bob's decision without -- without a concern  
23 there.

24 Q. You mean you didn't hear any Staff voice  
25 separate opinion?

1           A.       No.

2           Q.       Okay. Your schedule that you provided in  
3 your direct testimony, Schedule 2.2. Would you take it  
4 and then take Appendix G-1 from the Stipulation &  
5 Agreement in the regulatory plan. Do you have that with  
6 you?

7           A.       Yes.

8           Q.       Now, to make a comparison here, you have to  
9 look at the account numbers, put them side by side. Is  
10 that how you would do an accurate comparison of the  
11 depreciation -- the depreciation rates that are  
12 recommended by you -- I said Schedule 2.2, but what I mean  
13 is Schedule 1. No. Schedule 2, beginning with page 1.  
14 So if you look at Account 311, for example, the first one  
15 there, the depreciation rate which was in the regulatory  
16 plan just recently approved was 3.31 percent; is that  
17 correct?

18          A.       Correct.

19          Q.       And then you're recommending 1.87 percent  
20 for that account?

21          A.       Yes.

22          Q.       And you don't show on your schedule the  
23 average service life or net salvage amounts. Do you show  
24 those in your work papers somewhere?

25          A.       Well, I think on Schedule 3-1.

1           Q.       Okay. So average service life on that  
2 first account, No. 311, went from being treated as  
3 30.5 years to 60 years; is that correct?

4           A.       Correct.

5           Q.       And then you can look down the various  
6 accounts and see the changes in average service lives.  
7 What was the basis, for example, for -- let's look at one  
8 that didn't change significantly here. Account No. 315,  
9 accessory electric equipment. Well, that's got several  
10 parts to it, and I'm not sure how to distinguish what each  
11 one of those parts of Account No. 315 means. The first  
12 one says accessory electric equipment.

13          A.       Okay. That is the account overall. I  
14 believe the second one I tried to characterize my accounts  
15 in the same manner as they are in the regulatory plan  
16 Schedule G for purposes of being able to break out for the  
17 reconciliation purposes.

18          Q.       Okay. Here's one that is a little -- it's  
19 pretty confusing to me. If you look at accessory electric  
20 equipment computer, like 391, on both schedules?

21          A.       Correct.

22          Q.       And although it's a small plant balance  
23 there comparatively, it jumps from 18.4 average service  
24 life to 45. Now, what are we -- are we actually talking  
25 about computer equipment there?



1           A.       It's going to be like Account 391. My data  
2 didn't have it broken out that I look at in that manner.  
3 Here it's broken out that way so that the -- who's running  
4 the EMS run can do reconciliation. 391 would be a  
5 computer-like equipment, yes.

6           Q.       So when you say computer-like equipment,  
7 what are you talking about specifically?

8           A.       I would on that one say that there's  
9 probably some inner controls that act like a computer  
10 that's controlling some of the equipment in the plant.

11          Q.       And that kind of equipment is expected to  
12 have an average service life of 45 years?

13          A.       Well, again, since -- in my data that I  
14 have, I do not see those dollars separated. In the data  
15 that I receive, I do not have data to that level.

16          Q.       So how do you determine average service  
17 life?

18          A.       It is the dollars that are in the account,  
19 and they don't represent themselves as each of the  
20 different parts that can make up an account. They are an  
21 aggregate.

22          Q.       Is there weighting given depending upon the  
23 percentage of dollar value that each account contains in  
24 order to -- for example, there are like one, two, three --  
25 three parts to Account No. 315, and each one of those

1 parts has significantly different dollar value. Is there  
2 more weight given to the first part, which has the most  
3 significant dollar value, in determining an average?

4 A. No. No. Because I'm not seeing this data  
5 in my packet in such a manner as what we have here. We --  
6 the auditors can determine what dollars would be  
7 applicable to each of those sections. Let's say, like the  
8 Hawthorn 5 rebuild, they can -- they can see that that's  
9 the amount that is there. I cannot. So I'm not doing a  
10 weighting. I have a -- I have a --

11 Q. When you look at Account 315, what are you  
12 looking at to determine average service life?

13 A. I'm looking at dollars that are added to  
14 the account by year, and then there will be retirements to  
15 the account, again by vintage year. And we're looking at  
16 each age of one year and two year, three year, the  
17 percentage of survivors for each of those age categories  
18 to generate a survivor curve.

19 Q. And you're lumping all of that accessory  
20 electric equipment together?

21 A. Yes, it is altogether. My data does not  
22 delineate it out in the manner that we have presented  
23 here.

24 Q. And if you look at the depreciation and  
25 amortization rates in the Stipulation & Agreement versus

1 your depreciation rates -- and I'm going to go back to  
2 your Schedule 2 because it's a little easier for me put  
3 them side by side.

4 A. I guess I would add, if I could, when we  
5 see the Hawthorn 5 rebuild in my schedule and then in the  
6 Schedule G, in the Schedule G they're going to be a  
7 significant reduction, and that is an issue related to the  
8 subrogation proceeds and the insurance that went to  
9 salvage that I believe is covered by Staff witness Phil  
10 Williams.

11 Q. Okay. So take a look at Account No. 341,  
12 structures and improvements under total combustion  
13 turbines.

14 A. Okay.

15 Q. What does -- what is in that account?

16 A. Structures and improvements under other  
17 production plants? It's going to be your -- most likely  
18 buildings.

19 Q. Okay. And it showed a depreciation rate of  
20 4.12 percent on Appendix G-1?

21 A. Yes.

22 Q. And yours shows 4.12 percent; is that  
23 correct?

24 A. No, mine would not be.

25 Q. Am I looking at the right --

1           A.       Mine would be -- well, if we're not  
2 talking --

3           Q.       I'm sorry. I've got it backwards.

4           A.       If we're on the other CTs, I mean, this is  
5 referring to the combustion turbine account, structures  
6 and improvements. My rate is a 1.74.

7           Q.       Yes. I'm sorry. I stated it backwards.  
8 And can you summarize what would have been the significant  
9 difference there that caused your calculation to be so  
10 different?

11          A.       We're really seeing that the 24.3 average  
12 service life there for structures and improvement for a  
13 building is just a really short life relative to what the  
14 account's actually experiencing. It's probably more  
15 reasonable to expect that a building lasts 60 years on  
16 average than 24.3 years.

17          Q.       So that difference is really the result in  
18 the difference of the average service life?

19          A.       Yes, and -- but most of the dollars on the  
20 combustion turbines are in Account 344, where we're  
21 recommending a 35-year life for combustion turbines, which  
22 seems to be more reasonable than a 24.3 for a couple of  
23 reasons. The first might be like a manufacturer would  
24 probably warrant or provide warranty for a combustion  
25 turbine beyond 24.3 years, probably at a minimum of

1 30 years. And the second has to do with the fact that you  
2 have to look at the unit of property in that account.

3           So in an account, it may be a very large  
4 item that has to have been retired before you actually  
5 have retirement in the account. For example, I will  
6 change to a different type of account, but in the  
7 combustion -- I'm sorry -- in the turbine generator  
8 account, you may retire one or two statter bars or even  
9 several, but it doesn't constitute a retirement. You have  
10 to replace the whole statter.

11           So you have to also take into consideration  
12 that we're not -- we're not talking about small pieces  
13 here. It really gets into much larger units before we see  
14 retirement and see those dollars retire in the data that I  
15 receive. So for combustion turbines, we really feel that  
16 24.3 years is too short of an average service life for  
17 going forward.

18           Q.       And the turbine -- turbo generator units, I  
19 think you just referred to; is that right?

20           A.       Well, in making the example, I was  
21 referring to the turbo generator of a steam unit, but  
22 combustion turbine has a -- it's on Account 344.

23           Q.       And the nuclear production plants, there  
24 were no average service lives shown on the schedule on  
25 Appendix G-1; is that correct?

1           A.       There was not. That -- no. They did not  
2 show me one.

3           Q.       And Staff for all of those account  
4 categories showed 59 and a half years?

5           A.       Yes.

6           Q.       And how did you arrive at the 59 and a  
7 half?

8           A.       Well, currently the nuclear unit has a  
9 40-year license, and a 40-year ASL or average service life  
10 was used in the calculation at the time that it went into  
11 service for a 2.5 depreciation rate. When that operating  
12 life extension is expected to be granted and we go to a  
13 60-year life for the nuclear plant, I feel that, in  
14 essence, for the first 20 years we have accelerated that  
15 depreciation because we have at this point accrued for  
16 over half of the plant.

17                        So the next 40 years we have to use in the  
18 formula what is basically an 80 average service life so  
19 that we effect a 60-year life for the 60 years. And then  
20 I also allowed for a small amount of interim retirement  
21 and also interim cost of removal, but the interim cost of  
22 removal does not build into that 59.5.

23           Q.       So in other words, your calculations for  
24 total nuclear plant, even though you show an average  
25 service life of 59 and a half years, are based on

1 80 years in order to compensate for the fact that they  
2 were calculated on a 40-year average life previously?

3 A. Yes.

4 Q. And are there other areas in which you made  
5 adjustments to your average service life and used a higher  
6 number to compensate for the service lives having been  
7 shorter currently?

8 A. No.

9 Q. So why did you make -- why did you make  
10 that adjustment just for that account? And I'm not making  
11 myself clear here. Let me try to be a little more  
12 specific.

13 For example, some of the average service  
14 lives were changed from 30 to 60 percent. Now, if they  
15 had been treated at 30 years, why wouldn't you have then  
16 gone and actually calculated it based on 90 years?

17 A. Well, the Wolf Creek is a different entity.  
18 It is -- by law would have to be retired at 60 years, and  
19 that requires then to -- for you to treat it differently.  
20 It's not a -- it's not an ongoing facility like the steam  
21 generation would be.

22 Q. Okay. And that is why that account was  
23 treated differently?

24 A. Yes.

25 Q. Can you point to any one category or group

1 of accounts that account for the greatest difference  
2 between the way depreciation is currently treated and was  
3 in Appendix G versus how Staff is recommending that it be  
4 treated here?

5 A. Just as a first guess, I'm going to  
6 probably say the dollars of the steam generation in going  
7 from a 30-some year average service life to somewhere  
8 around 45.

9 Q. Okay. And now would you tell me what  
10 evidence that you are using to support moving from 30 to  
11 45 years?

12 A. The data that I received and that I  
13 analyzed was more representative of the 45 years for that  
14 group of plants, Accounts 311 to 316, than a 30-year  
15 average service life. That's -- so it's representative of  
16 the actual data that I received and looking at it on a  
17 retirement basis.

18 Q. And where did you get the data?

19 A. From KCPL.

20 Q. And where can we look at that data, or can  
21 we?

22 A. Yes, my work papers -- well, the work  
23 papers would include the data, and it's the results of the  
24 study.

25 Q. And what do you -- what factors do you



1 analyze to determine the average service life?

2 A. Well, in addition to the analytical or the  
3 statistical methods, I'm also looking at how units are  
4 retired, again, when I mention that they're not small  
5 pieces of the plant, but they're large items in the  
6 retirement. Also looking at how the companies may spend  
7 money, like large amounts of money in order to keep those  
8 pieces improved and actually not retiring them, looking at  
9 what other Missouri regulated utilities might have for  
10 average service lives.

11 Q. Comparing the same types of accounts,  
12 correct?

13 A. Right. I'll just glance at it, but it's  
14 just -- that's something that occurs at the end after I've  
15 really taken a look at most of the other major factors.

16 Q. And those major factors include how the  
17 company's spending money to improve facilities versus  
18 retiring, and what else?

19 A. Again, the actual output of the statistical  
20 software that we use.

21 Q. What is that software?

22 A. Again, Fleming depreciation software.

23 Q. And is that a software that is used,  
24 generally accepted software for --

25 A. It's one of several. I believe the company

1 has a different software package.

2 Q. And does the company's software package  
3 take the same data and come out with a different result?

4 A. It depends. Yes and no. I saw especially  
5 in looking at the general accounts transmission  
6 distribution was data that would have been the same except  
7 for one year, but considerable difference in what I was  
8 seeing as output between the two softwares.

9 In general, I'm going to see -- I believe  
10 that I in reviewing it, especially on the production  
11 plant, I did not see a lot of differences in the output,  
12 but maybe in the selection of what he chose to use in the  
13 depreciation study. And again that's not reflected in the  
14 schedule. They filed a depreciation study almost  
15 simultaneously with this Report and Order on the  
16 Stipulation & Agreement, but they did not use their  
17 depreciation study.

18 Q. So the outcomes might be fairly close if  
19 the inputs were the same; is that correct?

20 A. Correct. They might be.

21 Q. And --

22 A. But the choice is -- what we saw was that  
23 choices that the analysts make once the software creates  
24 its output still leaves a lot of judgment for the analyst  
25 to make their decision.

1           Q.       And tell me what some of those judgments  
2 would be where the company and Staff would likely differ.  
3 These are discretionary determinations, I'm assuming,  
4 based upon a philosophy or a goal or an acceptance of  
5 certain principles?

6           A.       I think I can -- yeah. The one account I  
7 looked at, both software packages that showed a 70-some  
8 year service life was the best average service life  
9 statistically. My software package in looking at that  
10 wasn't looking at any better than, let's say, like a  
11 55 average service life. In the account that I looked at  
12 that the company reviewed, they chose a 40-some year  
13 average service life.

14                       So I'm not for sure, you know, I don't know  
15 what would have made his selection be so much different  
16 than what his software was presenting. On that same  
17 account, it was given that the, like, the average service  
18 life that was the best with the software being 70 some, I  
19 went with a 60-year average service life. It wasn't the  
20 shortest that I had, which maybe was 55, but in looking at  
21 that and the factors that -- how the data was falling with  
22 the over time as survival, it looked like 70 was  
23 excessive.

24                       So I'm not trying to go out there and get  
25 the most conservative number. I'm trying to look at how

1 is the data really being represented by its retirement.

2 Q. Now, you'd only be talking about a certain  
3 kind of account there that the software said 77 as a  
4 service life?

5 A. That was an account, yes.

6 Q. Okay. So every service life is one area in  
7 which the analyst applies judgment. What are other areas?

8 A. Well, the other areas is on the accrual of  
9 a cost of removal. If -- how you want to do an average,  
10 if you want to take the five year or ten year, you have to  
11 take into consideration is there a trend going on and if  
12 that needs to be taken into consideration. So you needed  
13 to kind of see not only the magnitude but the direction.

14 Q. And you attempt to base your average on  
15 what you've seen in the past in terms of to try to make it  
16 as close as possible to what's actually happened; is that  
17 right?

18 A. Well, sometimes you have to make some  
19 judgment calls. There might be some outliers, there might  
20 be some years where you have retirement costs but the  
21 company has no retirement dollars, so that based on how we  
22 do the calculation of the accrual, that that number is  
23 calculated of the cost of removal or the net salvage  
24 relative to the dollars retired that year. If you have no  
25 dollars retired that year, that causes a problem in

1 calculating it.

2                   So you need to take into those  
3 considerations that sometimes how they book the data from  
4 their -- maybe their accountants that you got bunched up  
5 all into one year, so you kind of just need to see how  
6 your data's been presented to you and make the best call  
7 for how to handle that, and then what's as close as you  
8 can to a good average for those years.

9           Q.       Okay. What's another area in which the  
10 analyst applies judgment?

11          A.       I believe that would encompass most of the  
12 areas.

13          Q.       So we're talking about average service life  
14 and accrual of cost of removal?

15          A.       Right. And then some policy evidence  
16 Mr. Frerking brought about whether you use life span  
17 method or not, those are some other considerations that  
18 one would take into account.

19          Q.       And is there any disagreement between the  
20 Staff and the company in this case in terms of the life  
21 span method or, if so, would you elaborate?

22          A.       Yes. I believe the company would feel it's  
23 constituted to be using a life span method. The Staff has  
24 been treating those production accounts as mass property  
25 accounts for purposes of the depreciation study with the

1 consideration that a final retirement date has not been  
2 provided by the company for any of the generation units.

3 Q. Are we only talking about generation units?

4 A. Those would be the only accounts that would  
5 be in consideration for the life span, yes.

6 Q. And what is the other direction that the  
7 analyst could choose, other than the life span method?  
8 What are the other directions? Let's put it that way.

9 A. It would be to do as Staff did, to look at  
10 each account as if it was an ongoing account with  
11 properties being added and properties being retired.

12 Q. And this is assuming -- this is not  
13 assuming any life span for that particular property, it's  
14 assuming -- I mean, is it, in fact, assuming that it's  
15 never going to retire?

16 A. No.

17 Q. So what is it assuming as to a life --  
18 well --

19 A. Well, I mean, I guess it would be hard to  
20 incorporate that because you have other alternatives that  
21 could happen at the time of its no longer providing  
22 service. They could take the units and sell them to  
23 another entity. They could, as they've done at Grand  
24 Avenue facility --

25 Q. Let me stop you there. Wouldn't that be a

1 positive net salvage if a unit were retired and then were  
2 sold?

3 A. Well, I'm working with the average service  
4 life here. I mean, as I'm looking at the account today, I  
5 can't tell what might happen to it at some future point  
6 into the future as far as -- I guess I was trying to  
7 answer the question, will it never be retired. I'm not  
8 going to be able to say that.

9 Q. I'm just asking what it is you're assuming  
10 in the judgment that you're making in the way you treat  
11 it.

12 A. Okay. I'm treating it as an on-- the  
13 account, and the account is all -- like, let's say,  
14 Account 312. That's boiler plant equipment for the  
15 company wide. It's not any specific unit. So I'm -- I'm  
16 contemplating that those are ongoing dollars, additions  
17 and retirement.

18 Q. And you're not assuming any average life  
19 span; is that right?

20 A. I'm not assuming that Account 312 would  
21 expire at year 2010 or 2020.

22 Q. On your Schedule 3-1, you show  
23 Account No. 312 as having a 45-year average life span --

24 A. Yes.

25 Q. -- is that right?

1                   So I'm confused about what you mean that  
2 you're not assuming a particular time for retirement.

3           A.       If I was to say I was using a life span  
4 method and there was an account that was going to retire  
5 in 2010, the process would provide different depreciation  
6 than treating it as a mass property account.

7           Q.       Okay. Explain, please, or define matched  
8 property.

9           A.       Or masked property.

10          Q.       Masked. I'm sorry.

11          A.       Masked property would be considered a pole  
12 account where there's dollars coming in for poles are  
13 being added and there's each year dollars being retired,  
14 versus a life span, if you had a building and I said it  
15 was going to retire in the year 2010, in the year 2009,  
16 2009, if you added a new roof, that roof would -- which  
17 could be itself a masked property account because it's  
18 like a pole, it's being added, it would only live that one  
19 year.

20          Q.       So it would be a masked property?

21          A.       The roof would be, but the building would  
22 be a life span. So even though you added a new roof or  
23 you added a new air conditioner in 2009, it is going to be  
24 retired in the year 2010, then those units would retire  
25 even after one year of service.



1 Q. Okay. And your Account No. 312, this is  
2 the one you're talking about treating as masked property?

3 A. Yes.

4 Q. And the company's position on Account  
5 No. 312 differs from yours and the company says it should  
6 be treated how?

7 A. As a life span.

8 Q. So that it should all be rolled into the --

9 A. To utilize the life span, you have to  
10 provide a date certain that it would retire.

11 Q. All right. And why are you in your  
12 analysis including in this 45-year life span average life?

13 A. Okay. I'm looking at the dollars coming in  
14 and retiring as if it was the roof on that building or as  
15 if it was a pole. A boiler plant masked property is not  
16 looking at a date certain for all units within the account  
17 to come to expiration.

18 Q. That they will come to expiration various  
19 times within the 45 years, is that --

20 A. Well, they will, and then of those  
21 different times that they come to retire, 45 is the  
22 average of those --

23 Q. Okay.

24 A. -- lives.

25 Q. Somehow depreciation never seems to get

1 easier.

2 A. I'm sorry.

3 Q. It's not your fault.

4 COMMISSIONER MURRAY: All right. I think  
5 that's all I have. Thank you.

6 JUDGE PRIDGIN: Commissioner Murray, thank  
7 you. Commissioner Appling?

8 QUESTIONS BY COMMISSIONER APPLING:

9 Q. Good morning.

10 A. Good morning.

11 Q. I just have one question, really not a  
12 question, but Don was a little critical of you and your  
13 method of your depreciation. I just wanted to make sure I  
14 offered you a chance if you would like to speak to that  
15 while you're here. If not, that's fine, too. Is there  
16 any comments you'd like to make about that?

17 A. Well, he's -- as an analyst, we have two  
18 different approaches. So I think that's -- you know, it's  
19 a criticism that my approach is different or certainly  
20 it's been an ongoing approach here by Staff.

21 COMMISSIONER APPLING: Okay. Thank you,  
22 Judge. That's all I have.

23 JUDGE PRIDGIN: Commissioner, thank you. I  
24 have no questions for this witness. Any recross?

25 MR. BLANC: No, your Honor.

1 JUDGE PRIDGIN: Redirect?

2 MR. THOMPSON: No, your Honor.

3 JUDGE PRIDGIN: All right. Thank you. May  
4 this witness be excused on this issue? I don't know if  
5 she has any other issues.

6 MR. THOMPSON: She's done.

7 JUDGE PRIDGIN: Okay. Thank you.  
8 Ms. Schad, thank you very much.

9 Because the parties have already arranged a  
10 conference call on rate design, this looks to be the  
11 perfect time to adjourn, and I do plan on adjourning for  
12 the day since I understand this conference call may take  
13 some time and the parties aren't reasonably ready to go  
14 forward with any more witnesses today, and I'm seeing some  
15 heads nodding. Is that everyone's understanding?

16 MR. THOMPSON: Yes, your Honor.

17 JUDGE PRIDGIN: All right. As far as  
18 tomorrow, I understand that we would have some  
19 jurisdictional allocation witnesses, and that would be  
20 Mr. Giles, Mr. Frerking, Ms. Maloney to begin the morning.  
21 Is that everyone's understanding?

22 MR. BLANC: KCPL would like to confirm that  
23 Staff witnesses Featherstone and Mantle are also  
24 available. They were on the original witness list and  
25 just were omitted from the revised procedural schedule.

1 MR. THOMPSON: As far as I know.

2 MR. PHILLIPS: Judge Pridgin, we would also  
3 have Mr. Dittmer available at ten on that as it relates to  
4 the unused energy allocator.

5 JUDGE PRIDGIN: So he would be available  
6 beginning at ten in the morning on jurisdictional  
7 allocation?

8 MR. PHILLIPS: Yes. And if you're in that,  
9 he could also stand cross on the pricing issue.

10 JUDGE PRIDGIN: Okay.

11 MR. STEINER: That may not work with KCPL.  
12 We may have to do him next week on that. It will be 10 to  
13 15 minutes.

14 MR. PHILLIPS: That will be fine.

15 JUDGE PRIDGIN: I'm looking for a way to  
16 fill up as much of tomorrow as I can, and that may be  
17 something that counsel want to discuss off the record.  
18 Looking at the original issues list orders of  
19 cross-examination, when I look at Monday, it looks like  
20 we're going to be handling jurisdictional allocations on  
21 Friday instead of Monday, and now I'm looking at  
22 off-system sales and it looks like some of those same  
23 witnesses would testify on off-system sales: Mr. Giles,  
24 Mr. Frerking, Mr. Featherstone, Ms. Maloney.

25 And I at least want to alert the parties

1 that we may go that direction at least partially,  
2 depending on how quickly things go on jurisdictional  
3 allocation. I'm always free to take suggestions from  
4 counsel, but I do want to continue going forward as much  
5 as we can, since we took yesterday off the bench and  
6 taking about a half day off the bench today, and I want to  
7 keep things moving as quickly as I can.

8                   Is there anything else from counsel before  
9 we adjourn for the day? Mr. Fischer?

10                   MR. FISCHER: Well, Judge, I just would  
11 note, I think our off-system sales outside consultant Mike  
12 Schnitzer is not available until Wednesday, the 25th. I  
13 might also alert the parties that I have received an  
14 e-mail from counsel from Jackson -- excuse me -- from  
15 Kansas City, Missouri, indicating that Mr. Jackson is not  
16 available any earlier than the 27th on the weatherization  
17 issue. He's out of town in Washington and would not be  
18 available.

19                   Anita Randolph, however, would be available  
20 earlier, but I'm not sure it makes sense to take -- to  
21 take her on a different day than Mr. Jackson.

22                   JUDGE PRIDGIN: Mr. Fischer, thanks for  
23 that update. Again, I don't want to cause any undue  
24 burden on out-of-town witnesses. I'm simply talking about  
25 maybe having to move things around for Staff witnesses,

1 OPC witnesses and KCPL witnesses who are within the state.

2 Anything else from counsel before we go off the record?

3 (No response.)

4 JUDGE PRIDGIN: All right. Hearing  
5 nothing, we will adjourn this hearing. We will reconvene  
6 tomorrow morning at 8:30, and we will begin with  
7 jurisdictional allocation witnesses. Unless counsel wish  
8 otherwise, we'll put Mr. Giles on the stand first.

9 (No response.)

10 JUDGE PRIDGIN: Okay. Seeing no objection,  
11 thank you very much. We're adjourned for the day and off  
12 the record.

13 WHEREUPON, the hearing of this case was  
14 recessed until October 20, 2006.

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I N D E X

FUEL AND PURCHASED POWER, SURFACE TRANSPORTATION BOARD  
LITIGATION, JURISDICTIONAL ALLOCATION, OFF-SYSTEM SALES

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DEPRECIATION

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C E R T I F I C A T E

STATE OF MISSOURI            )  
                                  ) ss.  
COUNTY OF COLE             )

I, Kellene K. Feddersen, Certified

Shorthand Reporter with the firm of Midwest Litigation  
Services, and Notary Public within and for the State of  
Missouri, do hereby certify that I was personally present  
at the proceedings had in the above-entitled cause at the  
time and place set forth in the caption sheet thereof;  
that I then and there took down in Stenotype the  
proceedings had; and that the foregoing is a full, true  
and correct transcript of such Stenotype notes so made at  
such time and place.

Given at my office in the City of  
Jefferson, County of Cole, State of Missouri.

\_\_\_\_\_  
Kellene K. Feddersen, RPR, CSR, CCR  
Notary Public (County of Cole)  
My commission expires March 28, 2009.