

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

October 1, 2007
Jefferson City, Missouri
Volume 5

In the Matter of the Application)
of Kansas City Power & Light)
Company for Approval to Make)Case No. ER-2007-0291
Certain Changes in its Charges for)
Electric Service to Implement its)
Regulatory Plan,)

RONALD D. PRIDGIN, Presiding
SENIOR REGULATORY LAW JUDGE

JEFF DAVIS, Chairman,
CONNIE MURRAY,
TERRY JARRETT,
ROBERT M. CLAYTON, III,
LINWARD "LIN" APPLING

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1 P R O C E E D I N G S

2 JUDGE PRIDGIN: All right. Good morning. We
3 are on the record. This is the beginning of the hearing
4 in Case No. ER-2007-0291 in the matter of the application
5 of Kansas City Power & Light Company for approval to make
6 certain changes in its charges for electric service to
7 implement its regulatory plan.

8 I am Ron Pridgin. I'm the Regulatory Law Judge
9 assigned to preside over this hearing beginning on October
10 1st, 2007. The time is approximately 9:20 in the morning.
11 I would like to begin with entries of appearance from
12 counsel, beginning with Kansas City Power & Light, please.

13 MR. FISCHER: Your Honor, let the record reflect
14 the appearance of James M. Fischer, Bill Riggins, Karl
15 Zobrist, Roger Steiner and Curtis Blanc appearing on
16 behalf of the company. Our address and mailing
17 information is -- have been submitted to the court
18 reporter in written form.

19 JUDGE PRIDGIN: Mr. Fischer, thank you.
20 On behalf of the Staff of the Commission, please?

21 MR. THOMPSON: Thank you, Judge. Kevin
22 Thompson, Steve Dottheim, Nathan Williams, Sarah
23 Kliethermis for the Staff of the Missouri Public Service
24 Commission, Post Office Box 360, Jefferson City, Missouri,
25 65102.

1 JUDGE PRIDGIN: Mr. Thompson, thank you. On
2 behalf of the Office of Public Counsel, please.

3 MR. MILLS: Appearing for Public Counsel's
4 Office and the public, my name is Lewis Mills. My address
5 is Post Office Box 2230, Jefferson City, Missouri, 65102.

6 JUDGE PRIDGIN: Mr. Mills, thank you. On behalf
7 of the Ford Motor Company, please? No entry. On behalf
8 of Missouri Industrial Energy Consumers, please? No
9 entry. On behalf of Praxair, please?

10 MR. CONRAD: Yes, your Honor. Stuart W.
11 Conrad, Law Firm of Finnegan, Conrad & Peterson. We also
12 have provided the court reporter with the address and
13 information.

14 JUDGE PRIDGIN: Mr. Conrad, thank you. On
15 behalf of Pershing Road Development Company, please? No
16 entry. On behalf of Trigen-Kansas City, please?

17 MR. KEEVIL: Yes, your Honor. Appearing on
18 behalf of Trigen, Jeffrey A. Keevil of the law firm of
19 Stewart & Keevil, LLC, 4603 John Garry Drive, Suite 11,
20 Columbia, Missouri, 65203.

21 JUDGE PRIDGIN: Mr. Keevil, thank you. On
22 behalf of the United States Department of Energy, please?

23 MR. BRUDER: Thank you, Judge. For the United
24 States Department of Energy, Louis Campbell and Arthur
25 Perry Bruder, 1000 Independence Avenue, Washington D.C.

1 JUDGE PRIDGIN: All right. Mr. Bruder, thank
2 you. And if I'm not mistaken, Mr. Bruder, you have a
3 motion for pro hac vice pending; is that correct?

4 MR. BRUDER: Yes, sir.

5 JUDGE PRIDGIN: Any objection from counsel?

6 MR. THOMPSON: No objection.

7 JUDGE PRIDGIN: By hearing none, that motion is
8 granted. Mr. Bruder, thank you.

9 On behalf of the Missouri Department of Natural
10 Resources, please.

11 MS. WOODS: On behalf of Missouri Department of
12 Natural Resources, Shelley Woods and Jessica Bloom,
13 Missouri Attorney General's Office, Post Office Box 899,
14 Jefferson City, Missouri, 65102.

15 JUDGE PRIDGIN: Ms. Woods, thank you. On behalf
16 of the City of Kansas City Missouri, please?

17 MR. COMLEY: Thank you, Judge Pridgin. On
18 behalf of the City of Kansas City, Missouri, let the
19 record reflect the entry of Mark W. Comley, Newman, Comley
20 & Ruth, 601 Monroe Street, Jefferson City, Missouri,
21 65101.

22 JUDGE PRIDGIN: Mr. Comley, thank you. On
23 behalf of the Missouri Joint Municipal Electrical
24 Commission, please? No entry.

25 On behalf of Empire, please?

1 MS. CARTER: Diana Carter, Brydon, Swearngen &
2 England, PC. The court reporter has the address.

3 JUDGE PRIDGIN: Ms. Carter, thank you. On
4 behalf of Aquila, please?

5 MS. CARTER: I'm appearing here for Empire,
6 Aquila and Missouri Gas Energy.

7 JUDGE PRIDGIN: Ms. Carter, thank you. I don't
8 think I missed anyone. Have I overlooked anyone?

9 All right. Anything else counsel would like to
10 bring to my attention before we proceed to opening
11 statements?

12 All right. Hearing nothing, I have a list of
13 issues, order of witnesses and order of cross-examination
14 that I believe the Staff of the commission filed. And I
15 plan on following the list of -- that list as far as
16 opening statements.

17 So, Mr. Fischer, will you be giving the opening
18 for the company?

19 MR. FISCHER: Yes, your Honor.

20 JUDGE PRIDGIN: All right. Whenever you're
21 ready, sir.

22 OPENING STATEMENT

23 BY MR. FISCHER:

24 MR. FISCHER: Good morning. Good morning. My
25 name is Jim Fischer, and I'm representing Kansas City

1 Power & Light in this proceeding. Also with me today is
2 the company's General Counsel, Bill Riggins, who is
3 sitting at my left at the counsel table. Carl Zobrist
4 will also be appearing, I think tomorrow, and Roger
5 Steiner and Curtis Blanc will also be appearing a little
6 bit later in the proceedings.

7 This is Kansas City Power & Light's second of
8 four rate cases that are contemplated by the Kansas City
9 Power & Light regulatory plan that was approved by the
10 Commission in Case EO-2007-0329.

11 Each planned rate case is related to completion
12 of a major component of that regulatory plan. For
13 example, the first rate case, which was ER-2006-0314 --
14 and I'm going to just refer to that as the 2006 rate case
15 to shorthand that.

16 That rate case included the construction of 100
17 megawatts of wind generation that was completed in
18 September of 2006. A total of 67 wind turbines were
19 placed in service ahead of schedule and within budget.

20 The Commission's rate order in that particular
21 case, the 2006 case, was constructive and allowed KCPL to
22 progress on schedule toward the completion of the
23 remaining goals of the regulatory plan.

24 In particular, the Commission's decision on rate
25 of return on equity, granting an ROE of 11 and a quarter

1 percent, setting the off-system sales margin level at the
2 25th percentile with the establishment of an appropriate
3 tracking mechanism, the use of the additional amortization
4 mechanism to maintain KCPL's investment grade rating and
5 the Commission's decisions on several of the accounting
6 issues were helpful in allowing KCPL to continue to -- to
7 complete the first phase of the regulatory plan.

8 KCPL believes the Commission generally struck an
9 appropriate balance on the financial and rate-making
10 issues in the 2006 rate case. And recognizing the
11 constructive nature of the Commission's decision in that
12 rate case, KCPL has largely adopted the approaches on the
13 major issues that the Commission took in that case.

14 For example, KCPL filed its case using the
15 Commission's approved ROE from the last case. KCPL is
16 requesting the continuation of the 11 and quarter ROE in
17 this proceeding.

18 While this return may be higher than the ROEs
19 granted in other cases by the Commission, it is an
20 appropriate ROE for a mid-sized electric company like
21 Kansas City Power & Light that has embarked upon a huge
22 investment program and construction program that was
23 contemplated in the regulatory plan while also maintaining
24 in the financial metrics to maintain its investment grade
25 rating.

1 In addition, KCPL is advocating the continued
2 use in this case of the off-system sales level at the 25th
3 percentile level. Commission Staff is also recommending
4 the continued use of that tracking mechanism as it was
5 established in the last case.

6 Now, on the off-system sales issue, the
7 company's actual experience in the off-system sales market
8 during the past year has demonstrated the wisdom of the
9 Commission's decision in that case.

10 As the Commission knows, natural gas prices have
11 plummeted during the last year. As a result, the prices
12 for wholesale electric power and KCPL's off-system sales
13 levels have also dramatically declined.

14 As Chris Giles explains in his rebuttal
15 testimony, which includes the actual AC numbers on our
16 off-system sales, KCPL is unlikely to achieve even the
17 off-system sales margin at the 25th percentile level this
18 year.

19 Had the Commission included the off-system sales
20 margin at the 50th percentile level of the revenue
21 requirement as had been advocated by some parties to that
22 case, KCPL would have fallen substantially short of that
23 level of -- of achieving that level in off-system sales.

24 As this past year has proven, had the off-system
25 sales level been at the fifth percentile or even the

1 fourth percentile as I think Public Counsel and DOE may be
2 suggesting in this case, KCPL would not have achieved that
3 level, and KCPL's financial metrics would have fallen
4 below investment grade rating.

5 I -- if you have questions regarding KCPL's
6 actual experience and would like more updated information,
7 I'd encourage you to ask Chris Giles who is going to be on
8 the stand in this case. He has very current information
9 and can tell you about our off-system sales experience.

10 Before I discuss some of the specific issues in
11 this case, I'd like to also give you a brief status report
12 on the investments and financings related to the
13 regulatory plan.

14 As I mentioned, the wind farm generation near
15 Spearville, Kansas, was completed in September of 2006.
16 An additional 100 megawatts of new wind generation
17 facilities is currently being evaluated for installation
18 in 2008.

19 KCPL has performed a detailed evaluation and
20 believes that we should go forward on that project.
21 However, we're also soliciting input from the interested
22 parties in the signatory parties to the regulatory plan.

23 The emission control equipment known as
24 selective catalytic reduction equipment, Appleseen (ph.)
25 Unit 1 was placed in service on schedule and within budget

1 in May of 2007. Work is well underway on the
2 environmental upgrades of IATAN I and on the construction
3 of the coal-fired plant known as IATAN II.

4 The IATAN II project team has substantially
5 completed the procurement effort of the direct cost items.
6 The chimney shell has been erected and various critical
7 foundations have been completed and turned over to the
8 contractors for construction start-up. So we're making
9 good progress.

10 Since the approval of the regulatory plan, KCPL
11 has conducted a pilot inventory of its overhead
12 distribution system and it's completed a variety of the
13 projects designed to improve system reliability.

14 A full distribution system assessment is
15 scheduled to be completed by the end of 2008. The
16 objectives of that -- that particular effort is to improve
17 -- well, it's -- well, we call it the asset management and
18 distribution automation infrastructure investment program.

19 What we're trying to do there is to mitigate the
20 risk of major outages, minimize what's called the system
21 average interruption duration index or what's called
22 SAIDI, what's a common reliability metric for distribution
23 systems generally, and minimizing the number of customers
24 with multiple interruptions.

25 With regard to customer programs, KCPL has

1 implemented two affordability programs, seven energy
2 efficiency programs and two demand response programs
3 contemplated by the regulatory plan.

4 Since the conclusion of the last rate case, KCPL
5 has also entered into a ground breaking agreement with the
6 Sierra Club and the Concerned Citizens of Platte County,
7 including a set of initiatives to off-set carbon dioxide
8 and reduce the emissions of KCPL.

9 Under this agreement, KCPL agreed, subject to
10 regulatory approval, to pursue off-sets for all of the
11 carbon emissions associated with its new plant through
12 significant investments and energy efficiency and
13 renewable energy and cut emissions of its existing plants
14 in order to improve the air quality of the greater Kansas
15 City metropolitan area.

16 The Sierra Club and Concerned Citizens have also
17 dismissed their appeals of the Commission's decision in
18 the regulatory plan case, having resolved its issues with
19 KCPL, and the regulatory plan decision now stands as
20 approved by the Commission.

21 Working with the signatory parties to the
22 regulatory plan stipulation, KCPL has implemented nine new
23 customer programs related to weatherization and energy
24 efficiency.

25 KCPL is particularly excited about the

1 enthusiasm in the Kansas City community for this effort as
2 was recently evidenced by the attendance of nearly 500
3 community leaders at the energy efficiency forum held on
4 September 14th at the Bartle Convention Center in downtown
5 Kansas City.

6 KCPL is continuing its collaborative issue with
7 the Sierra Club, AARP, Mid-America Regional Counsel and a
8 variety of community groups to promote investments in
9 energy efficiency.

10 We believe that such collaborative efforts are
11 critical to KCPL's success, and we want to continue to
12 work with interested parties to maximize the savings
13 related to energy efficiency programs.

14 While these programs help customers improve
15 their own efficiency, they also help KCPL improve its
16 efficiency. As the Commission recognized in the 2006 rate
17 case, KCPL is already ranked the top pertile nationally
18 and most operational benchmarks. But KCPL wants to
19 continue to improve its performance.

20 Another critical element relates to financing of
21 these projects. Since the last rate case, Great Plains
22 Energy, KCPL's parents, has been successful in issuing
23 over \$400 million of debt and equity.

24 When market conditions are favorable, GPE is
25 anticipating issuing substantial amounts of hybrid

1 securities which will be used to finance the continuing
2 obligations contained in the regulatory plan.

3 As I mentioned earlier, this is the second of
4 four potential rate cases contemplated by the stipulation
5 and agreement that was approved in the regulatory plan.
6 In this case, the company initially requested a
7 \$45.4 million rate increase or approximately an 8.3
8 increase in rates -- 8.3 percent increase in rates.

9 Like the last case, this is a unique case
10 because the rates will only be in effect for a little more
11 than a year. The financial requirements supporting the
12 regulatory plan will require another rate case to be filed
13 next year with rates to be effective in the spring of
14 2009.

15 Now, from KCPL's perspective, the critical task
16 of the Commission again in this case is to appropriately
17 balance the interests of customers, shareholders and
18 bondholders.

19 We believe that the Commission largely
20 accomplished this goal in the last rate case, and we hope
21 the Commission will continue the course charted in the
22 2006 rate case.

23 Two major factors that are unique to KCPL among
24 Missouri electric utilities were carefully considered by
25 the Commission in the 2006 rate case, and we believe they

1 should again be considered in this case.

2 First, the company -- the Commission should take
3 into account the company's multi-million dollar
4 construction projects, including the coal-fired unit at
5 IATAN II, new wind generation and numerous environmental
6 upgrades that will require KCPL to generate -- will
7 require KCPL to generate sufficient cash earnings to
8 finance these construction projects and also stay
9 investment grade rated.

10 Second, the Commission should continue to take
11 into account KCPL's risk and uncertainty related to the
12 off-system sales market. We believe the Commission
13 understood this substantial risk in the 2006 rate case and
14 has developed an appropriate mechanism for managing it.

15 The Commission should adopt the Staff and KCPL's
16 recommendations on the off-system sales issue and, again,
17 set the level at the 25th percentile level and
18 appropriately track it as was done in the last case.

19 As I indicated earlier, KCPL is seeking a rate
20 of return on equity of 11 and quarter percent on this
21 case. The ROE in this case should be set at a level
22 sufficient to generate sufficient cash earnings for the
23 company to be able to finance its construction projects
24 independent of other mechanisms like the regulatory
25 amortization that was approved by the Commission in the

1 regulatory plan stipulation.

2 As the Commission knows, the regulatory plan
3 amortization is similar to accelerated depreciation. It's
4 a non-cash item that generates book depreciation expenses
5 that is included in rates.

6 Eventually, the amortization will be used as an
7 off-set or reduction to KCPL's rate base in future cases.
8 This regulatory plan amortization is intended to be used
9 as a means to maintain KCPL's credit metrics in the event
10 that the earnings and other cash flows that are determined
11 in a general rate case like this one fail to satisfy the
12 necessary financial ratios to ensure that KCPL's bonds
13 would maintain their investment grade rating.

14 The amortization is not a substitute for
15 earnings. The Commission recognized that fact in the 2006
16 rate case, and we believe it continues to keep this
17 critical factor in mind as it decides the issues in this
18 case.

19 If KCPL is to successfully complete its
20 comprehensive energy plan, the company needs real cash
21 earnings to attract equity investors as well as an
22 investment grade rating to attract creditors at reasonable
23 rates.

24 After compromising some of the issues in this
25 case, the company's case is now supporting a rate increase

1 of \$38 million or about 7 percent on rates.

2 According to the reconciliation that was filed
3 on Friday, the Staff is recommending a rate decrease of
4 \$10.25 million prior to the true-up, but is estimating
5 that the Staff's ultimate revenue requirement after the
6 true-up will be an increase of approximately
7 \$14.4 million. The rate increase is assuming a staff ROE
8 of only 9.72 percent.

9 Public Counsel is recommending, as I understand
10 it, a rate increase of approximately 6.5 percent -- or
11 excuse me -- \$6.5 million. And the United States
12 Department of Energy is recommending a rate increase of
13 13.6 million.

14 These recommendations are contained in the
15 revenue requirement reconciliation that was filed by Staff
16 on Friday, September 28th. Or was that Thursday? The key
17 factor in analyzing what should be a fair rate of return
18 for KCPL, in our opinion, is the large capital expenditure
19 program.

20 KCPL's construction program is one and a half
21 times as large as the comparable reference group used by
22 KCPL's cost of capital expert, Dr. Samuel Hadaway. This
23 higher construction level and the resulting higher capital
24 requirements cause KCPL's investors to face uncertainty
25 and, therefore, require a higher rate of return than is

1 required by the comparable reference group.

2 Dr. Hadaway estimated that the average cost of
3 equity for his reference group is 10.75 percent, and he'll
4 testify that KCPL's risk profiles justify an increase of
5 50 basis points for a total ROE of 11 and a quarter
6 percent.

7 We believe this ROE is needed to support the
8 company's large construction program as it continues to
9 embark upon a \$1.3 billion investment.

10 Now, there are two new accounting issues that I
11 want to bring to your attention. First, the cost of
12 removal income tax issue, which I believe is listed as
13 No. 8 on the list of issues. I don't want to spend a lot
14 of time on this one, but it is a very important issue.
15 It's a technical issue that involves something known as
16 flow-through versus normalization of tax timing
17 differences.

18 If the Staff wins this issue and if KCPL is not
19 allowed to recover the prior benefits from the use of
20 flow-through accounting, then KCPL would be required to
21 write off approximately \$7.9 million.

22 However, the revenue requirement itself related
23 to this issue only goes down by about a million dollars
24 if the Staff's proposal is adopted.

25 Similarly, the Wolfe Creek refueling outage cost

1 issue could have a significant adverse impact on the
2 company's earnings. Staff wants KCPL to remain on an old
3 accounting method for rate-making purposes. The company
4 is recommending that it move to the new accounting method,
5 which is a better method in our perspective.

6 We would request that the Commission reject the
7 Staff's adjustment on that particular issue as well. As
8 we did in the last case, KCPL requests that the Commission
9 keep its eye on the big picture and recognize that it's
10 important to balance the interests in this case in a way
11 that maintains the financial wherewithal of KCPL to
12 continue to complete its comprehensive interview program.

13 Thank you very much for your attention today.
14 We greatly appreciate the Commission's interest in this
15 process and the interest in our company, Kansas City Power
16 & Light. We look forward to your questions and -- and
17 hope that you'll actively engage our witnesses.

18 And, Commissioner Jarrett, I -- if any of our
19 witnesses start using acronyms that aren't familiar,
20 please ask them to explain those because we've got a bad
21 habit in this arena of doing that. Thank you very much.

22 JUDGE PRIDGIN: Mr. Fischer, thank you. Before
23 I take opening from Staff, let me go through and, just in
24 the interest of time, and see if there are any counsel who
25 do not have an opening. I know some -- many parties

1 didn't sponsor any testimony.

2 Let me -- just so I don't have to call the roll
3 here in a moment -- or it might be faster. I'm sure Staff
4 and Public Counsel have opening statements. Other
5 counsels who would have opening? Okay.

6 MR. CONRAD: Your Honor, we had before you
7 convened on the record had a brief discussion, and the
8 summary of that discussion was that counsel would at least
9 have the opportunity to do opening statements now and then
10 a more targeted statement when we got to the issue.

11 JUDGE PRIDGIN: Yes, sir.

12 MR. CONRAD: And I understood that to be agreed
13 in view of that, and we would reserve until our issues are
14 before you.

15 JUDGE PRIDGIN: Yes, sir. That's fine. You can
16 certainly do both or wait until your issues come up.
17 That's certainly fine.

18 All right. Mr. Thompson, opening from Staff?

19 MR. THOMPSON: Thank you, your Honor.

20 OPENING STATEMENT

21 BY MR. THOMPSON:

22 MR. THOMPSON: May it please the Commission. My
23 name is Kevin Thompson, as I hope you know. I'm the
24 General Counsel of the Commission, and I very proudly
25 represent the Staff of the Commission in this rate case

1 today.

2 We have a very fine staff of dedicated and
3 hard-working specialists in a number of different areas,
4 and they have done an excellent job, in my opinion, of
5 putting this difficult case together.

6 Because we are doing topical openings before we
7 start each issue, I will not hit all of the issues that
8 Staff has a position on here. The primary issue is the
9 financing of the construction of IATAN II. That is what
10 is driving this case. That is what drove the regulatory
11 plan.

12 You've been told that there will be another case
13 in a year. You'll recall the regulatory plan, in fact,
14 contemplated a series of four rate cases. You understand
15 the mechanics of a rate case.

16 There are two parts. You determine the revenue
17 requirement, first of all. How much money does this
18 company need on a going-forward annual basis to operate?
19 That's based on an examination of its history. A test
20 year is chosen. Those transactions are normalized and
21 annualized so that they are thereby made predictive of the
22 future.

23 That revenue requirement consists of the prudent
24 and necessary operating and maintenance expenditures that
25 this company will have to make on a going forward basis.

1 To that, we add the opportunity, only the opportunity, of
2 realizing a reasonable return on the depreciated value of
3 the assets which have been devoted to the public service.

4 That second half is driven by the return on
5 equity, the ROE. As you know, the rate of return is
6 simply the weighted average capital costs of the company.
7 Most of those components are imbedded. They're
8 historical.

9 We can see what the historical cost of debt is.
10 We know what the historical cost of preferred securities
11 are. The only thing that has to be plucked out of the air
12 is the return on common equity.

13 Tomorrow, we will take up return on equity, and
14 I won't spend a lot of time on it here today other than to
15 point out that, last year, you gave this company the
16 highest return on common equity in the nation.

17 They're asking today that you set their return
18 on common equity at the same level, 11.25 percent. Staff
19 suggests that the goals and the projects outlined in the
20 regulatory plan can be met with a lower cost of common
21 equity.

22 Staff's expert, Matt Barnes, has suggested a
23 range between 9.14 percent to 10.3 with a mid point of
24 9.72. Yes, that is the lowest recommended common equity
25 figure that you're going to hear in this case. The one

1 sponsored by Public Counsel was higher.

2 But if you look at the reconciliation, you will
3 see that our case allows for a rate increase, a revenue
4 requirement increase of about \$14 and a half million
5 dollars on a going-forward basis whereas Public Counsel
6 suggests an increase of only 6 and a half million on a
7 going-forward basis.

8 IATAN II, that's what's driving this case. How
9 is it going to be financed? Think of a homeowner. Think
10 of a homeowner who wants to do some improvements to the
11 family home.

12 Now, the homeowner can go get a second mortgage
13 to do this. By getting a second, the homeowner is
14 essentially losing equity, losing ownership interest in
15 that house in order to raise cash to do whatever
16 improvement the homeowner contemplates.

17 The homeowner would much rather have a windfall
18 of free money with which to do that project, a big raise
19 at work, an inheritance, winning the lottery. It doesn't
20 matter where it comes from. Free money is what
21 Mr. Homeowner wants.

22 Well, that's what KCPL wants, too. They don't
23 want to fund IATAN II with these additional amortizations
24 because those are going to lower rate base. That's like
25 that second mortgage that most homeowners have to turn to

1 in order to do significant home improvement projects.
2 They would have to mortgage the future in order to build
3 IATAN II now, give up rate base for the future in order to
4 raise cash now to maintain their credit metrics.

5 They don't want to do that. They want the cake
6 and the icing. They want a windfall. They want money to
7 fall out of the sky so that they can go forward without
8 having to mortgage the future.

9 Staff suggests to you that the very, very
10 important projects that this Commission has approved in
11 the regulatory plan can be achieved without giving Kansas
12 City Power & Light the windfall. Thank you very much.

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

15 OPENING STATEMENT

16 BY MR. MILLS:

17 MR. MILLS: Good morning. May it please the
18 Commission. One of the first things you'll note from the
19 list of issues in the reconciliation in this case is that
20 there are not a lot of big dollar issues in this case.

21 Most of them are fairly routine accounting
22 issues worth a few hundred thousand dollars or less up to
23 about two and a half million dollars. In many cases,
24 return on equity is the biggest, but rarely does it
25 dominate a case as it does here.

1 Between the Staff and KCPL, return on equity is
2 worth about \$18 million. All of the other issues, at
3 least the ones that are not expected to be resolved in the
4 true-up, account for less than half that amount.

5 So ROE in case is -- is virtually in a class by
6 itself. It's more than twice what every other issue
7 combined it is worth. In this case, the Staff recommends
8 a 9.72 ROE.

9 The company, as Mr. Thompson pointed out, having
10 -- having been awarded the highest award in the country in
11 2006 wants to do it again. The company wants the 11.25
12 percent that it got in the last case to be continued in
13 this case.

14 Public Counsel witness, Michael Gorman, with
15 whom the Commission is very familiar, having found him the
16 most credible witness in several recent cases, recommended
17 a 10.1 percent ROE, very much in line with what the
18 Commission recently awarded both Union Electric and
19 Aquila, both at 10.2 and 10.25 percent.

20 Now, a related issue to the return on equity is
21 the company's capital structure. Capital structure is
22 frequently not an issue in this case because, in many
23 utilities, it's an actual number and you can look to see
24 what percentage equity and what percentage debt the
25 company has.

1 In this case, it is an issue. Public Counsel
2 has recommended a capital structure with about 45 percent
3 equity. That's based on actual numbers. Staff
4 recommended a capital structure with a whopping 66 percent
5 equity far out of alignment with industry norms and far
6 too much expense of equity in the mix to be prudent.

7 KCPL agreed with Public Counsel's capital
8 structure in its testimony. But the filed position
9 statement indicates that KCPL is moving toward a more
10 equity rich capital structure, somewhere in the
11 neighborhood of 57 percent equity. While this is not as
12 bad as KC -- as Staff's 66 percent, 57 percent is still
13 higher than it should be.

14 Now, since we're going to be doing mini openings
15 as we get to each issue, I'm just going to touch on a
16 couple issues this morning, those being off-systems sales
17 and rate design.

18 With respect to off-system sales, KCPL has
19 presented largely the same case that it did a year ago.
20 KCPL witness Schnitzer did a probability analysis and
21 urges you to set rates based on the 25th percentile as you
22 did last time, although Public Counsel continues to
23 believe that the fifth percentile is the only point on the
24 curve which is fair to both the interest of the
25 shareholder and ratepayers.

1 In recognition of the Commission's desire to
2 shift some risk from the shareholders and ratepayers, in
3 this case, Public Counsel has proposed that the rates be
4 set on -- at the 40th percentile.

5 The 40th percentile recognizes the Commission's
6 desire and accounts for it, but it is not as unfair to
7 ratepayers as going all the way down to the 25th
8 percentile. It tilts the balance in shareholders' favor,
9 but not as much as going to the 25th percentile.

10 And, also, with respect to off-system sales,
11 Public Counsel proposes to add interest to any other
12 collection over the 20th percentile -- 25th percentile
13 from the last case.

14 As the Commission will recall, the tracking and
15 refund proposal was not well-developed in Case Number
16 ER-2006-0314, and the Commission's report and order simply
17 said that any amounts over the 25th percentile would be
18 flowed back in the next case, that being this case.

19 But the details about how that is to happen were
20 missing, and that raises a couple of issues. First, it
21 won't really be possible in this case to flow back
22 revenues because we won't know before the case is over
23 whether or not KCPL exceeded the 25th percentile per
24 calendar year for 2007. This case will be over before we
25 have all that data.

1 And, second, the Commission's report and order
2 in EO-2006-0314 was silent about interest. It's
3 reasonable that interest should accrue if ratepayers are
4 overpaying. But the report and order was silent about how
5 interest was to be calculated.

6 In this case, Public Counsel has proposed that
7 the interest be set at prime plus one. And, in
8 particular, because there will be some lag between the
9 time in which ratepayers overpay on off-system -- on the
10 basis of off-system sales levels and when those are
11 actually flowed back, which will apparently be sometime
12 after this case has concluded, that lag makes the -- the
13 calculations of interest even more critical.

14 Then the last -- the last issue that I'm going
15 to touch on briefly this morning, and I'll be very brief
16 on this, is rate design. Public Counsel proposes no rate
17 design changes in this case and opposes to changes
18 proposed by other parties.

19 But because we won't be dealing with rate design
20 issues until next week, I'm going to reserve more detailed
21 remarks about the rate design issues until that time.
22 Thank you.

23 JUDGE PRIDGIN: All right. Mr. Mills, thank
24 you.

25 CHAIRMAN DAVIS: Judge, can I go back and ask

1 Mr. Mills just one or two quick questions?

2 JUDGE PRIDGIN: Certainly.

3 CHAIRMAN DAVIS: All right. Back to the capital
4 structure, Mr. Mills, I'm a little -- I'm a little fuzzy
5 on that. Are you advocating for a hypothetical capital
6 structure or an actual consolidated capital structure?

7 MR. MILLS: It is, I believe, an actual
8 consolidated structure with 45 percent equity, a little
9 over 1 percent short-term debt and the rest being
10 long-term debt.

11 CHAIRMAN DAVIS: Okay. And so how would you
12 characterize Staff and the company's position, then?

13 MR. MILLS: I'm not sure exactly what is driving
14 the company's position. I believe it may be actual, but
15 updated. And you can certainly ask Mr. Giles that.

16 CHAIRMAN DAVIS: Okay.

17 MR. MILLS: There is some testimony about what
18 they're doing.

19 CHAIRMAN DAVIS: Okay.

20 MR. MILLS: Staff's capital structure, I'm not
21 sure exactly how they got to the 66 percent equity.

22 CHAIRMAN DAVIS: All right. So if I -- if I
23 understand your position, you're going with the capital
24 structure that was filed on March 31st, 2007?

25 MR. MILLS: That's correct.

1 CHAIRMAN DAVIS: Okay. And what you -- when you
2 suspect Staff and the company are going to come in and
3 say, well, you know, there might have been some equity
4 issued in between, therefore, they're entitled that --
5 that benefit as part of the September 30th update -- I
6 don't want to put words in your mouth, but just --

7 MR. MILLS: I think -- I think that's going to
8 be KCPL's position. I'm not sure how Staff got their
9 capital structure.

10 CHAIRMAN DAVIS: Okay. Okay. That's -- that's
11 fair. And with regard to the -- the interest on retained
12 sales proceeds for -- for off-system sales, you know, I
13 believe it was -- it was Staff's opinion that customers
14 would, in essence, be paying that interest, so you --

15 MR. MILLS: That was --

16 JUDGE PRIDGIN: That was the issue -- that was
17 KCPL --

18 MR. MILLS: KCPL's position was that if you were
19 to award interest to customers in this case that they
20 would seek recovery of that expense in the next case, and
21 so it would be a wash.

22 And, certainly, that wouldn't -- if the
23 Commission took that view, there would really be no reason
24 to award interest. But in this case, I don't believe it's
25 appropriate that that interest flow through in the

1 rate-making calculation.

2 CHAIRMAN DAVIS: Right.

3 MR. MILLS: And that is because essentially
4 customers --

5 CHAIRMAN DAVIS: Money's going to be sitting
6 there, and so it ought to be accumulating interest.

7 MR. MILLS: Exactly. It's money that the
8 customers have paid in excess of what the Commission found
9 a reasonable rate at the 25th percentile, and the
10 customers will be out of those funds for some period of
11 time.

12 KCPL will have the advantage to use those for
13 whatever program it wants, and the customers should be
14 compensated.

15 CHAIRMAN DAVIS: Okay. Thank you, Mr. Mills.

16 MR. MILLS: Thank you.

17 JUDGE PRIDGIN: Mr. Chairman, thank you.
18 Mr. Mills, thank you. And not to preclude others from
19 making opening statements, I think Mr. Keevil and Ms.
20 Carter indicated interest in making openings now. And,
21 Mr. Conrad, you wished to make your opening later; is that
22 correct?

23 MR. CONRAD: Yeah. I'm kind of in a process of
24 a rethink on that. I might have maybe--

25 JUDGE PRIDGIN: I understand.

1 MR. CONRAD: -- a couple minutes more generic
2 when you get to me.

3 JUDGE PRIDGIN: I understand. Are there other
4 counsel who wish to make openings at this time? All
5 right. Mr. Conrad, if you're ready?

6 OPENING STATEMENT

7 BY MR. CONRAD:

8 MR. CONRAD: May it please the Commission. And
9 welcome to this fun arena, Mr. Jarrett. I looked around
10 while Mr. Fischer was holding forth, your Honor, and I
11 came to the conclusion, possibly erroneously, that while I
12 hope I have at least more hair left than some, I may be
13 one of the few, if maybe the only one, that remembers how
14 the world was before proposition one.

15 My client, Praxair, has not in this case and
16 does not intend to take any position with -- with respect
17 to ROE or some of these capital issues. I rise simply to
18 correct what I understand as a spin.

19 We are also a signatory to the aforementioned
20 regulatory plan of this company. That regulatory plan was
21 assembled in a context in which 393.135 -- that's Section
22 393.135, otherwise known in our parlance here,
23 Commissioner Jarrett, as Prop 1, which was adopted by the
24 people of the State of Missouri, not by the General
25 Assembly, -- and I don't have the wording of that before

1 me, but I know that the process that we designed in
2 regulatory planning, one of the signatories thereto
3 contemplated a process which Mr. Thompson obliquely
4 referred to as a two-step process in which you looked at
5 what the needs of the company was -- were, rather, under
6 traditional rate-making process.

7 And hard though it may be to do, you almost have
8 to, under Prop 1, under the regulatory plan, as we read
9 it, to look at that in the context of no construction
10 program. What does the company need to do to run its
11 operations?

12 And then after you have done that, we look to
13 see, is that going to maintain the credit metrics that
14 both counsel from KCPL and staff have referenced.

15 My point is simply this: The idea that some of
16 this is cash and some of it isn't is found nowhere in the
17 regulatory plan. That is, your Honors, pure spin. That
18 is not part of the process.

19 Indeed, some have raised -- I'm not prepared to
20 raise it here this morning, but some have raised the
21 question of whether doing even what we did in the
22 regulatory plan may run afoul of Prop 1. We signed it, so
23 we will not raise that issue. Others may at an
24 appropriate time.

25 I just think, from the customer's perspective,

1 and I represent one of those, we don't pay green dollars
2 and blue dollars. We just pay dollars. And it's all cash
3 that's coming out of our bank accounts and going to
4 theirs, so this idea of cash as opposed to non-cash will
5 not be found in that regulatory planning.

6 And that is, in our view -- although they're
7 entitled to their interpretation, we're also entitled to
8 ours. And I believe theirs is pure spin. Thank you.

9 JUDGE PRIDGIN: Mr. Conrad, thank you.
10 Mr. Keevil?

11 OPENING STATEMENT

12 BY MR. KEEVIL:

13 MR. KEEVIL: Good morning. May it please the
14 Commission. I'm Jeff Keevil, and I'm representing
15 Trigen-Kansas City Energy Corporation in this case.

16 Now, the primary issues of concern to Trigen in
17 this case are those issues and sub-issues regarding KCPL's
18 general service all electric tariffs and separately
19 metered space heating tariff provisions, which I will
20 collectively refer to as discounted rates. I believe
21 these issues are listed as Item 23 on the list of issues
22 Staff filed last week in that case.

23 Since these issues are not set for hearing until
24 next week, since we have already filed our statements of
25 position on all of these issues and the direct rebuttal

1 and surrebuttal testimony of Joseph A. Herz to all of
2 which I would refer you, by the way, and, also, because,
3 as has been mentioned here this morning, there may be
4 additional topical openings next week when these issues
5 are heard, I will try to be brief here this morning and
6 will only touch upon or summarize a few of the matters
7 related to these discount rate issues.

8 Trigen submits and the evidence will establish
9 that KCPL's discounted rates are unreasonable and unfairly
10 discriminate between customers by charging different rates
11 to similar customers for service under similar
12 circumstances, sending price signals that favor low load
13 factor, high demand use for selective end use customers,
14 which conflicts with the price signal sent to other
15 customers in the same general service class.

16 And as a consequence of these discounted rates,
17 the standard tariff have customers that are providing a
18 subsidy to those customers receiving the discounted rates.

19 Now, in KCPL's last rate case, the Commission
20 stated that it is concerned that during KCPL's winter
21 season, commercial and industrial customers under the all
22 electric general service tariffs pay about 23 percent less
23 for their entire electricity usage than they would
24 otherwise pay under the standard general service tariff
25 and that commercial and industrial customers under the

1 separately metered space heating provisions pay about 54
2 percent less for such usage than they would pay under the
3 standard general service tariff.

4 In this case, KCPL's proposal for an across the
5 board increase that is equal to its overall rate increase
6 would have the effect of increasing the size of the
7 discount, which is inconsistent with what was done in the
8 last case, and, certainly, does not address the concerns
9 as expressed by this Commission in the last case.

10 So what should be done? Well, I will attempt to
11 provide just a summary. But for more detailed description
12 and analysis, once again, I would refer you to the
13 pre-filed testimony of Mr. Herz and the statements and
14 positions of Trigen.

15 To begin with, KCPL's discounted rates should be
16 increased more than the corresponding standard general
17 application rates, and they should be phased out as set
18 forth in our statements of position.

19 Furthermore, until these discounted rates are
20 phased out completely, they should be restricted to those
21 qualifying customers' physical locations being served
22 under such discounted rates currently. Currently, meaning
23 as of the date used for the billing determinants in this
24 case. And these discounted rates should only be available
25 to those customers for so long as they continuously remain

1 on that rate schedule.

2 Trigen also submits that KCPL should be required
3 to submit as part of its next rate case a cost of service
4 study and analysis to support these discounted rates. And
5 if not, to impute the revenues associated with these
6 discounted rates to eliminate the cross-subsidy provided
7 by standard tariff customers.

8 Also, KCPL should be ordered to determine if the
9 customers being served under the discounted rates continue
10 to qualify for such rates to remove those customers which
11 are no longer eligible for the discounted rates and report
12 on this process at its next rate case.

13 Now, the last sub issue listed under Item 23 in
14 the list of issues that was filed by Staff asked whether
15 the Commission should approve KCPLs proposal to rename its
16 general service all electric tariffs as space heating
17 tariffs. And we submit the answer to that question is no.
18 And I believe Staff agrees with us on that.

19 Also, regarding issues other than what is listed
20 at Item 23 on the list of issues, in the event that the
21 Commission orders any reduction in revenue responsibility
22 for KCPL's small general service, medium general service
23 or large general service rate classes, the Commission
24 should make it clear in its order that none of the
25 reductions in revenue responsibility should be applied to

1 the all electric tariffs or the separately metered space
2 heating rates within those rate classes.

3 Obviously, we don't believe that they should be
4 even -- reduced even further. The discounts should not be
5 reduced further. In fact, they should -- discounts should
6 not be increased which would be the effect of that.

7 Finally, as I mentioned, these issues aren't set
8 for hearing until next week. And at that time Trigen's
9 witness, Joseph Herz, who has a prefiled direct, rebuttal
10 and surrebuttal testimony, will be here to take testimony
11 and take any questions you may have. Thank you.

12 JUDGE PRIDGIN: Mr. Keevil, thank you. Is there
13 any counsel other than Ms. Carter who wish to make an
14 opening at this time? All right, Ms. Carter.

15 MR. COMLEY: Before Ms. Carter makes her
16 remarks, Judge, I do have a point of procedure to raise.
17 As I mentioned earlier, the City of Kansas City does not
18 have any witnesses sponsored in this, and we have not
19 taken any position on the issues.

20 As a consequence of that, I would ask that the
21 Commission kindly allow me to be excused from the hearing.
22 From time to time I may come back, but for the most part,
23 I don't intend to be here.

24 JUDGE PRIDGIN: Oh, Mark.

25 MR. COMLEY: I know that there's going to be

1 people that will miss me, but at the same time --

2 MR. CONRAD: I object. I think he should be
3 required to stay here with the rest of us.

4 MR. COMLEY: I object to Mr. Conrad's remarks.

5 JUDGE PRIDGIN: Mr. Chairman?

6 CHAIRMAN DAVIS: I did receive a request from a
7 consumer regarding an issue related to the City of Kansas
8 City. And I believe he had made a Sunshine request, and
9 the City sent him an estimate that it would cost \$10,000
10 for him to come search the records himself at City Hall.

11 So I may forward that to you as part of this
12 case and see if you can't get that resolved.

13 MR. COMLEY: I will be delighted, Commissioner,
14 certainly.

15 CHAIRMAN DAVIS: Thank you.

16 JUDGE PRIDGIN: All right. Mr. Comley, I -- I
17 certainly see -- unless I hear anything from the
18 Commission, I certainly see no reason for -- for you to be
19 here if you have no issues.

20 MR. COMLEY: Thank you very much.

21 JUDGE PRIDGIN: All right. Thank you.

22 Ms. Woods?

23 MS. WOODS: On behalf of the Department and my
24 own behalf, I would make a similar request. The
25 Department doesn't have any witnesses or testimony to

1 offer and none of our issues are -- are about those that
2 the Commission would be asked to decide upon in this case.

3 JUDGE PRIDGIN: All right, Ms. Woods. Thank
4 you. As far as I'm concerned, it's your hearing. If you
5 don't have any issues, no need for you to be here.

6 MS. WOODS: Thank you.

7 JUDGE PRIDGIN: All right. Thank you. Ms.
8 Carter?

9 OPENING STATEMENT

10 BY MS. CARTER:

11 MS. CARTER: I'm here representing Aquila, MGE
12 and Empire. I would like to make just a very brief
13 statements on behalf of Missouri Gas Energy.

14 Many of us attended the FRI seminar last week
15 and as frequently as the case with the utility seminars,
16 we heard the statement made many times that regulation is
17 to take the place of competition in the monopoly setting.

18 There is, however, some competition among
19 utilities serving the same geographic area, and it appears
20 that regulation is not taking the place of competition by
21 setting just and reasonable rates for KCP&L.

22 MGE is not presenting any evidence on the issues
23 of class cost of service, rate design or KCP&L's all
24 electric or space heating tariffs. But I encourage the
25 Commissioners to pay careful attention to the testimony

1 presented by and elicited by Trigen Energy in this regard.

2 It appears that KCP&L's discounted rates have no
3 rational relationship to their cost of service, are
4 discriminatory without a lawful basis for that
5 discrimination and, certainly, are not just and
6 reasonable. And, again, you'll be hearing that testimony
7 next week.

8 Also, because of my clients' limited interest in
9 this matter, I would also ask to be excused from strict
10 attendance here at the hearings.

11 JUDGE PRIDGIN: Ms. Carter, thank you. And,
12 again, I believe it's your hearing. There's no need for
13 you to be here if there's -- if your client has no
14 interest in a particular issue.

15 Any further opening from counsel? All right.
16 Seeing none, this looks to be a convenient time to take a
17 break. I show the clock at the back of the wall to be
18 10:15. And unless I'm understanding differently,
19 Mr. Giles will be the first witness.

20 MR. FISCHER: Judge?

21 JUDGE PRIDGIN: Yes. At --

22 MR. FISCHER: With leave of the Commission, the
23 parties have been discussing some settlement proposals
24 over the weekend, and I've been approached this morning
25 about making one last stab at pursuing that and would

1 request that perhaps the Commission take a longer break
2 than that.

3 Perhaps we could start up at -- after lunch, and
4 we could determine whether that is possible or -- or not.

5 JUDGE PRIDGIN: Okay. Counsel any -- any
6 objections? Any comments?

7 MR. CONRAD: We'd support that.

8 JUDGE PRIDGIN: All right. And when you're
9 saying after lunch, could you -- 12:30? One?

10 MR. FISCHER: 1:00 would be fine with us. Or
11 whatever works for the Judge.

12 COMMISSIONER APPLING: How about 1:30?

13 JUDGE PRIDGIN: Okay. Let's say -- and,
14 obviously, if you're still talking, we can -- we can give
15 you more time. But let's just tentatively say 1:00 if
16 that will work for the parties.

17 All right. If there's nothing further, then, we
18 will stand in recess and -- until 1:00. Thank you.

19 MR. THOMPSON: Thank you, your Honor.

20 (Break in proceedings.)

21 JUDGE PRIDGIN: All right. Thank you. We are
22 back on the record. It is a little bit after 1:00 on
23 October 1st, 2007. And we went into recess to give the
24 parties an opportunity to negotiate. And I don't know if
25 counsel have any type of announcement for the Commission.

1 MR. FISCHER: Judge, I didn't --

2 JUDGE PRIDGIN: Let the record reflect derisive
3 laughter.

4 MR. FISCHER: We would recommend that we
5 continue forward with the hearing at this time.

6 JUDGE PRIDGIN: All right. Mr. Fischer, thank
7 you. The first witness would be Mr. Giles from KCPL?

8 MR. RIGGINS: That's correct, your Honor.

9 JUDGE PRIDGIN: All right. Mr. Giles, if you'd
10 come forward to be sworn, please.

11 MR. MILLS: Although, Judge, just so the outlook
12 is not too pessimistic, I believe that even though
13 everyone thinks we should continue forward with the
14 hearing, there are some discussions going along around the
15 fringes of this hearing, so we haven't stopped talking to
16 each other.

17 JUDGE PRIDGIN: And I appreciate that. And I
18 would certainly encourage the parties to continue talking
19 and let the parties know I currently have a case that's
20 still being discussed even though the case has been
21 completely submitted and briefed. So keep talking,
22 please.

23 All right. Sorry. Mr. Giles, if you'd raise
24 your hand to be sworn, please, sir.

25

1 CHRIS GILES,
2 being first duly sworn to testify the truth, the whole
3 truth, and nothing but the truth, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. RIGGINS:

6 JUDGE PRIDGIN: Thank you very much, sir. If
7 you would, please have a seat. And I believe counsel have
8 agreed to dispense with the normal foundational questions
9 if you would just stand cross-examination; is that
10 correct?

11 MR. RIGGINS: Your Honor, I do have -- or
12 Mr. Giles does have a correction or two to make to his
13 testimony. And as soon as we do that, I'll tender him for
14 cross.

15 JUDGE PRIDGIN: Mr. Riggins, thank you.

16 Q (By Mr. Riggins) Mr. Giles, do you have any
17 corrections to your testimony that you'd like to make?

18 A Yes, I do. Page 10 of my direct testimony, line
19 3, the question that ends with the year 2007. 2007 should
20 actually be 2008. And, likewise, on the answer on line 5,
21 2007 should reflect 2008.

22 Q Any other corrections to your testimony?

23 A No.

24 MR. RIGGINS: With that, your Honor, I will
25 tender Mr. Giles for cross-examination regarding an

1 overview of the case and overview of issues.

2 JUDGE PRIDGIN: All right. Mr. Riggins, thank
3 you. And hopefully try to speed things up a little bit,
4 Mr. Thompson, will you have cross of this witness? Or
5 will you have -- Staff has cross on this issue?

6 MR. THOMPSON: Probably.

7 JUDGE PRIDGIN: And Mr. Mills?

8 MR. MILLS: I don't have any questions for this
9 witness on the general case overview.

10 JUDGE PRIDGIN: Okay. Any other counsel have
11 questions for Mr. Giles on the overview of the case?

12 MR. CONRAD: Might have just one or two very
13 short ones.

14 JUDGE PRIDGIN: Any if there are none others,
15 Mr. Conrad? I'm sorry. When you're ready, sir.

16 MR. CONRAD: Oh, sure.

17 CROSS-EXAMINATION

18 BY MR. CONRAD:

19 Q Mr. Giles, you are occasionally in a position of
20 paying your own public utility bill, am I correct?

21 A Well, actually, my wife pays the bill. But I --
22 I -- I know we have a bill.

23 Q Is one of those bills from KCPL ,or do you live
24 in some other service territory?

25 A I actually reside in Independence, Missouri, and

1 am served by Independence Power & Light.

2 Q So you might not really, then, know what the
3 customers of KCPL pay their bills with?

4 A I'm -- I'm -- I don't know.

5 Q Would you agree with me that they pay their
6 bills with money?

7 A I would assume they pay with some form of check,
8 credit card, cash.

9 Q Now, do you know if they get a -- a bill,
10 Mr. Giles, that says, Pay this in one particular type of
11 legal tender and this portion in another type?

12 A No, I don't believe they are required --

13 Q Your experience in Independence, do you maintain
14 different checking accounts to pay portions of
15 Independence Power & Light's bills?

16 A No.

17 Q Just pay out of one checking account?

18 A That's true.

19 Q Would you suppose that might generally be true
20 for the customers in the KCPL service territory?

21 A I would expect so.

22 Q And when they pay a bill, they don't mark that
23 as being something other than cash going out of their
24 account or an adjustment to their -- their checking
25 account?

1 A I assume so.

2 Q As far as you know, all -- all dollars, it all
3 comes in to you, you being KCPL?

4 A I assume that's the case. Yes.

5 MR. CONRAD: Thank you. That's all.

6 JUDGE PRIDGIN: Mr. Conrad, thank you. Any
7 other questions from counsel for Staff? Mr. Thompson, any
8 cross?

9 CROSS-EXAMINATION

10 BY MR. THOMPSON:

11 Q Mr. Giles, is it your testimony that Kansas City
12 Power & Light with respect to the positions it's taking in
13 this case is following the decision the Commission made in
14 the 0314 case last year?

15 A I don't know that I can say that on every issue,
16 no.

17 Q For example, on the issue of incentive
18 compensation, as far as you know, is Kansas City Power &
19 Light following the Commission's order in the previous
20 case?

21 A I'm not sure.

22 Q What about severance costs?

23 A I'm not sure.

24 Q What about the cost of removal income tax issue?
25 Was that an issue in the prior case, to your knowledge?

1 A I don't recall whether that was an issue or not.

2 MR. THOMPSON: No further questions. Thank you,
3 your Honor.

4 JUDGE PRIDGIN: Mr. Thompson, thank you. Let me
5 see if we have any questions from the Bench.
6 Mr. Chairman, any questions?

7 CROSS-EXAMINATION

8 BY CHAIRMAN DAVIS:

9 Q Mr. Giles, have you read KCP&L's position
10 statement?

11 A Yes, I have.

12 Q Okay. Do you -- do you have a copy of it in
13 front of you?

14 A I do not. Now I do.

15 Q Okay. Can you please explain for me, in your
16 own words, the cost of removal issue referenced on page 3
17 of the position statement?

18 A I'm -- I'm reading it.

19 Q That's fine. You'll notice the first full
20 paragraph, it's the -- it would be Issue No. 8, the cost
21 of removal income tax issue.

22 A Basically, my understanding of this issue is
23 it's an accounting issue related to whether the cost of
24 removal should be flowed through or normalized, and the --
25 the heart of the issue is that a change at this point in

1 time would require KCPL to write off a substantial
2 portion.

3 Q Did that issue come up in the last case?

4 A Not that I'm aware of. But I -- I could be
5 mistaken. I'm not aware of it.

6 Q You were involved in the last rate case, were
7 you not?

8 A I was. I was. But I don't recall this
9 particular issue.

10 Q Okay. Now, KCP&L is seeking a change in
11 accounting treatment on its Wolfe Creek reviewing outage
12 costs, correct?

13 A That's correct.

14 Q Was that an issue in the last case?

15 A I don't believe it was.

16 Q Do you have an opinion as to why it was not an
17 issue in the 2006 case but is an issue now?

18 A I believe the accounting change was actually
19 made in 2006, hadn't actually occurred in 2005, which was
20 the test year in the prior case. So I think it wasn't an
21 -- an issue at that point.

22 Q Okay. Can you briefly summarize why you think
23 your -- why the KCP&L accounting method is preferable to
24 the traditional treatment that KCP&L and Staff have agreed
25 to on previous occasions?

1 A I think we made the change due to a financial
2 accounting standards board ruling. So we used to be on a
3 accrual basis where we would accrue for the expense of the
4 outage. And the FS -- the Financial Accounting Standards
5 board caused us and all other utilities to change that to
6 a -- a -- sort of an accrual basis, a pay after the fact
7 basis.

8 So it became a timing difference. And when we
9 made that change, there was a certain amount of funds that
10 were booked to -- and I don't remember the particular
11 account. But, essentially, it -- it could give the
12 appearance that customers were being charged twice.

13 And it's our position that that's not the case,
14 that customers have always paid for a full 12-month outage
15 during this entire period.

16 Q Does KCP&L follow all of the Financial
17 Accounting Standard board policies?

18 A Yes. Except in cases where there is a -- there
19 is some sort of a regulatory agreement or plan to do
20 otherwise for regulatory purposes.

21 Q Okay. Do you have an opinion as to whether the
22 PSC staff's change of position on the cost of removal
23 income tax issue is related to KCP&L changing its position
24 on the Wolfe Creek refueling outages?

25 A I -- I don't know that there's a link there.

1 I'm -- I'm not sure.

2 Q Okay. With regard to the KCP&L talent
3 assessment program, there were 119 employees who left the
4 company as a result of that program. How many more
5 employees were designated as, quote, not keeping pace and
6 then subsequently, I guess, closed the gap?

7 A I do not know the -- the answer. Lora Cheatum,
8 who is going to be a witness further on in the
9 proceeding --

10 Q Okay.

11 A -- can probably tell you.

12 Q Okay. Well, she'll know, and she can answer
13 that, hopefully, when she gets here. Okay. \$8.96 million
14 roughly divided by 119 employees is an average of
15 approximately \$75,000 per employee. Is that correct?

16 A Sounds about right.

17 Q Was there some sort of formula for apportioning
18 those severance packages?

19 A Yes. I -- I can't tell you what the formula
20 was, but, yes, there was.

21 Q Okay.

22 A Again, Lora Cheatum can --

23 Q Okay. So she can provide that when she
24 testifies?

25 A Right.

1 Q Okay. Thank you. With regard to just the --
2 the terminations that weren't related to the talent
3 assessment program, do you know how many terminations
4 there -- and severance packages -- I know what the amount
5 of the severance packages was in total. Do you know how
6 many employees were terminated and received severance
7 packages that weren't part of the Talent assessment
8 program?

9 A I don't know that. It's -- it's a fairly small
10 number, but I don't know what it is.

11 Q And so you don't know what the reasons for any
12 of those terminations were either, then, do you?

13 A No.

14 Q Okay. With regard to lobbying expenses in
15 Washington D.C., KCP&L has an employee there full-time to
16 basically monitor federal activities and to -- to lobby,
17 correct?

18 A That's correct.

19 Q And you're telling me that that person only
20 spends 15 percent of their time lobbying?

21 A I'm not sure where you're getting the 15
22 percent.

23 Q I thought I read that. I thought KCP&L was
24 seeking approximately 85 percent of that person's salary
25 and that you weren't seeking the 15 percent for -- for

1 lobbying. If that's not correct, then -- then please
2 correct me.

3 A Yes. You're -- you're correct. That's what the
4 position statement indicates.

5 Q Okay. Can you briefly summarize what the
6 difference is between KCL -- KCP&L's position on bad debt
7 expense is using the -- I guess the September 30th, 2007,
8 number versus -- is Staff using the December 30, '06,
9 number?

10 A Evidently, this -- this relates to whether bad
11 debt expense should be reflective of the most current
12 conditions or the current period.

13 Our position is that we should use the period 12
14 months into September 30th, '07, where Staff is using the
15 12 months into December 31, 2006. And I think this is a
16 difference that largely relates to just how current of
17 information we can get into the rates.

18 Q And KCP -- has KCP&L changed their methods for
19 collecting bad debt expense in the last nine months?

20 A No. Not to my knowledge.

21 Q And -- and you're qualified to speak on that
22 issue?

23 A I'm not sure who our witness is on bad debt.
24 But you can -- you should probably ask him or her. But to
25 my knowledge, we've not changed any of our processes.

1 Q Okay. Mr. Giles, if you don't mind, I'm just --
2 I've only got a few more questions, but I'm just going to
3 go ahead and get all my questions for you out of the way
4 here at this -- at this time.

5 Mr. Giles, who is Rusty Smith?

6 A Rusty Smith is manager of our wholesale trading
7 function.

8 Q Okay.

9 A Largely, off-system sales.

10 Q Okay. Does he work for you?

11 A No. He works -- actually works for Ty Kobioshi
12 (ph.).

13 Q Okay. Did you review his responses to Staff
14 data requests in this case before they went out?

15 A Some of them, I did. I -- I typically review
16 data responses that my staff refer to me, but I don't
17 review all of them.

18 Q Do you recall whether or not you reviewed Staff
19 Data Request No. 206 that was delivered electronically to
20 KCP&L on or about June 6, 2007?

21 A I don't know.

22 Q Okay. Have you read Mr. Traxler's testimony?

23 A Yes.

24 Q Okay. Do you have a copy of Mr. Traxler's
25 rebuttal testimony filed on August 29th of 2007?

1 A I don't have it with me. Okay. Now I do.

2 Q Okay. Do you want to look in the back there, I
3 believe, towards the back of Mr. Traxler's testimony,
4 there is an appendix -- and I don't have the -- the
5 reference number up in front of me, but there should be a
6 markation of Staff Data Request No. 206 and KCP&L's
7 response.

8 A Yes. I have that.

9 Q Are you familiar enough to go ahead and talk
10 about that, or would you like a moment to review it?

11 A If you'd just give me a moment to look over the
12 schedules, I think I could talk about it.

13 Q Okay.

14 A Okay. I -- I've looked through it.

15 Q Okay. Now, Mr. Giles, I realize that this is
16 highly -- this information is marked highly confidential.
17 I'm not going to ask you about any of the numbers
18 specifically contained therein.

19 So, hopefully, we won't have to go into closed
20 session. But I'm trusting that Mr. Riggins and
21 Mr. Fischer, if they sense that -- that I'm straying too
22 far, will -- will at least stop me before and we can go
23 into closed session if they feel it's appropriate.

24 So the data requests, which would be marked
25 Schedule SMT1-1 on June 7th, it was -- it was -- that

1 information was requested on June 7th, correct, rough --

2 A I believe on the heading it says Data Response
3 is June 27th.

4 Q Okay. It's KCP&L's response dated June 27th.
5 Do you know whether or not KCP&L ever updated this
6 response to the staff?

7 A I believe we have updated it, but I can't -- I
8 can't say for sure.

9 Q Okay. If -- if KCP&L has updated that response,
10 can -- can you furnish this Commission with a copy of --
11 of what that was?

12 A Yes.

13 Q Okay. Now, Mr. Traxler, I believe, filed his --
14 if you go to the front page there of this -- of
15 Mr. Traxler's rebuttal testimony, up at the top, it says,
16 Date Testimony Prepared, August 30th, 2007; is that
17 correct?

18 A That's correct.

19 Q Okay. And you filed your -- was it your
20 rebuttal or surrebuttal testimony on or about August 29th,
21 correct?

22 A Rebuttal. Yes.

23 Q Okay. So you filed your rebuttal testimony on
24 August 29. And in your page 12, line 10 of your -- it was
25 -- I'm sorry. Was it rebuttal or surrebuttal that you

1 filed on August 29th?

2 A Rebuttal testimony.

3 Q Okay. I'm sorry. I'm getting confused here
4 with -- okay. So let me see. I appear to have misplaced
5 your testimony, Mr. Giles.

6 Okay. Now, did you file surrebuttal as well?

7 A No, I did not.

8 Q No, you didn't. Okay.

9 A Okay.

10 Q Now I'm -- now I'm back clear. Okay. I think
11 it was page 12, line 10 of your rebuttal testimony that
12 was filed on August 29th. You included a number for
13 off-system sales margins, didn't you?

14 A Yes, I did.

15 Q Okay. So on August 29th, you knew the number
16 for off-system sales margins from January 1st, 2007,
17 through July 30th, 2007?

18 A Yes.

19 Q Okay. Do you -- you don't -- but you don't know
20 when KCP&L updated its information to the PSC Staff, do
21 you?

22 A No.

23 Q Okay. So Mr. Traxler files his testimony on
24 August 30th, which contains the data request that KCP&L
25 responded to on June 27th basically saying that -- was it

1 -- I'm going to read Schedule SMT1-2 here.

2 The -- under the response, it would be the
3 fourth paragraph. "The determination of actual margins
4 for 2007, on a monthly basis is not yet complete. As a
5 result of the order in Case No. ER-2006-0314, we are
6 monitoring actual margins to be in compliance with the
7 order.

8 Additionally, with the introduction of SPPRTO in
9 February, we were further revising the analysis to
10 incorporate all costs attributable to the RTO and how they
11 affect non-firm off-system sales revenues and costs and
12 how they will be incorporated into the margin analysis."

13 So, in essence, even though there's lots of --
14 of data backing -- backing up this response, you know, is
15 it fair that if you're reading Mr. Traxler's rebuttal
16 testimony that you would come to the conclusion that you
17 don't know what KCP&L's off-system -- that he -- that he
18 didn't know what KCP&L's off-system sales margins were for
19 any portion of 2007?

20 A Yes. I think that's -- that's a correct
21 assessment of this testimony.

22 Q Okay. But you knew when you filed your
23 testimony on August 29th?

24 A I did. I -- I believe the -- the issue that I
25 discovered, somewhere right about this time frame is our

1 accounting department and Rusty Smith's department were
2 working together to make sure they came up with an
3 auditable margin calculation for the auditors.

4 And, typically, until we had this order in this
5 particular case, we had used a -- a midas model that --
6 actually called a pace model, redispached the unit, gave
7 the cheapest fuel cost to retail customers, et cetera.

8 For some reason, the auditing group didn't feel
9 that this was a verifiable or rigid enough exercise. And
10 I'm not sure what they were doing during this period of
11 January through June of '07. But they were trying to
12 refine that calculation and were waiting, and I can't
13 describe it any better than that, waiting until they got
14 all these issues resolved before they start reporting what
15 the actual margins were.

16 And, you know, my -- my response to that was
17 that it's -- it's not a significant difference, you know,
18 whichever -- you know, it was a very fine analysis they
19 were trying to get to, but it didn't change the number.

20 Q Okay. Is there -- is there any way that I can
21 -- can read KCP&L's response to Data Request No. 206 and
22 come out with the number that you gave in your rebuttal
23 testimony filed on August 29th? August -- yeah. I think
24 it's August. Yeah. August 30th. I'm sorry. No?

25 A No.

1 Q Okay. Can you go to Schedule SMT1-1 of
2 Mr. Traxler's rebuttal testimony?

3 A Okay.

4 Q See the -- the big paragraph there in the middle
5 of the page?

6 A Yes.

7 Q Can you read the second sentence, which begins
8 about the middle of Line 4 on that page?

9 A Beginning with The undersigned?

10 Q Yes.

11 A The undersigned agrees to immediately inform the
12 Missouri Public Service Commission if, during the pendency
13 of Case No. ER-2007-0291, before the Commission any
14 matters are discovered which would materially affect the
15 accuracy or completeness of the attached information.

16 Q Okay. Do you think KCP&L complied with this
17 request?

18 A Are you -- this -- this data request?

19 Q Right.

20 A Well, based on my quick observation, here, I
21 would say no. I don't -- I don't think we provided the
22 margins.

23 Q Okay. Do you see -- and, obviously, off-system
24 sales margins was an important issue in the last case.
25 And you can -- you can see why the parties in this case

1 would -- would want as much information as they could get
2 as quickly as they could get it, wouldn't you?

3 A Yes.

4 Q Okay. So it's not going to happen again, right?

5 A Right.

6 Q Okay. All right. Mr. Giles, have you reviewed
7 Mr. Hyneman and Mr. Dittmer's testimony?

8 A Yes, I have.

9 Q Do you recall their testimony that they
10 proffered that you're seeking one-sided or asymmetrical
11 rate treatment?

12 A Yes. I recall that.

13 Q Would you -- how would you respond to that?

14 A I would respond by stating that's not the case.
15 What -- what they are characterizing there is a
16 misrepresentation of the facts. And my testimony, both in
17 my service -- in my rebuttal testimony, I point out that
18 revenue matches expense.

19 And to the extent there's an expense that's been
20 in rates or recovered from customers, revenue is
21 established to recover those costs for the company. And I
22 think both Mr. Hyneman and Mr. Dittmer are using the
23 analogy that if there's an unusual non-occurring expense,
24 the company always want to recover that.

25 On the other hand, if there's a revenue that

1 comes into the company based on a prior period expense, we
2 could not want to flow that back to customers. And the
3 real issue comes back to revenue matching costs or revenue
4 matching expense.

5 I'll give you an example. And I think
6 Mr. Dittmer -- or Mr. Hyneman may have used this same
7 example. We had an ice storm in 2002, incurred a
8 substantial amount of cost in repairing the lines of
9 facilities attributable to that ice storm.

10 The company filed for an accounting authority
11 order, which, essentially, did not recover those costs.
12 All that accounting authority order accomplished was it
13 allowed us for book purposes to amortize those expenses
14 over a period of time.

15 We did not recover any of those costs until our
16 last rate case. In other words, you don't recover the
17 costs until you actually file a rate case and get the
18 revenue to recover the costs. So we did not recover four
19 months -- or four years, rather, of those expenses.

20 And similar to the expense with the Hawthorn 5
21 subrogation proceeds, in 1999, when the Hawthorn 5
22 explosion occurred, we incurred over \$150 million in
23 purchase power costs to replace the power loss from that
24 unit.

25 Customers were never billed for those costs. We

1 didn't file a case. We didn't ask to recover them. So
2 subsequent, we get a subrogation proceed in the test year,
3 in this case, of 2006, that's related to that additional
4 purchase power costs back in '99 and 2000.

5 So Mr. Dittmer and Mr. Hyneman propose that we
6 take that -- those revenues and amortize those over the
7 next five years, I believe, in this case. And it violates
8 the matching principle because customers have never paid
9 those expenses.

10 The -- the company did not have a rate case, did
11 not ask to recover those costs and, basically, they're
12 born by shareholders. Now, Mr. -- I can't -- I think it
13 was Mr. Hyneman. I'm not sure whether it was Mr. Hyneman
14 or Mr. Dittmer.

15 One of them said, well, if -- if you take my
16 argument to its logical conclusion, then no expenses are
17 being recovered in rates between rate cases, which is
18 exactly the opposite of what I'm saying.

19 Once you have a rate case and your expenses are
20 set at a certain level in the case, whether it's fuel
21 costs, whether it's salaries and wages, any incremental
22 costs beyond that is, in fact, born by shareholders.

23 So the position that the company takes and that
24 I feel is appropriate, had we had a fuel adjustment
25 clause, for instance, back in the '99/2000 period, those

1 costs would have flowed through to customers.

2 Now when the revenue comes back, you'll flow
3 that back through the fuel adjustment. In this case,
4 costs were never recovered from customers to begin with.
5 It's sort of long-winded answer, but --

6 Q Right. Okay. And so it's my understanding,
7 basically, you're -- what your position is is your last
8 case, rate case, really, was in 1985 and the rates went
9 into place sometime '85/'86.

10 As part of that rate case or subsequent
11 over-earnings complaint settlements, KCP&L was allowed to
12 keep its off-system sales margins above a certain base
13 amount that was included in rates and, you know, sort of
14 -- you know, part of that regulatory compact, say, you
15 recover a -- you -- you absorb additional salary
16 increases, additional fuel costs, no transportation costs,
17 et cetera, you know, and you've got to keep your
18 off-system sales, too. Is that -- is that sort of a fair
19 analogy?

20 A That's at fair analogy. The -- the distinction
21 -- the only distinction I would make is that we did have
22 -- just prior to the explosion of that Hawthorn 5 boiler,
23 we had actually negotiated a reproduction.

24 And the rate reduction was scheduled to go in in
25 March of, I believe, 1999. And the plant exploded in

1 February of '95. The conditions of that rate reduction
2 were such that we could have come back in because of that
3 outage and --

4 Q Because it was a material change?

5 A Material change.

6 Q Uh-huh.

7 A We did not do that. And during that time frame,
8 we, shareholders, basically footed the bill for those
9 purchase power costs.

10 Now, the other thing I need to make clear is
11 that during that time, there really wasn't much of an
12 off-system sales market. I mean, even though we didn't
13 have the unit, it wouldn't have been able to sell as much
14 into that market to begin with.

15 The market really didn't take a dramatic
16 increase until about 2002 when that plant went back --
17 back online. The other thing I pointed out to you is that
18 -- I can't remember again which of their testimonies, I
19 think it was Mr. Hyneman, quotes our rate of return.

20 But it's interesting that he quotes from 2002 on
21 after the unit was back in service. The two years where
22 we really struggled were '99, 2000 and part of 2001. I
23 believe Hawthorn 5 came back into service in the summer of
24 2001.

25 Q Okay. Now, you are here seeking recovery of

1 surface transportation board litigation costs, correct?

2 A Yes.

3 Q Now, should we, as a part of this case -- you
4 know, if we are going to award you those costs, should we
5 say something about how the proceeds should be
6 apportioned, if you recover anything?

7 A Yes. I think -- and I think this is a case
8 where there is a couple of things that could happen. One,
9 you can award the costs in the case. And one thing that
10 could happen is a successful litigation would reduce our
11 fuel costs on a going-forward basis.

12 Q Uh-huh.

13 A That should be reflected on an ongoing basis.
14 But there's also a potential for a retroactive refund.
15 And I think you're exactly right is if you allow those
16 costs in this case, you should point out that if there's
17 any successful return of money, that should be flowed back
18 to the customers.

19 Q How much -- can give us a percentage?

20 A At least half. Maybe all.

21 Q At least half, and maybe all. Well, I'll let --
22 I'll let other parties inquire about the fairness of that
23 statement.

24 Have you seen the -- I guess I'll call it the --
25 the graph on page 3 of Mr. Hyneman's surrebuttal

1 testimony?

2 A I have seen it. I don't have it in front of me.

3 Q Okay.

4 A Okay. I have it in front me. Which -- which
5 particular graph?

6 Q I believe it's page 3, I believe, that has three
7 columns?

8 A Okay.

9 Q Now, you just look at that graph. It certainly
10 seems like Mr. Hyneman has a -- a -- if nothing else, a --
11 a consistent method for amortizing non-recurring expenses.
12 Is that a fair statement?

13 A Yes.

14 Q Can you put together a graph like that that
15 shows me that -- that KCP&L has a consistent approach for
16 how it's choosing to -- to allocate these expenses as
17 either being amortized or not amortized?

18 A I believe we can. I think it would be the same
19 chart. But I -- I -- I mean, I think the -- the point
20 that -- that should be taken from this is that when the
21 company incurs costs that are legitimate costs, prudently
22 incurred, they need to be recovered. And that's typically
23 what all of these various categories or costs that have
24 been amortized that Mr. Hyneman refers to are.

25 On the other hand, it's -- on the revenue side,

1 you have to take into account whether those expenses or
2 costs were ever charged in the first place because, in the
3 one hand, you're setting revenue after the fact to recover
4 costs that were prudently incurred.

5 So the two are totally different. And I think
6 what Mr. Hyneman and Mr. Dittmer are both trying to
7 characterize here is that these are the same thing. You
8 ought to treat them the same.

9 Q Uh-huh.

10 A It's totally not the same thing. It's totally
11 different because one is the presumption that legitimately
12 incurred costs should be recovered.

13 On the other hand, their position is if those
14 costs -- if there are costs that have never been recovered
15 from customers, those should also be amortized. And the
16 two are totally different.

17 Q Okay. Now, when Mr. -- Mr. Giles, when
18 Hawthorne was down, you were still recovering costs for
19 the operation of Hawthorne in your base rates, correct?

20 A We were, yes.

21 CHAIRMAN DAVIS: Mr. Giles, I don't think I have
22 any further questions. Thank you.

23 JUDGE PRIDGIN: Mr. Chairman, thank you.
24 Commissioner Murray, any questions?

25 COMMISSIONER MURRAY: Just a few. Thank you,

1 Judge.

2 EXAMINATION

3 BY COMMISSIONER MURRAY:

4 Q Good afternoon, Mr. Giles.

5 A Good afternoon.

6 Q I'm sure you were here when Mr. Thompson made
7 his opening statement today; is that correct?

8 A I was.

9 Q He indicated that KCP&L was seeking a windfall.
10 Did you hear him say that?

11 A Yes, I did.

12 Q And he made a comparison to a homeowner needing
13 to make capital improvements to his home, taking out a
14 second mortgage to do so. Can you tell me what you think
15 of that analysis in comparison to KCP&L's capital
16 structure improvements and what you're seeking here?

17 A I think what Mr. Thompson was characterizing was
18 that the company was seeking more in a return component
19 than either was appropriate or reasonable and due to the
20 fact that we also have the provision of being additional
21 amortization to create cash flow, that we are somehow, as
22 he put it, seeking a windfall.

23 In fact, what we are attempting to do is to
24 maintain both our credit so we can finance this nearly
25 \$2 billion construction program, and, also, to continue to

1 issue equity in the -- in the investor market at a
2 reasonable price.

3 And that -- that essentially is what we're
4 attempting to do. I don't think it's a windfall in any
5 sense of the imagination. I think it's appropriate. And
6 given -- as Mr. Fischer stated, we have been able to issue
7 bonds, and we continue to look to -- we probably will be
8 issuing more equity and debt -- in fact, we will be in the
9 next year.

10 So given the capacity, the construction dollars
11 that were invested, we need, and it's not an unreasonable
12 request, to have an 11.25 percent return on equity.

13 Q All right. KCP&L has taken the position that
14 anything other than an equal shift in revenue and I know
15 shift in rates uniform to all classes with -- in violation
16 with the stipulation and agreement; is that correct?

17 A Yes.

18 Q Does that include the revenue shift proposals by
19 Trigen?

20 A Trigen was not a signatory to the regulatory
21 plan. So I think -- you know, they're -- they're probably
22 an exception that -- none of the parties that signed the
23 regulatory plan can propose revenue or rate shifting. But
24 since they weren't a signatory, I suppose they can propose
25 one.

1 Q All right. Was KCP&L asked in the last rate
2 case to do a cost of study service analysis of the general
3 service, all electric tariffs and separately metered space
4 heating -- heating rates?

5 A I believe we were asked to do that, but I don't
6 believe it was in this case. I'd have to go back and
7 look. But I believe that was a -- a requirement to do at
8 some point in time.

9 Q And has that been done, or has that been begun?

10 A It has not been done at this point.

11 Q Is KCP&L planning to do such a cost of service
12 study?

13 A Yes.

14 Q When?

15 A I -- I don't have a time frame. I'd have to go
16 back and look at what our commitment was. But definitely
17 by the time we have the rate design case in the last case,
18 which was Case No. 4, we filed sometime in, I believe,
19 September of '09.

20 Q And in the meantime, are you intending to leave
21 the general service of electric tariffs and separately
22 needed space heating rates as they are structured now?

23 A Yes.

24 Q What do you think about the argument that there
25 is -- this is discrimination that is anti-competitive with

1 those rates?

2 A I don't believe the rates are discriminatory. I
3 think Trigen would -- would, obviously, argue from their
4 competitive position that they're discriminatory and
5 provide an undue advantage to electric, heat or -- I think
6 we would probably make the same argument regarding their
7 steam rates and their chill water rate.

8 I think it's a competitive issue, and it's not
9 necessarily that the rates are inappropriate. It's a
10 competitor trying to get a new vantage.

11 Q All right. I want to ask you about rate case
12 expense and the position that these expenses -- the
13 deferred rate case expenses should be amortized in the
14 cost of service over two years. That's an agreement
15 between Staff and KCP&L at this point; is that correct?

16 A I believe so, yes.

17 Q And then KCP&L wants to include the unamortized
18 amount of those deferred expenses in rate base; is that
19 right?

20 A That's true.

21 Q And is that equivalent to allowing the company
22 to earn a return on the amount that was spent until such
23 time as those actual expenses are recovered?

24 A Yes.

25 Q And the reverse of that would be that the

1 company would be making the expense and having to wait an
2 extended period for recovery equivalent to making the loan
3 without interest --

4 A Yes.

5 Q -- to the ratepayers?

6 A Yes.

7 COMMISSIONER MURRAY: I think that's all I have
8 for you right now. Thank you.

9 JUDGE PRIDGIN: Commissioner Murray, thank you.
10 Commissioner Appling?

11 EXAMINATION

12 BY COMMISSIONER APPLING:

13 Q How are you doing, Chuck?

14 A I'm good. Doing great.

15 Q Great. I've got a couple short questions that I
16 -- I think I've heard the answer to them already, but I
17 just want to make sure I get them into the record. You --
18 from the '99 explosion, what was the plan, again, to --
19 that you all put in retirement?

20 A It was Hawthorne 5, our coal unit. It was --
21 it's about a -- at that time, it was about a 500 megawatt
22 unit.

23 Q What was the amount of the retirement on that?

24 A The -- the plant exploded in February of '99,
25 totally demolished the boiler and a lot of the facilities

1 around the boiler. The plant was retired and rebuilt for
2 a -- it -- it actually took about -- I want to say about
3 two and a half years to rebuild it. The plant was back in
4 service in summer of 2001.

5 And the plant, when it came back into service,
6 came back at its original cost less the insurance proceeds
7 that we received from the rebuild. So the net impact on
8 rates was pretty minimal as far as capital goes.

9 Q What -- what did you all get from the -- your
10 insurance company?

11 A We got almost the total cost of the rebuild,
12 except for the environmental equipment. We had to install
13 -- because it was a new boiler, we had to install current
14 environmental equipment.

15 My recollection is the -- we received somewhere
16 in the neighborhood of \$280 million dollars to rebuild the
17 boiler. And I think it cost somewhere around 350. Just
18 rough numbers. So most of it, other than the
19 environmental was totally paid by insurance.

20 Q KCPL, did you all receive other funds that was
21 not litigated?

22 A We sued about 12 different entities, and we
23 received -- the subrogation proceedings, we received money
24 from all three of those. Only one was actually litigated.
25 The others were settled. But we received around a hundred

1 -- roughly a \$110 million from those 12 entities.

2 Q Describe for me in about two minutes, if you
3 can, what is KCPL looking for here? I know what your ROE
4 is. We've been talking about it all morning. But give me
5 just a touch-down of what you're looking for that's going
6 to do you some good, the big numbers, okay?

7 A In this particular case we're --

8 Q This particular case. Yes.

9 A You mean in terms of dollars or --

10 Q Dollars.

11 A Somewhere in the neighborhood of 26,
12 \$28 million.

13 Q And this is to run through to next year?

14 A Actually, run through the next year and about
15 three months of the following year. We -- our next case
16 that we will file is to include the cost of IATAN II
17 environmental equipment.

18 Q Uh-huh.

19 A And due to outage scheduling, we scheduled that
20 outage to occur in December of 2008. So in order to get
21 that investment in the test year true-up period, we'll
22 have to file our next case of April of '09.

23 Q Last year, we --

24 A Well, pardon me.

25 Q Last year, we gave you 11.25, correct?

1 A Correct.

2 Q And that's what you're asking for again this
3 year?

4 A Correct.

5 Q Is that going -- is that going to do what you
6 need to do? Is that going to give you what you need for
7 this next year?

8 A Yeah. If --

9 Q You and I talked a lot about this when I visited
10 the plant up there three or four months ago. We walked
11 the whole thing, and we talked about a lot of things.
12 What I'm trying to get in my own mind, what did you --
13 what did you find there, you know? Go ahead.

14 A The -- the rate of return is all dependent upon
15 the adjustments that are made to the data in this case of
16 whether you -- we will actually ever be able to achieve
17 that return.

18 On top of that, the return is also dependent
19 upon the fact that we have a year lag. These rates will
20 go into effect in January of '08.

21 Q Uh-huh.

22 A And, of course, our costs continue to increase
23 during that time period. So those costs go unrecovered in
24 2008.

25 To the extent there's adjustments made in this

1 case that also reduce our revenue, that also reduces our
2 rate of return. So you take all of that together, and you
3 say, well, if we could come out with a certain dollar
4 amount, then we could deal with these other issues.

5 So the -- the rate of return is just one piece
6 of it. You've got to take into account what's the total
7 impact of the actual dollars, what we get. So our case
8 today is it about a \$38 million revenue requirement at an
9 11.25 return.

10 Q Okay.

11 A About -- the Staff's case is in the range of
12 about 14 million at 9.7. So somewhere between those two
13 numbers is probably a -- a good benchmark.

14 COMMISSIONER APPLING: Thank you.

15 MR. GILES: You're welcome.

16 JUDGE PRIDGIN: Commissioner Appling, thank you.
17 Commissioner Jarrett?

18 COMMISSIONER JARRETT: Yes, thank you.

19 EXAMINATION

20 BY COMMISSIONER JARRETT:

21 Q Yes. Thank you. Good afternoon, sir.

22 A Good afternoon.

23 Q I have just -- just a couple of questions. My
24 understanding is that KCP&L is asking for an ROE, a base
25 ROE of 10.75 percent, plus 50 basis points based on its

1 construction program which would raise that to the 11.25
2 percent; is that correct?

3 A Yes. yes. That's correct.

4 Q Yeah. This morning in opening statements,
5 Mr. Conrad was talking about the regulatory plan that's in
6 place. And I believe that -- and correct me if I'm wrong,
7 but I believe he indicated we should look at that in
8 context of no construction program when looking at the
9 needs of the company, and I wanted to give you an
10 opportunity to respond to that.

11 A I -- I think -- you know, it's our -- it's our
12 position and it's our rate of return witness's position
13 that due to the magnitude of this construction program and
14 the risks associated with that that in order for us to
15 raise the capital, both equity and debt, that we need to
16 raise over these next couple of years that the risk of
17 that investment is greater than a company that would, say,
18 have a modest construction program or even know a
19 construction program other than normal ongoing capital
20 improvements.

21 And I think the magnitude of what we're doing --
22 and I think we've testified before that we're adding over
23 60 percent more to our rate base or to our plant
24 investment, and given that level of risk that investors
25 would require at least a 50 basis point adder to the rate

1 of return.

2 Q So the -- so really, the risk, then, for KCP&L
3 from its standpoint is -- is just the large amount rather
4 than the type of construction it is? I mean, it would
5 seem to me that utility companies commonly build
6 generation plants.

7 A It -- it's really a combination of both, the --
8 the magnitude and the -- the type of construction. You
9 know, it's somewhat -- it's not unusual. It's pretty
10 standard.

11 But you think about it, we haven't built a base
12 load power plant since our Wolfe Creek nuclear plant came
13 online in 1986. The last coal unit we built was in 1980,
14 which was the IATAN I project.

15 So they're very large investments. They're very
16 complex and very complicated to get done on schedule and
17 under budget. So these -- these investments come along
18 really about once every 20 years. And even though you
19 would think utilities do this frequently and often, it's
20 really very infrequently.

21 COMMISSIONER JARRETT: Thank you, sir. I have
22 nothing further.

23 JUDGE PRIDGIN: Mr. Chairman?

24 EXAMINATION

25 BY COMMISSIONER DAVIS:

1 Q All right. Mr. Giles, I just had a couple more
2 questions here. Do you think it's good public policy to
3 use electricity to generate heat?

4 A I -- I think it -- it depends on the type of
5 electric -- electricity. Electric resistance heat,
6 electric boilers, not very efficient. If -- if it's a
7 heat pump, they're pretty efficient.

8 In most -- most large commercial office
9 buildings are -- are done with heat pumps, and -- which
10 draws energy from the air or the ground. If it's a ground
11 source, typically, commercial building in downtown Kansas
12 City, the one we -- we reside in 1201 Walnut. It's an all
13 electric building, all heat pumps. Very efficient.

14 Q Does that equation change at all when you have
15 more natural gas-fired electric generation creeping into
16 your base load?

17 A It -- yes, it would. In our case, our -- our
18 gas was primarily burned in the summertime. If you were a
19 utility that was burning a lot of gas in the winter, yeah,
20 it would have an impact.

21 Q Okay. Obviously, Commissioner Murray touched on
22 it, and Commissioner Jarrett touched on it. I had to step
23 out of the room for just a second. So this is a little
24 redundant. I apologize.

25 You've heard Mr. Thompson, Mr. Conrad espouse

1 the theory that -- that cash is cash?

2 A Yes.

3 Q Do you think that's correct?

4 A I think from a customer's viewpoint, they're
5 exactly right.

6 Q Okay.

7 A When I -- when I -- even though I don't pay my
8 bill, when my wife pays our bills, she's writing a check
9 for whatever is on that bill, whether it's -- and we view
10 it the same way.

11 When we look at impact on a customer, it's
12 whatever that rate generates. And, really, the only
13 meaning for this cash versus earnings related is -- is
14 purely a shareholder or company issue.

15 From our standpoint, earnings related cash
16 creates earnings. The amortization provision just creates
17 cash. We need both. You could get, obviously, the same
18 amount of cash with a very, very high rate of return.

19 Q All right.

20 A In fact, when we did the regulatory plan, I
21 actually showed calculations that would indicate we would
22 need 13 and a half percent return on equity during this
23 construction period to fund enough cash to keep our credit
24 ratings.

25 That, obviously, was a little more than most

1 people in the room could stomach. And that's when we came
2 up with this amortization provision.

3 Q Right. Now, as -- as part of the -- first of
4 all, you are familiar with the KCP&L experimental
5 regulatory plan?

6 A Yes.

7 Q Okay. As part of that plan, do you recall, was
8 there an anticipated five-year budget financing plan?

9 A There was. Yes.

10 Q Okay. And it was -- wasn't it anticipated that
11 KCP&L through its, I guess, parent company, GPE would
12 issue about \$560 million in equity, more or less?

13 A I don't recall the exact number. But that --
14 that sounds about right.

15 Q That's all right. Okay. And when investors are
16 considering whether or not they should buy that new
17 equity, do you think they're going to look at earnings?

18 A Yes.

19 Q Are you familiar with the term EBITDA?

20 A Yes.

21 Q What is EBITDA?

22 A Earnings Before Interest, Taxes, Depreciation
23 and Amortization.

24 Q All right. Do you think that this could -- do
25 you think this would be a relevant use of the term, you

1 know, EBITDA, when you're out there trying to evaluate
2 whether or not you're going to -- buy GPE stock?

3 A Yes. Stock and bonds. EBITDA is really a
4 measure of cash. It's really showing what -- what is the
5 cash potential of this company.

6 Q Well, it's -- it would be a measure of your --
7 your true -- your true earnings in a sense, wouldn't it?

8 A Yes.

9 Q Okay. Do you think it would be prudent for
10 KCP&L to pay dividends with amortizations?

11 A No.

12 Q Why not?

13 A Well, if you're paying dividends with -- with
14 amortization, you're essentially taking cash from the
15 customers and -- in the form of accelerated depreciation,
16 et cetera.

17 That's going to be a deduct from rate base going
18 forward. So on the one hand, you're -- you're reducing
19 your rate base with from the funds that are coming in.

20 And then on top of that, you're paying out cash.
21 So it's a drain on the shareholders and the earnings
22 potential doubles -- it essentially doubles in the impact.

23 Q Uh-huh. Do you think dividends are important to
24 shareholders?

25 A In -- in -- in the case of a public utility,

1 it's critical. It's -- you know -- when you think about
2 growth, which shareholders look for, you know, what's the
3 growth, it's a combination of the price of the stock and
4 the return or the dividends.

5 In the case of a utility, particularly, in our
6 case, KCP&L or GPE, you look at the growth potential and
7 regulated business with very modest growth in usage per
8 customer or customers or a total kilowatt hour usage is
9 one and a half to 2 percent a year.

10 In a regulated business, you have a rate of
11 return that's established. You're authorized. The --
12 really, the potential for growth is all in the dividend.
13 And in -- and most investors in utility stocks look for
14 that growth in the dividend, which, in our case, we've not
15 increased our dividend in at least a decade.

16 But on the other hand, we are paying a rate that
17 does provide a decent return, even without the growth of
18 the stock price. So that's -- that's what keeps the
19 engine running in the utility business is that dividend.

20 Q It's been suggested by the Commission staff that
21 companies like KCP&L that need to fund large
22 infrastructure improvements should just cut their
23 dividends and use those savings to -- to finance their --
24 their capital expenditures. Do you see any problems with
25 that theory?

1 A Yes. The -- the value of the -- to the
2 stockholder would drop dramatically. The price of the
3 stock would drop. The value that that shareholder is
4 holding would drop substantially.

5 Q Okay. But should that be a problem for the rest
6 of us?

7 A I think in -- in order to -- to have a viable,
8 ongoing utility and to have that utility as a utility such
9 as KCPL or GPE, that, yes, it's very important.

10 CHAIRMAN DAVIS: Okay. No further questions.
11 Thank you, Mr. Giles.

12 JUDGE PRIDGIN: Mr. Chairman, thank you. Are
13 there any further Bench questions? Any recross based on
14 Bench questions? No recross?

15 MR. THOMPSON: I have a couple.

16 JUDGE PRIDGIN: Mr. Thompson.

17 CROSS-EXAMINATION

18 BY MR. THOMPSON:

19 Q Chairman Davis asked you, Mr. Giles, about
20 Staff's change of position on the cost of removal income
21 tax issue. Do you recall that question?

22 A Yes.

23 Q Would you be surprised if I told you that Staff
24 doesn't consider that it's changed its position on that
25 issue?

1 A I don't -- I don't recall exactly the question
2 saying that -- or employing that they had changed their
3 position. I may have not understood.

4 Q Okay.

5 A I just know there's a difference in position.

6 Q In Staff's --

7 A In -- between the Staff and the company.

8 Q Very well. Thank you.

9 A Yeah.

10 Q With respect to bad debt, have you looked at
11 Staff's Statement of Positions?

12 A I -- I -- just what I have reviewed here today.

13 Q Okay. Would you be surprised if I told that you
14 Staff shows that as no longer being a contested issue?

15 A Would I be surprised?

16 Q No.

17 A No.

18 Q Okay. So as far as you know, that issue is
19 resolved?

20 A I don't know one way or another.

21 Q Okay. So you would not be surprised no matter
22 what I told you about that issue? Is that the case?

23 A Well, I know that Tim Rush and Steve Traxler
24 have been working to resolve certain issues. I don't know
25 the up-to-date minute resolution of a lot of issues in

1 this case.

2 Q Okay. Fair enough. Now, you also told Chairman
3 Davis, I recall, that incremental costs in excess of the
4 cost of service recognized in most recent rate case are
5 necessarily born by shareholders. Do you remember that?

6 A Yes.

7 Q Well, what if you're overearning?

8 A What would cause the overearnings?

9 Q Well, you know, between rate cases, costs and
10 rates get out of sync, don't they?

11 A Yes. Costs go up. Rates don't.

12 Q Well, sometimes costs go down, don't they?
13 Don't they?

14 A Very rarely.

15 Q Very rarely. Are you aware of the overearnings
16 complaint that the Staff brought against AmerenUE, I
17 believe, in 2000, 2001?

18 A 2000, 2001?

19 Q I think that's when it was.

20 A I'm not familiar with AmerenUE.

21 Q You don't recall that case? Okay. So you don't
22 think companies could ever overearn; that it?

23 A No, I didn't say that.

24 Q Well, hypothetically speaking, if the company
25 was overearning, then incremental costs between rate

1 cases, in fact, might be born by share -- by ratepayers;
2 isn't that right?

3 A I don't know what you mean by overearning.

4 MR. THOMPSON: Okay. No further questions.

5 Thank you, your Honor.

6 JUDGE PRIDGIN: Mr. Thompson, thank you.

7 Redirect?

8 MR. CONRAD: Your Honor, just --

9 JUDGE PRIDGIN: I'm sorry. Mr. Conrad.

10 CROSS-EXAMINATION

11 BY MR. CONRAD:

12 Q Mr. Giles, I was following along with your
13 questions that the Chairman asked you, particularly with
14 regard to the Hawthorne subrogation proceeds. Do you
15 recall that series of exchanges?

16 A I do.

17 Q And do I -- and I think, in specific, he asked
18 you about or you got to talking about the additional
19 purchase power expenses that have had to be incurred?

20 A Yes.

21 Q And I think I got down the quote correctly that
22 customers were never billed for those costs; is that
23 right?

24 A Yes.

25 Q Do you remember -- it's been a while ago. Do

1 you remember a little company out there in the east
2 bottoms called GST?

3 A I do.

4 Q Are you suggesting that you never billed them
5 for those costs?

6 A GST at that time was on a special contract.

7 Q I asked you did you bill them for those costs?

8 A Yes. Under that special contract.

9 Q And you do recall that there was some litigation
10 about that?

11 A There was a Commission --

12 Q That's litigation, sir. Is -- do you recall
13 that there was --

14 A Yes.

15 Q -- some litigation about that?

16 A I do.

17 Q Do you suppose that GST would have initiated
18 that complaint to which you refer if they hadn't been
19 billed for those costs?

20 A No.

21 Q So when you made the statement that customers
22 were never billed for those costs, were you excluding GST
23 as a customer -- excluding those costs as costs or
24 excluding the process that you used as something other
25 than billing?

1 A I was talking in generic terms about customers.

2 I wasn't talking about a special contract customer.

3 Q Well, GST was not a customer?

4 A They were a special contract customer.

5 Q Were they -- they were a customer?

6 A Yes, they were a customer.

7 Q Now, I believe Commissioner Jarrett asked you a
8 follow-up to my opening statement. Do you recall that?

9 A I don't know whether it was Commissioner
10 Jarrett, but I'll accept that.

11 Q Do you recall being asked about the -- something
12 about the regulatory plan?

13 A Yes.

14 Q Okay. What, in your view, was the purpose of
15 the regulatory plan?

16 A Well, the purpose of the regulatory plan from
17 KCPL's perspective was to enable us to embark on a
18 comprehensive energy plan that included building of a coal
19 plant, base load coal plant, environmental equipment that
20 we'll seen in IATAN I, wind generation, and to protect our
21 credit rating once we made that announcement that we were
22 embarking on that. That was our objective.

23 Q If there had not been an anti-CWIP piece of
24 legislation such as Proposition 1, would you have needed
25 the regulatory plan?

1 A Yes.

2 Q Even though you could have filed a series of
3 rate cases to simply have recovered those increments or
4 recovered both on a return on them?

5 A Yes.

6 Q I see. And since the regulatory plan was
7 approved and the Commission issued its decision in the
8 0314 case, the plan of additions have -- have continued?

9 A We are -- are -- are in the process of building
10 the coal plant. The wind has been completed. The scene
11 environmental has been completed.

12 Q An environmental on one, IATAN I?

13 A It is currently underway. It is scheduled for
14 completion the end of '08.

15 Q Did you do anything else in addition to that
16 plan after the Commission's decision in 314?

17 A What do you mean by anything else?

18 Q Did you announce purchase of another utility?

19 A We did.

20 Q Was that comprehended by the regulatory plan?

21 A No.

22 MR. CONRAD: Thank you, sir. That's all.

23 JUDGE PRIDGIN: Mr. Conrad, thank you. Any
24 further recross?

25 MR. BRUDEN: If I may?

1 JUDGE PRIDGIN: Yes, sir. Mr. Bruden.

2 EXAMINATION

3 BY MR. BRUDEN:

4 Q Mr. Giles, I believe I heard you testify into
5 one -- regard to one of the questions that Mr. Dittmer, a
6 DOE witness, misrepresented the facts in regard to what
7 you referred to as asymmetrical rate treatment. Can you
8 tell me, please, how specifically Mr. Dittmer, in your
9 opinion, misrepresented facts?

10 A Well, my -- my reference there is to this idea
11 that the company only wants -- it actually was Mr. Dittmer
12 and Mr. Hyneman. Their position is that when there's
13 costs involved, the company wants to recover them. When
14 there's revenue involved, the company doesn't want to flow
15 that back, similarly to how the costs are amortized.

16 And my point is they are very different items.
17 Revenue follows costs. Revenue matches costs. So if the
18 costs are prudently incurred, they should be recovered.
19 That's the difference between the revenue side and the
20 cost side.

21 If the costs had already been previously
22 recovered from customers, then the revenue should
23 certainly be flowed back to customers. So it's a matching
24 principle.

25 Q Well, you're speaking of matching principle.

1 You're speaking rate-making theory which, of course, we
2 all have a long involvement in. But you said that he
3 misrepresented facts, sir. So where was a misrepresented
4 fact -- representation of a fact, such as what you speak?

5 A Well, as I just described it, that was -- that
6 was my reference.

7 Q Okay.

8 A If that's not a -- if that's not an accurate
9 characterization, then I'm sorry.

10 Q Okay. I wanted to ask this now. The explosion
11 and the consequent need for replacement power and so on,
12 did that cause the company to expend, to pay out more
13 money in total than it would have paid out had that
14 explosion had not happened and Hawthorne had remained
15 online?

16 A Yes.

17 Q Do you know how much more money, all total?

18 A It was over \$150 million.

19 Q And how do you calculate that, sir?

20 A We calculated it by looking at what -- what have
21 -- what would have been our cost of fuel and purchase
22 power with the unit in place versus without the unit.

23 Q Can you -- is -- is that found in any of the
24 exhibits or anywhere, any of the papers that are available
25 to us now, the calculation you just mentioned?

1 A It's not. It's -- it was provided in the
2 litigated case that Mr. Conrad referred to, but it -- it's
3 certainly available.

4 Q Okay. I did also want to ask, the company
5 received these monies in 2006 and booked them as a
6 negative expense in 2006, did it not?

7 A Booked them as a negative expense. No. I don't
8 -- I don't know that that's the case.

9 Q Okay. Did the company -- we can -- we can
10 discuss what we mean by negative expense. But did the
11 company receive the monies in 2006?

12 A Yes.

13 Q Okay. Did it book them in some way, shape or
14 form in 2006?

15 A Yes.

16 Q And is the fact that it received and booked
17 these monies in 2006 a strong indication that these monies
18 do bear some significant relationship to the test year
19 2006?

20 A No.

21 Q Why not?

22 A Well, the test year, what you're attempting to
23 do is to replicate an ongoing operation of the company.
24 So you're setting rates for an extended period of time.

25 Typically, you're not setting rates for just one

1 year. You're setting rates based on what the anticipated
2 long-term effect would be. So you use a test year to
3 quantify an estimate that impacts.

4 So by including in a test year an abnormal
5 revenue that's related to a ten-year old -- ten-year old
6 occurrence is not appropriate.

7 Q But you will agree with me, will you not, that
8 in order to treat these monies in the manner that you've
9 described, the Commission would have to ignore the fact
10 that they were booked and received in 2006, would it not?

11 A The fact that this was received in 2006 only
12 means that you need to adjust out that abnormal amount.

13 In --

14 Q Other than that, the year of receipt, the actual
15 year that the money came into the company's pocket is of
16 no relevance, of no meaning in this calculation in theory;
17 sir? Is that what you're saying?

18 A That's exactly right.

19 Q Okay. At page 5 of your rebuttal, you said that
20 Mr. Dittmer believes that the company was earning in
21 excess of other utilities; is that right?

22 A Yes.

23 Q Okay. Can you tell me why you believe that it
24 was and is Mr. Dittmer's view that the company was earning
25 in excess of other utilities?

1 A I have no idea.

2 Q No, no. I'm asking where do you find in his
3 testimony an assertion to the effect that the company was
4 earning in excess of other utilities?

5 A I don't have his testimony in front of me.

6 Q Let me provide you my copy, then. Or hold on.
7 We'll provide a clean copy. My colleague is absolutely
8 right.

9 MR. RIGGINS: Is that the Dittmer direct?

10 MR. BRUDER: Yes.

11 MR. RIGGINS: I can provide that to him.

12 JUDGE PRIDGIN: Mr, Giles, if I can get you to
13 hold on to your answer, the court reporter needs to change
14 tapes. If everyone can give us just a second, please.

15 (Break in proceedings.)

16 JUDGE PRIDGIN: All right. Thank you. And I'm
17 sorry. Is there a question pending? Mr. Giles, did you
18 have a question to answer?

19 MR. GILES: Yes.

20 JUDGE PRIDGIN: Whenever you're ready, sir.

21 A Page 19 of Mr. Dittmer's direct testimony, top
22 of the page. Quote, Finally, I note that KCPL's earnings
23 during the years 2000 through 2005 were adequate, if not
24 robust, in relation to returns being authorized by this as
25 well as other State Regulatory Commissions during the

1 noted years.

2 Q Adequate, but not robust. Now --

3 A If not robust.

4 Q Adequate, if not robust. Then it's your view
5 that that -- that in making that statement, Mr. Dittmer
6 was asserting that the company was earning in excess of
7 other utilities?

8 A That's what it says.

9 Q Where does it say in excess of other utilities,
10 sir?

11 A Well, this doesn't say it in particular. It
12 alludes to or adequate, if not robust, in relation to
13 returns being authorized by this as well as other State
14 Regulatory Commissions.

15 So that's what it says. And my interpretation
16 of it was what I stated in my testimony.

17 Q Okay. You have no further basis for that --
18 that statement at this point?

19 A No. It's based on this paragraph on page 19.

20 Q KCP&L sought an accounting order for the 2005
21 ice storm damage, did it not?

22 A We did.

23 Q In seeking and in obtaining that accounting
24 order, sir, was the company required to demonstrate that
25 those extraordinary costs would place it in the situation

1 of underearning?

2 A That is a standard that's typical for an
3 accounting authority order.

4 Q What is typical for an accounting authority
5 order?

6 A Well, that the -- the impact of the event must
7 be significant. And significant is not defined very
8 rigidly. But in general, we look at it that, you know, at
9 that point in time, anything over 10 or \$12 million would
10 be subject to going in to get an accounting authority
11 order.

12 Q Well, could we have the -- the court reporter
13 read the question back, please?

14 (The previous question was read back.)

15 Q (By Mr. Bruder) Well, okay. That's -- that's
16 not quite it. Let me just repeat it. We established that
17 KCPL did, indeed, seek such an accounting order.

18 And what I asked was, when it obtained that, was
19 it required to demonstrate that absent such an order it
20 would find itself in the situation of underearning? Did
21 it have to make such a demonstration, sir, or not?

22 A We incurred about \$55 million related to that
23 ice storm in 2002. We felt that was significant, and we
24 went in to get the accounting authority order based on the
25 magnitude of that. We didn't do a specific test or

1 calculation.

2 MR. BRUDER: Judge, I've asked the same question
3 twice, and it's a yes or no question. I do request that
4 -- that the witness be instructed to give a yes or no
5 answer to this question.

6 JUDGE PRIDGIN: All right. If you could ask it
7 one more time. And it does sounds like a yes or no
8 question to me. So if you could ask it one more time,
9 Mr. Bruder.

10 MR. BRUDER: Thank you.

11 Q (By Mr. Bruder) When the company came in for
12 this accounting order we've been discussing, was the
13 company required in order to obtain that order to
14 demonstrate that absent that order it would find itself in
15 a situation where it was underearning?

16 A Was it required by whom?

17 Q Was it required by any Commission rule, any
18 Commission order, any statute, any regulation, anything
19 else that had any binding authority of any sort upon the
20 company?

21 A Are you asking me was there a calculation
22 required or was just submitting the magnitude of the
23 dollars required? That's what we did is we submitted a
24 \$55 million expense and said we felt like this should be
25 amortized and that --

1 Q And did you assert when you submitted that --
2 that -- that if you didn't get that \$55 million expense
3 your company would be placed in a situation of
4 underearning? Yes or no, sir, please?

5 A I don't think we said we would be underearning
6 necessarily. I said it was a significant impact on
7 earnings.

8 Q Was your company required by any applicable rule
9 to make such a demonstration, sir?

10 A I don't know.

11 Q Is it your position now that if any credits or
12 refunds pertaining to a prior period are received during a
13 test period, those credits or refunds should go
14 exclusively to shareholders unless a party can demonstrate
15 that the company was overearning in the prior period from
16 which the refund or credit originated?

17 A No.

18 MR. BRUDER: Nothing further. Thank you.

19 JUDGE PRIDGIN: Thank you. Any further recross?
20 Redirect?

21 MR. RIGGINS: Thank you.

22 REDIRECT EXAMINATION

23 BY MR. RIGGINS:

24 Q Mr. Giles, you were asked some questions by the
25 Chairman regarding the Surface Transportation Board

1 litigation. Specifically, he asked you to think about if
2 there was a retroactive refund awarded as a part of that
3 case how much of that money would go back to customers.

4 And as I recall, you hesitated for a minute, and
5 then you said somewhere between 50 percent and 100
6 percent. Does that match your recollection?

7 A Yes.

8 Q Was your hesitation based on the issue of how
9 much of those costs had actually been paid by customers?

10 A Yes.

11 Q And that goes back, does it not, to the point
12 that you made initially that just because an item is
13 amortized or amortization is allowed doesn't necessarily
14 mean that those costs are recovered from customers?

15 A That's correct.

16 Q So, for example, if it were to turn out that 100
17 percent of the surface transportation costs litigations --
18 litigation costs were -- were paid by customers, what
19 percentage of any retroactive refund would go to
20 customers?

21 A 100 percent.

22 Q If none of those costs were paid for by
23 customers, how much, if any retroactive refund would go to
24 customers?

25 A Zero.

1 Q And that's the basis of your argument regarding
2 the cost of subrogation issue, was it not?

3 MR. THOMPSON: Object to the form of the
4 question. This is redirect, Judge. He's not allowed to
5 ask leading questions.

6 MR. RIGGINS: I can rephrase the question.

7 JUDGE PRIDGIN: Thank you.

8 MR. RIGGINS: -- if it will make happy --
9 everyone happy.

10 JUDGE PRIDGIN: Sustained.

11 Q (By Mr. Riggins) Is that -- is that the same
12 basis on which you're arguing that Hawthorne 5 subrogation
13 costs -- or excuse me -- Hawthorn 5 subrogation refunds
14 should not be flowed back to customers?

15 MR. CONRAD: That's also leading. I object to
16 it.

17 Q (By Mr. Riggins) It's an open question.

18 JUDGE PRIDGIN: Overruled. I think the question
19 is, is that the basis. I don't think it's suggesting an
20 answer.

21 Q (By Mr. Riggins) You can answer.

22 A Yes.

23 Q Thank you. Chairman Davis and then counsel for
24 DOE asked you some questions about the additional costs
25 incurred as a result of the Hawthorn 5 explosion and, in

1 Chairman Davis' case, perhaps some of the savings that
2 occurred as a result of the Hawthorn 5 explosion. Do you
3 recall that?

4 A I do.

5 Q And with regard to the \$150 million figure
6 that's contained in your testimony on page 5, is -- was
7 your previous testimony that that number is the difference
8 between what KCPL actually had to pay for power with
9 Hawthorn out as compared to what it would have paid if
10 Hawthorn 5 had been operational?

11 A Yes. That's true.

12 Q So would it be an accurate statement that,
13 although there were savings and expenses as a result of
14 the Hawthorn 5 explosion, the expenses exceeded the
15 savings?

16 A Yes.

17 MR. THOMPSON: Object to the form of the
18 question.

19 JUDGE PRIDGIN: I'll overrule it.

20 Q (By Mr. Riggins) You were asked some questions
21 by Commissioner Murray regarding class cost of service and
22 rate design. Do you recall that?

23 A I do.

24 Q Did the signatory parties to the regulatory
25 plan, including KCPL, agree in that regulatory plan that

1 they would not do any class cost of service study in this
2 case?

3 A Yes.

4 Q Chairman Davis asked you some questions about
5 what -- what the impact would be on KCPL if it -- if it
6 cut its dividend to partially fund its construction
7 program. Do you recall that?

8 A I do.

9 Q And I think you talked a little bit about the --
10 the impact on -- on KCPL if that were to occur. Could you
11 tell us how that would impact KCPL's ability to continue
12 the construction program that's underway?

13 A The ability to issue equity at a price that
14 would generate enough funds to support the construction
15 would be impossible due to the drop in the stock price.

16 Q Moving on to a couple of questions from
17 Mr. Conrad, he referenced the -- the GST contract and
18 complaint filed at the Commission. Do you recall that?

19 A I do.

20 Q And you indicated, I believe, that, in fact, GST
21 did end up paying some of the increased costs associated
22 with the Hawthorn outage, did you not?

23 A Yes.

24 Q How many other customers had a contract like
25 GST's?

1 A At that time, I believe GST was the only one.

2 Q And with regard to the GST complaint case that
3 Mr. Conrad referenced, what was their -- what was their
4 complaint about in that case? Do you recall?

5 A Yeah. They had several complaints. One -- what
6 the main issue was, that the company was negligent, and,
7 therefore, they should pay the cost of the replacement
8 power under the terms of their contract because,
9 basically, the company blew the plant up.

10 They were also raising issues of overall plant
11 maintenance of the company for various other reasons and
12 were saying that even though their contract provided
13 real-time pricing to them, they didn't feel like they
14 should continue to pay it.

15 Q Do you recall in whose favor the Commission
16 ruled in that case?

17 A In KCPL's favor.

18 Q Mr. Conrad also asked you a question something
19 like this: If -- if Missouri had had a -- or had allowed
20 construction work in progress, would the amortization
21 provision of the -- the regulatory plan have been
22 necessary. Do you recall that?

23 A I do.

24 Q And I think you indicated it still would have
25 been necessary; is that right?

1 A Yes.

2 Q Does KCP&L have a similar regulatory plan in
3 Kansas?

4 A Yes, we do.

5 Q Does Kansas allow construction work in progress?

6 A Yes, it does.

7 Q Final question. You were asked some questions
8 by counsel for DOE about when the Hawthorn 5 subrogation
9 proceeds were received. Why were the Hawthorn 5 -- or at
10 least the subrogation proceeds that we're arguing about in
11 this case, why were those subrogation proceeds received in
12 '06 as opposed to '05 or '04 or '07 or any other year?

13 A It was just a matter of the timing of the
14 litigation and the time it took to resolve the -- the
15 issues.

16 MR. RIGGINS: Thank you. That's all I have,
17 Judge.

18 JUDGE PRIDGIN: All right, Mr. Riggins. Thank
19 you. All right. This looks to be a convenient time to
20 break. I show the time, according to the clock on the
21 back wall, to be about ten till three or a little before.
22 Let's resume at roughly five after three, and -- and we
23 will -- we will have Mr. Traxler come to the stand. All
24 right. We're in recess.

25 (Break in proceedings.)

1 JUDGE PRIDGIN: All right. We're back the
2 record. I understand that Mr. Traxler is the next
3 witness. Is there anything from counsel before he's
4 sworn?

5 Mr. Traxler, if you'd come forward and be sworn,
6 please.

7 MR. MILLS: Judge, I have a housekeeping matter
8 to bring up at some point, whenever it's convenient for
9 you.

10 JUDGE PRIDGIN: Okay. Mr. Mills, now is fine.

11 MR. MILLS: What -- is it -- is it possible to
12 get a CD of today's proceedings relatively quickly, like
13 perhaps this evening?

14 MR. THOMPSON: Did you find them that
15 interesting?

16 MR. MILLS: There was -- there was a exchange
17 between Commissioner Appling and Mr. Giles that seemed to
18 refer to a conversation that Commission Appling had with
19 Mr. Giles three or four months ago about what KCPL really
20 needed out of this case. And I want to review the CD to
21 be sure that my understanding of what Commissioner Appling
22 was saying is what he actually did say. Because if that
23 is the case, that's somewhat troubling. So --

24 MR. RIGGINS: The --

25 JUDGE PRIDGIN: I can e-mail our IT Department

1 and ask how quickly they can get a CD of today's
2 proceedings.

3 MR. MILLS: That -- that would be great. Thank
4 you. And failing that, can I ask that the transcript be
5 expedited?

6 JUDGE PRIDGIN: I already asked for that this
7 morning for other purposes. And, yes, certainly, that's
8 okay.

9 MR. MILLS: Both would be preferable.

10 MR. RIGGINS: Your Honor, I would also be
11 willing to put Mr. Giles back on the stand to inquire
12 about any questions that anyone had regarding that issue
13 if that would be helpful.

14 JUDGE PRIDGIN: Okay. Mr. Mills, is that
15 something that you want done? Or did you want to question
16 him? Or do you simply want the CD?

17 MR. MILLS: I certainly may want to question him
18 depending on what I see when I see the CD or the
19 transcript. My first step would be to -- just to confirm
20 what -- what it was that -- whether Commissioner Appling
21 said what I thought he said.

22 JUDGE PRIDGIN: If I'm not mistaken, Mr. Giles
23 is due to be back on the stand for other issues anyway,
24 so --

25 MR. MILLS: Yes, he is.

1 JUDGE PRIDGIN: All right. Mr. Mills, thank
2 you. Mr. Traxler, if you'd raise your right hand to be
3 sworn, please.

4 STEVE TRAXLER,
5 being first duly sworn to testify the truth, the whole
6 truth, and nothing but the truth, testified as follows:

7 DIRECT EXAMINATION

8 BY MR. THOMPSON:

9 JUDGE PRIDGIN: Thank you very much. If you
10 would, please, have a seat. And, Mr. Thompson, anything
11 before he's tendered for cross?

12 MR. THOMPSON: Thank you, Judge.

13 Q (By Mr. Thompson) Mr. Traxler, with respect to
14 your direct testimony, do you have any corrections?

15 A Yes, I do. I have one question on my direct
16 testimony.

17 Q What is your correction?

18 A On page 12, line 22, at the end of the sentence,
19 the, the word spelled tiled, t-i-l-e-d, should be tied,
20 t-i-e-d.

21 Q Very good. Any other corrections to that piece
22 of testimony --

23 A No, sir.

24 Q -- which I think has been marked as Exhibit 112?
25 Now, Mr. Traxler, with respect to your rebuttal testimony,

1 HC and NP, marked as Exhibit 113, do you have any
2 corrections?

3 A No, I do not.

4 Q And, Mr. Traxler, with respect to your
5 surrebuttal testimony, which has been marked as Exhibit
6 114, and which comes only in NP version, do you have any
7 corrections to this testimony?

8 A No, I did not.

9 Q Now, Mr. Traxler, you also produced, I believe,
10 what has been marked as Exhibit 101 or you are the
11 sponsor, permit me to correct that, of Staff's cost of
12 service report; is that correct?

13 A Yes, it is.

14 Q Do you have any corrections for Exhibit 101,
15 Staff's cost of service report?

16 A No, I do not.

17 Q And that's also HC and NP, isn't it?

18 A Yes, it is.

19 Q Finally, you're also the sponsor for what's been
20 marked as Staff Exhibit 102, Staff's direct accounting
21 schedules; is that correct?

22 A Yes.

23 Q Do you have any corrections to that exhibit,
24 Mr. Traxler?

25 A No, I don't.

1 MR. THOMPSON: At this time, Judge, I'm going to
2 move the admission of Exhibit 101, the cost of service
3 report, and, also, Exhibit 102, the direct accounting
4 schedules.

5 I think I understand our agreement is we'll
6 leave the testimony until the last time the witness
7 appears.

8 JUDGE PRIDGIN: And that's my understanding as
9 well. So, apparently, Exhibits 101 and 102 are offered;
10 is that correct, Mr. Thompson?

11 MR. THOMPSON: That is correct

12 JUDGE PRIDGIN: All right. Any objections?

13 MR. MILLS: Well, with respect to Exhibit 101,
14 it is not in the form of testimony. I don't believe that
15 it -- that it bears affidavit. And I'm not sure that it
16 complies with the Commission's testimony rules. But
17 having said that, if it's going to go in for simply the
18 purposes of reflecting Staff's cost of service at that
19 time, I don't have any objection to it.

20 JUDGE PRIDGIN: Further objections? All right.
21 Exhibits 101 and 102 are admitted.

22 MR. THOMPSON: Thank you, your Honor.

23 Q (By Mr. Thompson) With respect to Mr. Mills'
24 non-objection to Exhibit 101, Mr. Traxler, are the
25 contents of Exhibit 101 true and correct to the best of

1 your knowledge and belief?

2 A Yes, they are.

3 Q Thank you.

4 MR. THOMPSON: I tender this witness for
5 cross-examination.

6 JUDGE PRIDGIN: Mr. Thompson, thank you. Does
7 KCPL have cross for this witness?

8 MR. RIGGINS: No cross, your Honor.

9 JUDGE PRIDGIN: Any cross for -- for Mr. Traxler
10 on the overview issue? All right. Seeing none, let me
11 see if we have any questions from the Bench. Commissioner
12 Jarrett, any questions?

13 COMMISSIONER JARRETT: I have no questions.

14 JUDGE PRIDGIN: Mr. Thompson?

15 MR. THOMPSON: I noticed one omission, Judge. I
16 would also like to have an exhibit marked, the
17 reconciliation, and perhaps offer it through this witness
18 if I may do that.

19 JUDGE PRIDGIN: According to my schedule, this
20 would be Exhibit No. 121. Does that match others? I
21 believe the -- the Staff exhibit lists have Exhibits 20 so
22 this would be No. 121 if I'm not mistaken.

23 MR. THOMPSON: I believe you are correct, your
24 Honor.

25 MR. WILLIAMS: Are you talking about the most

1 recent?

2 MR. THOMPSON: Okay. It's No. 104. I'm sorry.

3 JUDGE PRIDGIN: That's all right. Excuse me. I
4 overlooked that. Exhibit 104.

5 MR. THOMPSON: I have copies here. Do the
6 parties need a copy of the reconciliation? Or as we say
7 in Kansas City, reconcilment?

8 Q (By Mr. Thompson) Mr. Traxler, did you prepare
9 the reconciliation/reconcilment that's been marked as
10 Staff Exhibit 104?

11 A Yes, I did with the assistance of -- of
12 employees of Kansas City Power & Light company.

13 Q As far as you know, is that document true and
14 correct?

15 A Yes, it is.

16 MR. THOMPSON: I move the admission of Staff
17 Exhibit 104.

18 JUDGE PRIDGIN: Okay. No. 104 has been offered.
19 Any objections? Hearing none, Exhibit 104 is admitted.

20 MR. THOMPSON: Thank you, your Honor. I'll
21 tender the witness one more time.

22 JUDGE PRIDGIN: Any cross-examination for
23 Mr. Traxler?

24 MR. MILLS: I do have a few questions with
25 respect to the reconcilment.

1 JUDGE PRIDGIN: Yes, sir.

2 CROSS-EXAMINATION

3 BY MR. MILLS:

4 Q Mr. Traxler, can you -- can you explain to me
5 exactly what this is showing on page 2 of 2 with respect
6 to the Office of Public Counsel position? There are --
7 there three issues listed in lines 122 through 124 and
8 then a total revenue requirement number at lines 125.

9 What is the starting point for those -- for the
10 values shown on those issues?

11 A The -- the assumption made here is the Office of
12 Public Counsel is in agreement with the Staff's position
13 on the other issues. And so this represents the
14 incremental difference between the Office of Public
15 Counsel and Kansas City Power & Light company that's not
16 already reflected or not reflected in the Staff position.

17 Q Okay. So, for example, in line 122 where it
18 shows a positive number for return on equity, that's
19 because Public Counsel's position on that issue is closer
20 to the company's issue than Staff's?

21 A That is correct.

22 Q And the next two lines show negative numbers
23 because Public Counsel's position moves farther away from
24 the company's position and Staff --

25 A That is correct.

1 Q Okay. So in total to find out the -- the -- the
2 value of the Public Counsel's case, you essentially net
3 the 6.5 million from the 14. 4 million of the Staff; is
4 that correct?

5 A Well, you'd net the three issues above it with
6 the 14 to get a net of 6.5 million for Public Counsel,
7 Office of Public Counsel. Yes.

8 MR. MILLS: Okay. Thank you. That's all I had.

9 JUDGE PRIDGIN: Mr. Mills, thank you. Further
10 cross? All right. Any questions from the Bench?
11 Commissioner Jarrett? All right. I have no questions.
12 Redirect?

13 MR. THOMPSON: None, thank you.

14 JUDGE PRIDGIN: All right. Thank you. And if
15 there's nothing further from counsel, Mr. Traxler, you can
16 step down on this issue.

17 It's my understanding we would be moving on to
18 Mr. Giles on Hawthorn 5 subrogation proceedings.

19 MR. FISCHER: Your Honor, I -- I have talked
20 with counsel about perhaps taking my witness on incentive
21 compensation out of order to get him on an airplane if
22 possible yet this evening.

23 I think there's limited cross. But if we could
24 do that, with leave of the Commission, that would be
25 greatly appreciated.

1 JUDGE PRIDGIN: Okay. Any -- any objection from
2 counsel? All right. Hearing none -- I'm sorry. Who is
3 your witness, Mr. Fischer?

4 MR. FISCHER: KCPL would call Michael Halloran.

5 JUDGE PRIDGIN: All right. Mr. Halloran, if
6 you'd come forward to be sworn, please.

7 MR. WILLIAMS: I don't know. We need to get
8 another attorney here.

9 JUDGE PRIDGIN: Since we're -- I'm sorry,
10 Mr. Halloran. You can have a seat since we're going a
11 little bit out of order. Staff Counsel said they're
12 looking for another attorney. So let's go off the record
13 for just a moment.

14 (Break in proceedings.)

15 JUDGE PRIDGIN: All right. Mr. Halloran, if
16 you'd raise your right hand to be sworn, please.

17

18 MICHAEL HALLORAN,
19 being first duly sworn to testify the truth, the whole
20 truth, and nothing but the truth, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FISCHER:

23 JUDGE PRIDGIN: Thank you very much. Anything
24 from KCPL before he's tendered for cross.

25 DIRECT EXAMINATION

1 BY MR. FISCHER:

2 Q Mr. Halloran, your testimony has been marked as
3 Exhibit 14?

4 A Uh-huh.

5 Q Do you have any corrections to that exhibit?

6 A I do not.

7 MR. FISCHER: I would tender the witness for
8 cross-examination.

9 JUDGE PRIDGIN: All right. Thank you. And
10 Staff will have cross, I assume?

11 MR. DOTTHEIM: I -- yes. But I think we're
12 last.

13 JUDGE PRIDGIN: I understand. I'm just trying
14 to -- trying to see who else may have cross besides Staff.
15 Any -- any other parties besides Staff wish to counsel --
16 excuse me -- wish to cross-examine on this issue?

17 MR. BRUDEN: Department of Energy has some
18 limited cross-examination.

19 JUDGE PRIDGIN: All right. Whenever you're
20 ready, Mr. Bruden.

21 MR. BRUDEN: Thank you.

22 CROSS-EXAMINATION

23 BY MR. BRUDEN:

24 Q I'm looking at -- on your rebuttal testimony of
25 page 3, lines 19 through 21. Tell me when you have it,

1 please, sir.

2 A I have it.

3 Q You say that additional cash -- I'm reading a
4 word "additional cash" from line 19 and now dropping to
5 21?

6 A Uh-huh.

7 Q You say, Additional cash ensures a steady,
8 reliable, low-cost supply of electricity to the customer.

9 sir, additional cash doesn't really ensure --
10 that is your word, ensure a reliable low cost of
11 electricity to the customer, does it? It may influence
12 that, but it certainly doesn't ensure it, does it?

13 A I would say that's correct.

14 Q Thank you. At page 4, line 20, you refer to
15 something called Tier 1 standing, do you not?

16 A Page 4?

17 Q Yes.

18 A It's page 5 of my copy, but yes, I see that.

19 Q Okay. Can you explain what that is that you
20 refer to as Tier 1 standing?

21 A That is related to the category in which KCPL
22 has been placed with respect to its position regarding its
23 ratings.

24 Q And -- and what entity places it there, sir?

25 A I'm not a hundred percent sure, to be honest.

1 Q Okay. Where would we find this Tier 1?

2 A This could be found, I believe, if you looked at
3 how the credit rating agencies classify utilities.

4 Q Is there a publication or something online where
5 we could find it?

6 A I could certainly find that for you.

7 Q Okay. Again, at page 4, line 20, you speak of
8 an Edison award. Could you tell me what award that is
9 you're referring to?

10 A That's an award the Edison Electric Institute
11 awards on a periodic basis to utilities for certain kinds
12 of performance.

13 Q Do you know what kind of performance that was
14 awarded for in this situation to which you --

15 A I don't know the specific performance. It was
16 related to the award.

17 Q When was this award?

18 A I believe it was in 2005.

19 Q Okay. Now, as I understand it, it's your
20 testimony that these things, the Tier 1 and the award,
21 constitute evidence that the company delivers benefits to
22 its customers. I'm finding that at page 4, line 21.

23 Can you tell me how those things constitute
24 evidence that the company delivers benefits to the
25 customers?

1 A I think in -- in each case, the -- in the case
2 of the award, and, secondly, in the case of the tiering
3 situation that that is indications of an organization that
4 is being efficiently managed in the case of the Tier 1
5 status.

6 The Edison Award is for numerous classifications
7 in terms of how they put and give these awards out in
8 terms of the performance in all categories by utility.

9 Again, I don't know all the exact criteria that
10 Edison uses for the awarding of these situations. But in
11 any case, they're given to those who are deemed to be
12 better performing utilities.

13 Q Well, in the case of the Edison award, you don't
14 know, is it not correct, what the reason was that the
15 company received this award?

16 A It's advertised as being for multi-faceted type
17 of performance and categories. I don't know all the
18 criteria and the weighting they place on those criteria.
19 No, I do not.

20 Q Is it fair to say that in the case of both the
21 Tier 1 and the Edison award which we've discussed briefly
22 here that we really can't tell since we don't have the
23 specifics on either one whether those benefitted
24 customers?

25 A Without knowing the exact criteria and the

1 weighting upon which -- weighting they placed on those, I
2 think that's probably an accurate statement.

3 Q Thank you. I'm looking now at page 5 of your
4 testimony, lines 12 through 13.

5 A Okay.

6 Q There, you speak of the possibility of giving a
7 reward for strong performance for the consumer that is
8 unrelated to financial results.

9 A Uh-huh.

10 Q Sir, can you give us an example of this company
11 recognizing with an award to an employee strong
12 performance to the customer unrelated to financial
13 results?

14 A The plan is designed to allow that category of
15 the incentive program to make awards like that. I don't
16 have the exact ratings of each employees and which --
17 which criteria were used to give which awards to those
18 people. So I couldn't cite what Bob Smith or Mary Jones
19 may have received and why.

20 Q Well, let me ask the question a different way.
21 Do you know of any specific example in which any
22 particular employee received this sort of award for a
23 strong performance for the customer unrelated to the
24 financial results?

25 A It is my understanding and the purpose of the

1 design of this part of the incentive program was to reward
2 performance in non-financial categories. So I can't cite,
3 again, specifically how Bob Smith and Mary Jones were
4 recognized in certain areas with the intention of the
5 plan, and that part of it was to reward that kind of
6 performance.

7 Q Well, once again, I'm going to ask you, sir, I
8 understand that -- that your review was the intended
9 purpose of this. But do you know any specific example of
10 it -- of it's actually having?

11 A I couldn't at this stage sit here and be able to
12 cite that. No.

13 Q Okay. Are you familiar with the stipulation and
14 agreement that was agreed to and executed by most of the
15 parties in the 2005 KCP&L rate proceeding?

16 A I'm not.

17 Q Then you won't know what effect the terms of
18 that stipulation and agreement may have on the company's
19 chances of financial success?

20 A Being unfamiliar with it, I would not.

21 MR. BRUDER: Nothing further. Thank you, sir.

22 JUDGE PRIDGIN: Mr. Bruder, thank you. Any
23 other counsel other than Staff have cross?

24 JUDGE PRIDGIN: All right. Mr. Dottheim.

25 MR. DOTTHEIM: Thank you.

1 CROSS-EXAMINATION

2 BY MR. DOTTHEIM:

3 Q Good afternoon, Mr. Halloran.

4 A Hello.

5 Q Mr. Halloran, do you know what percentage of
6 KCPL and GPE executives that were eligible for a
7 short-term discretionary bonus award received a short-term
8 discretionary bonus award?

9 A I do not know the exact percentage. It's my
10 understanding that a large proportion did.

11 Q Do you know whether it was 100 percent?

12 A I do not know that.

13 Q Your answer then is you don't -- you do not know
14 what the percentage is, do you not?

15 A I don't -- as I just said, I do not know the
16 exact percentage, no.

17 Q Do you know what the size of those bonus awards
18 were for the test year in this case?

19 A Well, they ranged up to 20 percent of the award
20 opportunity for those, each person eligible. So are you
21 looking for a percentage term or dollar term or --

22 Q Dollar term.

23 A I would say they ranged from zero at the low end
24 to as much as -- let me just think on a round numbers
25 basis. Probably 15 to \$20,000 at the high end.

1 Q Do you know specifically what the size of any of
2 those discretionary bonus awards were?

3 A By person or --

4 Q By size. Could you --

5 A I don't have a chart with me, no, that would
6 allow me to cite those numbers.

7 Q Do you know about name any of the -- the
8 individuals? Could you identify -- and I'm not asking you
9 to disclose any highly confidential information by
10 actually naming one of those -- those -- those
11 individuals.

12 A Could you maybe elaborate a bit on your
13 question?

14 JUDGE PRIDGIN: Did I understand the question --
15 the question, I'm sorry, is if you -- if you -- could you
16 match a dollar figure to a name like you're saying, Steve?

17 MR. DOTTHEIM: Yes.

18 JUDGE PRIDGIN: Like your hypothetical Mary
19 Jones received X amount of dollars, would you be able to
20 do that?

21 A Oh, you mean, for example, had a list of names
22 here and a list of dollars here could I match them up?
23 Would I be able to do that?

24 Q (By Mr. Dottheim) Yes.

25 A I don't think I would be able to do that, no.

1 Q Have you ever seen a list of the individuals who
2 received short-term discretionary bonus awards for 2006
3 for KCPL and GPE?

4 A Yes, I have seen a list.

5 MR. DOTTHEIM: May I approach the Bench?

6 JUDGE PRIDGIN: You may.

7 Q (By Mr. Dottheim) Mr. Halloran, I'm going to
8 hand you a copy of KCPL's response to Staff Data Request
9 205, which -- which asks, one, provide the executive
10 short-term incentive work sheet which reflects the
11 calculation of the incentive compensation paid in 2007 for
12 the 2006 plan.

13 Two, provide the individual goals for each
14 executive paid under the 2005 and 2006 annual executive
15 incentive plan (See Data Request 406 ER-2006-0314). And
16 the response says, See attached response.

17 JUDGE PRIDGIN: Would you like that labeled,
18 Mr. Dottheim.

19 Q (By Mr. Dottheim) Well, I'm going to turn to a
20 page that's identified -- it's -- it's a legal size sheet.
21 It's termed -- it's printed sideways. And at the top,
22 it's 2006 Officer Annual Incentive Plan Calculation Work
23 Sheet. And it's -- it's marked highly confidential.

24 JUDGE PRIDGIN: Did you want that marked as an
25 exhibit, Mr. Dottheim?

1 MR. DOTTHEIM: No, not at this time.

2 JUDGE PRIDGIN: All right. Thank you.

3 Q (By Mr. Dottheim) Mr. Halloran, have you ever
4 seen that document before?

5 A I have seen this or something very close to it.
6 Yes.

7 Q Okay. And does that identify the short-term
8 incentive compensation plan, the discretionary -- excuse
9 me -- the short-term discretionary bonus awards on that --
10 on that work sheet that I've turned to?

11 A It appears to for the year 2006.

12 Q Okay. And do you -- do you know whether that
13 identifies all the discretionary awards that were -- were
14 made for the year 2006?

15 A It would appear to by its format. To the extent
16 that there was any adjustment or correction, it might miss
17 something. So --

18 Q Do you know whether it would indicate whether
19 there might be any KCPL or GPE executives who did not
20 receive short-term discretionary bonus awards?

21 A If this is a comprehensive list of all of those
22 eligible, then it would indicate that everyone received
23 something.

24 Q And without naming any names, if -- if Kansas
25 City Power & Light would not consider just the -- the

1 range of the -- the awards not to be highly confidential,
2 I'd ask you to identify what the -- the actual awards or,
3 I'd say, the range of the awards were. Or we could go
4 in-camera. But I'm not asking for -- for any names.

5 MR. FISCHER: We can stay in public session.

6 A The low range of KCPL was \$3500, and the high
7 end was 48,750.

8 Q (By Mr. Dottheim) When you say 48,750, could
9 you put that in --

10 A I'm sorry. \$48,750.

11 Q What you identified, was that just for KCPL?

12 A Right. That's the question I was asking --
13 answering.

14 Q Okay. And could you identify for -- for GPE
15 executives the range for the short-term discretionary
16 bonus awards?

17 Again, if -- if the company would indicate if it
18 does not consider that to be highly confidential if we
19 would not have to go in-camera.

20 MR. FISCHER: We can stay in public session.

21 A The low end was \$9,975. The high end was
22 \$130,000.

23 Q (By Mr. Dottheim) Thank you, Mr. Halloran, for
24 looking at that -- that document. Mr. Halloran, if I
25 could ask you to turn your attention from the short-term

1 discretionary bonus award to the short-term incentive
2 compensation plan.

3 I don't think I've asked you this question. But
4 do you know the percentage of KCPL and GPE executives that
5 were eligible for the short-term incentive compensation
6 award based on earnings per share that received a
7 short-term incentive compensation?

8 A You may have asked that earlier. But I don't
9 know the exact percentage of how many received it. I
10 believe it was a very high percentage.

11 Q And I apologize if I asked you that previously.
12 I'd like to -- to ask you about the long-term incentive
13 compensation plan. And do you know what percentage of
14 KCPL and GPE executives that were eligible for long-term
15 incentive compensation plan based on earnings per share
16 and return on total capital paid in shares of GPE stock
17 were awarded such long-term incentive compensation?

18 A I do not know the exact percentage.

19 Q Okay. Do you know whether it was a large
20 majority? Do you have any idea what percentage of -- of
21 the GPE and KCPL executives received the award?

22 A I'm certain it was over 90 percent of those
23 eligible received an award.

24 Q Mr. Halloran, are you aware that the earnings
25 per share calculation of GPE under the short-term energy

1 incentive compensation plan is -- is adjusted for the
2 earnings of strategic energy?

3 A I have seen that written before. Yes.

4 Q Okay. And can you identify Strategic Energy as
5 a subsidiary of GPE?

6 A I could identify that. Yes.

7 Q Now, do you know whether Strategic Energy is a
8 regulated or unregulated entity?

9 A I believe it is unregulated.

10 Q Do you know whether Strategic Energy operates in
11 the state of Missouri?

12 A I'm not exactly sure of its entire geographic
13 scope.

14 Q Can you identify in what business Strategic
15 Energy functions?

16 A In terms of --

17 Q What services does it provide? What business
18 activities is it engaged in, Strategic Energy?

19 A In terms of lines of business or --

20 Q Yes. Lines of business.

21 A I'm trying to think of the best way to describe
22 it. I mean, I believe they're providing -- well, I don't
23 know the entire product line, but, basically, all
24 alternative energy.

25 Q Mr. Halloran, do you know whether the earnings

1 per share calculation to GPE under the short-term energy
2 incentive compensation plan was adjusted upward by a
3 hypothetical amount for Strategic Energy?

4 A That, I do not know.

5 MR. DOTTHEIM: Okay. Thank you, Mr. Halloran.

6 JUDGE PRIDGIN: Mr. Dottheim, thank you. Let me
7 see if we have any questions from the Bench.

8 Mr. Chairman?

9 CHAIRMAN DAVIS: I'll pass -- I'll pass for
10 right now, Judge.

11 JUDGE PRIDGIN: All right. Thank you.
12 Commissioner Clayton?

13 COMMISSIONER CLAYTON: No questions. Thank you.

14 JUDGE PRIDGIN: Thank you. Commissioner
15 Jarrett?

16 CROSS-EXAMINATION

17 BY COMMISSIONER JARRETT:

18 Q Good afternoon, sir.

19 A Good afternoon.

20 Q I had a question regarding your testimony. As I
21 understand it, you had indicated that the program focuses
22 on the achievement of earnings per share is beneficial for
23 both customers and shareholders?

24 A Correct.

25 Q And I can understand as far as -- as earnings

1 per share for shareholders, it enhances the value of the
2 stock and, therefore, makes it a more desirable stock to
3 hold. But how does it affect or how is it beneficial for
4 ratepayers?

5 A The EPS answer is basically an indicator of
6 funds from operation that are available, what kind of
7 operating income they have. Those results are used for
8 several things while shareholders certainly look at that
9 as a result of how the company is performing.

10 In addition, it's an indication of the company's
11 ability to continue to fund the growth of the business.
12 Clearly, growth is not funded just by the results of
13 operations.

14 One may issue equity and/or borrow money. But
15 the fact is that's one of several sources there are. In
16 addition, good performance that is measured by generating
17 funds also has a positive impact on the interest that you
18 charge when you do borrow. And that can be beneficial for
19 ratepayers as well.

20 Q Is there a way to quantify the amount for
21 ratepayers, the amount that's beneficial to ratepayers
22 based on -- or due to the incentive package?

23 A At best just directionally, given that when you
24 look at result, one takes the funds, you could use them in
25 a lot of different methods or ways. And so the fact that

1 some may be invested in the business to make it more
2 efficient. Some may help and reduce the need to borrow.
3 So it further reduces interest costs which then helps your
4 borrowing rate and things like that. So -- but it would
5 be incorrect. It's hard to prove a direct relationship.

6 COMMISSIONER JARRETT: I have no further
7 questions. Thank you.

8 JUDGE PRIDGIN: Commissioner, thank you.
9 Anything further from the Bench?

10 CHAIRMAN DAVIS: No.

11 JUDGE PRIDGIN: All right. Thank you. Any
12 recross based on Bench questions? If there's no recross,
13 redirect?

14 MR. FISCHER: No redirect, your Honor. Thank
15 you.

16 JUDGE PRIDGIN: All right. Thank you. Nothing
17 further from this witness. Mr. Halloran, thank you very
18 much.

19 MR. FISCHER: Your Honor, I would ask that his
20 testimony be admitted into the record at this time.

21 JUDGE PRIDGIN: And let me make sure I got -- I
22 believe I have that as Exhibit No. 14.

23 MR. FISCHER: Yes.

24 JUDGE PRIDGIN: All right. Exhibit No. 14 has
25 been offered. Any objections? Hearing none, Exhibit 14

1 is admitted.

2 MR. FISCHER: I'd also like to thank counsel for
3 allowing us to take him out of order.

4 JUDGE PRIDGIN: All right. Thank you very much.
5 Did -- was the plan, then, to resume Hawthorn 5 with
6 Mr. Giles? All right. Then, Mr. Giles, if you'd come
7 back to the stand, please.

8 All right. And, Mr. Giles, you've already been
9 sworn. Anything from counsel, Mr. Fischer, before he's
10 tendered for cross on Hawthorn 5?

11 MR. RIGGINS: Actually, I'm going to put him on,
12 Judge.

13 JUDGE PRIDGIN: I'm sorry, Mr. Riggins.

14 MR. RIGGINS: That's fine. I was wondering
15 whether it would be appropriate to ask Mr. Giles about the
16 issue that Mr. Mills raised earlier. I -- I had offered
17 to do that at this time. And if there no objections, I
18 would --

19 JUDGE PRIDGIN: I don't know. Mr. Mills?

20 MR. MILLS: And I -- from my perspective, I
21 think what's important is the Commissioner's point of view
22 about what the trans -- what the conversation was about.
23 But if -- you know, if Mr. Riggins wants to ask questions
24 about that, I don't suppose I have an objection at this
25 point. I may object to some -- some questions, but I

1 don't object to the -- to the concept of -- of talking to
2 Mr. Giles about that.

3 JUDGE PRIDGIN: Okay. Will this be --

4 MR. CONRAD: I'm not sure if I do either. But
5 it's kind of a little bit odd because we've already been
6 through this, and counsel had his opportunity to -- to
7 direct -- redirect, if you will, on that. So now we're on
8 a new issue.

9 MR. RIGGINS: Well, that's fine. I simply
10 offered to do it after Mr. Mills raised the concern in
11 which, again, was after Mr. Giles was off the stand.
12 But --

13 JUDGE PRIDGIN: But if I'm not mistaken, Mr.
14 Giles is due to be back other days?

15 MR. RIGGINS: Yeah. He'll be back on Thursday,
16 I think.

17 JUDGE PRIDGIN: What might be a -- a cleaner way
18 to do it, at least as I see it, is to let Mr. Mills review
19 whatever it is he wants to review from the CD or
20 transcript and see if counsel has any questions based on
21 that. Mr. Mills, wasn't that your concern?

22 MR. MILLS: Yeah. That was mine. Before --
23 before I make more of a big stink out of this, I want to
24 make sure my memory of what I thought I heard was actually
25 what was said. And until -- until I'm able to do that

1 with the transcript and CD, I don't know that we need to
2 go any further down this road.

3 MR. RIGGINS: That's fine.

4 JUDGE PRIDGIN: All right. Okay. Thank you.
5 We'll just postpone that for now. All right.

6 MR. RIGGINS: And with this, then, Mr. Giles is
7 available for, I guess I should say further
8 cross-examination on subrogation processes from Hawthorn
9 5.

10 JUDGE PRIDGIN: Okay. We're on Hawthorn 5
11 subrogation. I assume we'll have cross-examination from
12 Staff, Mr. Williams?

13 MR. WILLIAMS: Judge, I believe all the topics I
14 was going to cover were handled earlier today.

15 JUDGE PRIDGIN: Okay. Any -- any
16 cross-examination from counsel on Hawthorn 5? All right.
17 Seeing none, are there any Bench questions on Hawthorn 5,
18 commissioner Clayton?

19 COMMISSIONER CLAYTON: If that's all right, let
20 me ask a few questions, if I can, Judge.

21 TESTIMONY OF CHRIS GILES

22 CROSS-EXAMINATION

23 BY COMMISSIONER CLAYTON:

24 Q Good afternoon, Mr. Giles. I apologize for
25 coming in late. We've got a busy agenda tomorrow and

1 trying to juggle several things. So if I'm repetitive or
2 if I cover ground that's already been covered, I
3 apologize.

4 First of all, where is this issue located on
5 Staff's reconciliation? Is it an expense item?

6 A I -- go ahead, Nate.

7 MR. WILLIAMS: Commissioner, since you've asked
8 about Staff's reconciliation, perhaps I should direct you
9 to where it is. I believe it's line 102 on the second
10 page.

11 COMMISSIONER CLAYTON: I didn't want to trouble
12 you, Mr. Williams. 102. Thank you, though.

13 Q (By Commissioner Clayton) I think what I was
14 asking -- it's an expense item. It's not a rate-based
15 item. It's not a -- it's what -- okay. Mr. Giles, can
16 you just very briefly explain the issue to me and -- and
17 KCP&L's position?

18 A Sure. In 1999, KCPL's Hawthorn 5 unit had a gas
19 explosion, destroyed the boiler. The unit was out of
20 service for about two and a half years. It came back into
21 service in the summer of 2001.

22 During that time frame, the company incurred
23 about \$150 million in purchase power expense above what
24 would have normally been incurred had Hawthorn been
25 operating.

1 These costs were never passed through to
2 customers. KCPL did not file a rate case, did not ask for
3 recovery of those costs. The insurance proceeds consisted
4 of two parts from that explosion.

5 There was first the property damage that we were
6 paid in excess of \$200 million. That property settlement
7 was reduced -- was used to reduce the rebuild costs and,
8 thus, reduce rate base.

9 During the course of the past eight years,
10 several lawsuits, litigation issues have been resolved.
11 There were about 12 parties that the company sued and got
12 some money from all 12 of those.

13 The most recent one was received in 2006, which
14 just happens to coincide with the test year of this case.
15 KCPL adjusted out those proceeds due to two things. One,
16 it was a non-recurring event that really had nothing to do
17 with setting rates for 2008.

18 And, two, customers had never paid those
19 purchase power costs in the first place, which the
20 subrogation proceeds were related to.

21 Q So the subrogation -- the subrogation proceeds
22 were received from -- this wasn't an insurance claim.
23 This would have been --

24 A This was -- no. This was subrogation claims for
25 third parties.

1 Q Third parties. Okay. And that's the -- the
2 amount on this reconciliation over \$2 million, that's the
3 total amount re --

4 A I believe that's probably the amortization
5 amount, but I'm not sure. The Staff is proposing that
6 that be flowed through at an amortization over five years
7 into rates. And our position is it's inappropriate
8 because customers never paid the costs.

9 Q Was this issue -- did this issue arise in the
10 last rate case?

11 A No, it did not.

12 Q Wasn't there a similar issue --

13 A I --

14 Q -- relating to insurance proceeds? It may have
15 been the property damage. But I --

16 A It may have been property damage. Yes. There
17 was an issue related to how the property damage was
18 booked. And I think we resolved that issue. But --

19 Q Now I remember it coming before us. Somebody
20 resolved it, whether it was you all or us?

21 A Yeah.

22 Q If there is a different issue --

23 A This is a totally different issue.

24 Q Just so we're not relitigating an issue from the
25 prior case.

1 A No.

2 Q Okay. I think that's what I was wanted to
3 understand. Thank you very much.

4 A Yes.

5 JUDGE PRIDGIN: Commissioner Jarrett?

6 COMMISSIONER JARRETT: No.

7 JUDGE PRIDGIN: All right. Thank you. Any
8 recross based on Bench questions?

9 MR. CONRAD: Yeah.

10 JUDGE PRIDGIN: Mr. Conrad.

11 CROSS-EXAMINATION

12 BY MR. CONRAD:

13 Q Mr. Giles, earlier, we went through the
14 statement that you made that customers didn't pay these
15 costs. Are you talking about customers in a generic
16 sense, or are you talking about all customers 100 percent?

17 A Yes. I was talking about customers in a generic
18 sense. As I indicated earlier in response to your
19 question, and agreed with you that GST at that time was on
20 a special contract, and they were billed real-time prices,
21 which included the cost of this purchase power.

22 Q And that special contract was the matter that
23 was approved by the Commission, right?

24 A Yes. It was approved by the Commission.

25 Q And those were regulated revenues?

1 A Yes, they were.

2 Q So, in fact, then, the other part of your
3 statement that it should adjust these out because
4 customers didn't pay them, that also isn't quite correct,
5 is it?

6 A Well, no. It is correct.

7 Q Well, is it correct with respect to GST?

8 A Not correct with respect to GST.

9 Q So how have you addressed that in your
10 adjustment?

11 A Pardon?

12 Q How have you addressed that in your proposed
13 adjustment?

14 A GST declared bankruptcy sometime in 2002 or
15 three and no longer is a customer. And, also, at the time
16 they left our system, they left owing us approximate
17 \$6 million.

18 Q So have you done a calculation of how much they
19 had paid?

20 A I have not done that calculation, but it was not
21 going to equal \$6 dollars.

22 Q What is the basis, then, of that statement?

23 A Just my gut.

24 Q Where -- okay. Now we're -- that's -- that's
25 the test is whether it offends or doesn't offend your gut?

1 A Well, what's your question?

2 Q Is that the test that you're going to use now?

3 A Test for what?

4 Q For whether an adjustment is correct or not.

5 A GST is no longer a customer.

6 Q That's right. We -- we understand that.

7 A So what is your question?

8 Q The question, sir, is how have you accounted for

9 what GST paid with respect to the adjustment that you've

10 proposed?

11 A We took all of the insurance proceeds out of the

12 test year.

13 Q Have you quantified what GST paid for purchase

14 power?

15 A No.

16 Q So the answer, then, to my earlier question is

17 you have not accounted for the portion that GST paid?

18 A No.

19 Mr. CONRAD: Thank you. That's all.

20 JUDGE PRIDGIN: Mr. Conrad, thank you. Any

21 further recross?

22 MR. WILLIAMS: Yes, Judge.

23 JUDGE PRIDGIN: Mr. Williams.

24 CROSS-EXAMINATION

25 BY MR. WILLIAMS:

1 Q Mr. Giles, good afternoon.

2 A Good afternoon.

3 Q For the rates that were charged to KCPL
4 customers in the years 1999, 2000 and 2001, was Hawthorn 5
5 included in the cost of service upon which those rates
6 were based?

7 A Yes.

8 Q And that would have included a return on the
9 Hawthorn 5 unit -- Hawthorn Unit 5 costs?

10 A Yes.

11 Q And depreciation on Hawthorn Unit 5?

12 A Yes.

13 Q And property taxes on Hawthorn Unit 5?

14 A Yes.

15 Q And property insurance on Hawthorn Unit 5?

16 A Yes.

17 MR. WILLIAMS: No further questions.

18 JUDGE PRIDGIN: Mr. Williams, thank you. If
19 there's no further recross, redirect?

20 MR. RIGGINS: Just one question, your Honor.

21 REDIRECT EXAMINATION

22 BY MR. RIGGINS:

23 Q And this is a follow-up to Mr. Williams'
24 question, and it's similar to one that we discussed when
25 Mr. Giles was up here earlier today. But recognizing that

1 costs associated with Hawthorn 5 remained in KCPL's rates
2 during that time frame when Hawthorn 5 was not operating,
3 can costs associated with the Hawthorn 5 outage still
4 exceed those costs?

5 MR. WILLIAMS: Judge, I'm going to object. He's
6 mischaracterized my question. My question was whether or
7 not the rates were based upon the cost of service that
8 included the costs associated with Hawthorn 5.

9 MR. RIGGINS: Well, that's what I intended to
10 state if I didn't state it that way. But I'll go with Mr.
11 Williams' characterization of his question to repeat.

12 Q (By Mr. Riggins) Did the expenses associated
13 with Hawthorn 5 outage exceed those costs that were
14 included as per Mr. Williams' statement?

15 A Yes.

16 MR. RIGGINS: That's all I have, your Honor.

17 JUDGE PRIDGIN: All right. Thank you. Nothing
18 further?

19 MR. BRUDEN: If I may --

20 JUDGE PRIDGIN: All right, Mr. --

21 MR. BRUDEN: -- say -- thank you.

22 CROSS-EXAMINATION

23 BY MR. BRUDEN:

24 Q You say that those costs exceeded -- the costs
25 of the outage exceeded the costs that were included in

1 rates for Hawthorn 5?

2 A Yes.

3 Q Now, they exceeded them -- the amount in which
4 they exceeded them, was that the \$150 million you
5 mentioned earlier?

6 A The \$150 million was the additional purchase
7 power fuel costs attributable above what we would have
8 incurred had Hawthorn 5 been operating.

9 MR. BRUDER: I'm -- I'm going to ask, please,
10 for a yes or no answer to my question.

11 Q (By Mr. Bruder) My question is, that
12 \$150 million figure that you mentioned, is that the total
13 amount by which the amount of money the company expended
14 be caused as a result of this explosion?

15 Is that the amount by which -- what it had to
16 expend exceeded what it would have expended if there were
17 not such an explosion, or is that merely the \$150 million
18 that you paid for purchase power?

19 A Since you want a yes answer, I will say yes. I
20 believe that's exactly what I just said.

21 Q The \$150 million is a measure of the total
22 amount that you paid for purchase power; is that right?

23 A No.

24 Q What is the -- what does the \$150 million
25 measure?

1 A I believe I just explained that before you
2 wanted a yes or no answer.

3 Q Well, perhaps I misunderstood you, sir.

4 A The \$150 million is in excess of what the fuel
5 and purchase power costs would have been had Hawthorn 5
6 been operating as normal. It was incremental costs above
7 and beyond Hawthorn 5's normal cost.

8 Q Did the explosion cause some of the company's
9 costs to go down?

10 A What company?

11 Q I'm sorry. I haven't understood you, sir. What
12 company?

13 A Pardon? Did you just ask me a question? You
14 said did this cause some other company's costs to go down,
15 and I said what company.

16 Q Oh, no, sir. I -- no. You misunderstood me.
17 What I asked was, there was an explosion. That explosion
18 caused your purchase power costs to go up. Did that
19 explosion result in any of your costs going down?

20 A As I said just before that, yes. Those costs
21 that we did not have to spend on the normal fuel and O&M
22 at the unit went down. They went to zero --

23 Q Okay.

24 A -- because the unit was not in existence.

25 Q Okay. And do we have a number for how far --

1 for what they were before they went to zero?

2 A I don't have it here with me. No.

3 Q Okay. But if we had that number, that would
4 constitute some result in savings to the company for this
5 explosion, would it not, sir?

6 A I believe I already answered. The 150 million
7 is in excess of that number. So if that number were to be
8 20 million, then the 150 is above the 20 million.

9 In other words, it's incremental costs. We
10 would have incurred 20 million. But, instead, we incurred
11 170 million, and the net difference is 150 million.

12 Q Okay. That's what I was seeking, sir. Thank
13 you very much.

14 JUDGE PRIDGIN: All right. If there's nothing
15 further for this witness? All right. Thank you,
16 Mr. Giles. We will then go on to Mr. Dittmer.

17 MR. MILLS: Thursday.

18 MR. RIGGINS: Your Honor, we all agreed we'd do
19 Mr. Dittmer's cross on all issues on Thursday.

20 JUDGE PRIDGIN: Thank you. That was probably
21 stated earlier, and I missed that. We'll go to
22 Mr. Hyneman on Hawthorn 5; is that correct?

23 All right, Mr. Hyneman, if you'd come forward
24 and be sworn, please.

25 JUDGE PRIDGIN: All right. If you'll raise your

1 right hand to be sworn, please?

2 CHARLES HYNEMAN,

3 being first duly sworn to testify the truth, the whole
4 truth, and nothing but the truth, testified as follows:

5 DIRECT EXAMINATION

6 BY MR. WILLIAMS:

7 JUDGE PRIDGIN: Thank you very much, sir.
8 Please have a seat. Anything to clear up before he's
9 tendered for cross?

10 MR. WILLIAMS: I'd just ask a couple questions.

11 Q (By Mr. Williams) Mr. Hyneman, do you have any
12 changes to your direct testimony which has been -- has
13 been marked for identification as Exhibit 108 and your
14 surrebuttal testimony that's been marked as Exhibit 109?

15 A No, I do not.

16 MR. WILLIAMS: Tender the witness.

17 JUDGE PRIDGIN: All right. Mr. Williams, thank
18 you. Any parties other than KCPL wish to cross
19 Mr. Hyneman on Hawthorn 5? Seeing no volunteers, any
20 questions from KCP&L?

21 MR. RIGGINS: Yes. I have a few, your Honor.

22 JUDGE PRIDGIN: Mr. Riggins.

23 CROSS-EXAMINATION

24 BY MR. RIGGINS:

25 Q Good afternoon, Mr. Hyneman.

1 A Good afternoon.

2 Q I just have a few questions for you this
3 afternoon. In your surrebuttal testimony, you talk a
4 little bit about the Hawthorn explosion, the -- the KCPL
5 rate decrease that occurred about that time. And I just
6 want to kind of go through the chronology with you to make
7 sure we're together on that.

8 The -- the approximately \$15 million rate
9 reduction that occurred around that time that was the
10 result of a stipulation between KCPL Staff and Public
11 Counsel, and that occurred in January of '99; is that
12 correct?

13 A That sounds correct. I know -- I think the
14 rates took effect in March.

15 Q Right. I think the stipulation specified that
16 the parties wanted the rate reduction to be effective
17 March 1st of '99?

18 A Correct.

19 Q And the -- the Commission actually ended up
20 approving that stipulation in -- in April of '99. Do you
21 recall that?

22 A I don't know the date of the approval of the
23 stipulation.

24 Q But -- but it did occur?

25 A Yes.

1 Q And as you pointed out in your testimony, I
2 believe, during that time frame, February of '99 was --
3 was when the Hawthorn plant exploded, correct?

4 A Correct.

5 Q And in the stipulation between the parties that
6 had been entered into and filed but had not yet gone into
7 effect, there was a -- a provision that allowed parties
8 to, in essence, break a moratorium if certain events
9 occurred, correct?

10 A That's correct.

11 Q And one of the events that would have allowed
12 KCPL to disregard the moratorium provision was an extended
13 outage or shut-down of a major unit which had a major
14 effect on KCPL; is that correct?

15 A That is correct.

16 Q Okay. And KCPL did not use that provision to
17 file a rate increase during the period of the moratorium,
18 did it?

19 A No, it did not.

20 Q And, in fact, it didn't file a rate increase
21 request until the first of '06; is that correct?

22 A That's correct.

23 Q Do you agree with -- with Mr. Giles that KCPL
24 incurred additional purchase power expenses as a result of
25 the Hawthorn outage?

1 A If you're looking for a yes/no response, I would
2 say yes.

3 Q All right. Do you agree -- Mr. Giles has in his
4 testimony the figure of \$150 million. Do you agree with
5 that number?

6 A No. I've seen no support for that number.

7 Q Do you have a reason to disagree with it or to
8 suggest another number is a more appropriate number?

9 A I have no opinion on that number.

10 Q Did -- did you ask for any sort of documentation
11 or support for that number after it appeared in Mr. Giles'
12 testimony?

13 A No. The -- the relevance to Staff's position of
14 that number wasn't -- wasn't very relevant, so I did not
15 pursue additional discovery on that.

16 Q I understand. We -- we talked earlier about the
17 fact that KCPL did not use the out provision contained in
18 the stipulation agreement. KCPL also did not request --
19 for example, in the accounting authority order, it did not
20 file a request to amortize those costs in any way; is that
21 correct?

22 A That's correct.

23 Q You were -- were you here when Mr. Giles
24 testified a little bit earlier today about the subrogation
25 proceeds?

1 A Yes, I was.

2 Q And in response to a question about the proceeds
3 that were received in '06, the ones that are at issue here
4 today, Mr. Giles said, basically, that the reason they
5 were received in '06 was because that was how long the
6 litigation took. Do you recall that question and answer?

7 A I re -- I do recall that.

8 Q Is that consistent with your understanding of
9 why the proceeds were received in '06 as opposed to some
10 other year?

11 A I would -- it's logical that that is true. I
12 have no independent verification that that is true.

13 Q Okay. Did KCPL receive any subrogation proceeds
14 before 2006?

15 A I believe it did.

16 Q Do you know whether it expects to receive any
17 subrogation proceeds in 2007?

18 A I do not believe it does.

19 Q Okay.

20 A But that's just on my memory of reading
21 documents to that effect.

22 Q What about 2008, the year the rates are going to
23 be affected in this case?

24 A I recall reading a document -- again, I'm
25 testing my memory -- that this completed the subrogation

1 issue. That's all I can remember.

2 Q Okay. If -- let's -- let's kind of talk in
3 hypothetical terms for a moment. If KCPL had, in fact,
4 asked for some sort of recovery of those costs as it was
5 incurring either through a rate increase or request for an
6 AAO or whatever so that those costs actually were flowed
7 through to customers, your position still would be that
8 once proceeds were received that those proceeds should go
9 back to customers, correct?

10 A Yes. My position is that KCPL's customers paid
11 for those costs, incremental costs.

12 Q Okay. And --

13 A Now, whether they were explicit in an AAO rate
14 increase, that's not relevant in my position.

15 Q And that position is based upon your belief that
16 KCPL could have asked for recovery of those costs and
17 didn't, so it must have been doing all right? I'm
18 paraphrasing, I know. But is that the gist of your
19 position?

20 A Well, it's -- it's not as simple as that. My
21 position is -- is based on KCPL did not demonstrate -- it
22 had a significant earnings impact of -- of the Hawthorn 5
23 where it was not earning a reasonable rate of return. And
24 all the evidence available to me is with the prior years
25 to 1999, even in 1999, KCPL agreed to rate reductions.

1 And when a utility agrees to rate reductions,
2 that's an indication to me that their earnings were in
3 excess of their allowed rate of return. And subsequent to
4 that, KCPL provided documentation, which I list on page 8
5 of my surrebuttal testimony, that indicates their ROEs
6 were, you know, in the range between 13, 14, 12.8 percent.
7 So very hefty return on equities and appeared subsequent
8 to that.

9 Q You're right. Those were years in Hawthorn 5
10 was back online.

11 A Right. And they agreed to rate reductions on
12 years prior to that. So my -- the evidence indicates to
13 me that KCPL's earnings were so sufficient that it not --
14 it did not have a need to seek explicative rate recovery of
15 those subrogation -- or of the incremental costs from the
16 Hawthorn 5 explosion.

17 Q Just so the record is clear, KCPL agreed to that
18 rate reduction before the Hawthorn explosion, right?

19 A Yes.

20 Q Yes. And the numbers that you have in your
21 testimony regarding ROE are for periods of time when
22 Hawthorn 5 was back online. Would I find in your
23 testimony the returns on equity for 1999, 2000 and 2001
24 when Hawthorn 5 was not online?

25 A You -- you won't. The request -- data request

1 response did not go back that far. It went back as early
2 as 2002.

3 MR. RIGGINS: Okay. Thank you. That's all I
4 have.

5 A So -- okay.

6 MR. RIGGINS: Thank you.

7 JUDGE PRIDGIN: Let me see if we have any Bench
8 questions. Commissioner Clayton?

9 COMMISSIONER CLAYTON: No questions.

10 JUDGE PRIDGIN: Commissioner Jarrett?

11 COMMISSIONER JARRETT: No questions.

12 JUDGE PRIDGIN: All right. Any redirect?

13 MR. WILLIAMS: Just a couple of questions,
14 Judge.

15 REDIRECT EXAMINATION

16 BY MR. WILLIAMS:

17 Q Mr. Hyneman, do you know of any reason why KCPL
18 could not have sought an accounting authority order or
19 have filed a rate case after Hawthorn 5 exploded in
20 February of 2000 -- or 1999?

21 A No.

22 Q And what does that mean to you, the fact that
23 they did not file for an accounting authority order or for
24 a rate -- or a rate case in that time frame?

25 A It indicates to me that their earnings during

1 that time frame were sufficient to absorb -- absorb any
2 incremental. costs of the Hawthorn 5 explosion.

3 MR. WILLIAMS: No further questions.

4 JUDGE PRIDGIN: All right. Thank you. All
5 right, Mr. Hyneman, thank you very much. And if
6 Mr. Dittmer is being taken on Thursday, would we then be
7 going on to Mr. Traxler on incentive compensation and
8 executive compensation?

9 MR. FISCHER: That's my understanding.

10 JUDGE PRIDGIN: All right. Mr. Traxler, if you
11 would come back to the stand, please.

12 MR. WILLIAMS: Let me go track down
13 Mr. Dottheim.

14 JUDGE PRIDGIN: Okay. We'll go off the record
15 for just a moment.

16 (Break in proceedings.)

17 JUDGE PRIDGIN: All right. Is counsel ready?

18 MR. DOTTHEIM: Yes.

19 JUDGE PRIDGIN: All right. Back on the record,
20 please. And Mr. Traxler is on the stand now on long-term
21 incentive compensation, short-term executive compensation.
22 Anything before he's tendered for cross on those issues?

23 MR. DOTTHEIM: I think he's made the one
24 correction to his testimony that he -- that he -- that he
25 had, so -- and he's been sworn in.

1 JUDGE PRIDGIN: All right. Does KCPL wish to
2 cross on this issue?

3 MR. FISCHER: Just briefly, your Honor.

4 JUDGE PRIDGIN: Any other counsel wish cross on
5 this issue? All right. Mr. Fischer, when you're ready.

6 TESTIMONY OF STEVE TRAXLER

7 CROSS-EXAMINATION

8 BY MR. FISCHER:

9 Q Good afternoon, Mr. Traxler.

10 A Good afternoon.

11 Q I've got just a few questions on the incentive
12 compensation issue. I think you discussed the short-term
13 and the long-term incentive compensation disallowances in
14 pages 29 through 31 of your testimony. Is that correct?

15 A Which -- which testimony are we talking?

16 Q Well, it's the direct testimony.

17 A Direct testimony?

18 Q Yeah.

19 MR. DOTTHEIM: Exhibit 112, Mr. Fischer?

20 MR. FISCHER: I believe that's correct.

21 A Yes.

22 Q (By Mr. Fischer) And did you have a copy of the
23 reconciliation/reconciliation available to you as well?

24 A Yes, I do.

25 Q Just so the record is clear, line 71 has the

1 notation, Remove long-term incentive compensation with an
2 amount of \$1,314,185?

3 A That's correct.

4 Q Is that the amount Staff's proposed to disallow
5 for the long-term incentive compensation in this case?

6 A Yes, it is.

7 Q And if we look on line 90 of that
8 reconciliation/reconciliation, there's also a notation for
9 incentive compensation in the amount of 677,327. Is that
10 the amount for the short-term incentive compensation
11 disallowance?

12 A Yes, it is.

13 Q Okay. Now, as I read your testimony, it's my
14 understanding that Staff's objection to KCPL's incentive
15 compensation goes largely to the fact that KCPL ties some
16 of its incentive compensation for an earnings per share
17 goal; is that correct?

18 A Yes, it is.

19 Q Staff's not opposed to any form of incentive
20 compensation. Is that correct, too?

21 A That's correct. In fact, we've -- we have
22 allowed 100 percent of the incentive compensation for all
23 incentive comp. plans with the exception we have in the
24 executive plan.

25 Q In fact, Staff believe that's public utilities

1 should be incentive -- incented to provide good quality of
2 service to their customers; is that --

3 A That's what I -- we're not opposing that
4 concept. No.

5 Q For example, if the goals for the incentive
6 compensation were tied to excellent customer service,
7 Staff wouldn't be opposed to such incentives; is that
8 true?

9 A That's correct.

10 Q Or if the goals for incentive compensation were
11 tied to reliability metrics, Staff wouldn't be opposed to
12 giving such incentives to provide reliable service to
13 KCPL's customers?

14 A No. In fact, that's part of your current
15 incentive plan. We haven't made any disallowance for the
16 costs associated with that goal.

17 Q Mr. Traxler, would you agree with me that a
18 public utility must be able to attract capital if it's to
19 continue to build new power plant such as IATAN II?

20 A Yes.

21 Q Would you also agree with me that the
22 construction of adequate capacity benefits ratepayers?

23 A Yes.

24 Q Without adequate capacity or the ability to
25 purchase capacity energy from the wholesale market, an

1 electric company like KCPL would not be able to provide
2 safe and adequate service to its customers over the
3 long-term. Would you agree?

4 A Yes, I would.

5 Q If a public utility did not have any earnings
6 over the long-term, do you believe it would be possible to
7 attract investors to fund its construction program?

8 A No. A utility would have to have a fair return
9 on equity to attract equity investors.

10 Q Would you agree that public utilities also use
11 some of their retained earnings to fund construction
12 programs?

13 A That's a source of cash. Yes.

14 Q Without any retained earnings, it would be
15 necessary for a public utility to finance its construction
16 program using outside sources of capital. Wouldn't you
17 agree?

18 A Yes. That's generally true.

19 Q By having retained earnings, it is possible to
20 fund a portion of the public utility's construction
21 program through the use of these retained earnings; is
22 that correct?

23 A All sources of cash can be utilized for the
24 purpose of funding construction.

25 Q A public utility could also use some of its

1 retained earnings to help fund its ongoing maintenance
2 programs; is that correct?

3 A No. I wouldn't agree with that. The regulated
4 utility receives its maintenance costs through normalized
5 costs allowed in cost of service. There's no requirement
6 for rectification.

7 The regulated utility would have to rely on
8 retained earnings to fund any kind of a maintenance
9 project.

10 Q It's possible it could do so, though, even if
11 there's not that expectation; is that true?

12 A No, sir. I wouldn't agree with that.

13 Q Okay.

14 A That's a normal cost of service.

15 Q Would you agree that it's important to
16 ratepayers that a public utility adequately maintain its
17 facilities?

18 A Certainly.

19 Q Mr. Traxler, I understand that you're one of the
20 principal sponsors of the Staff's cost of service report
21 that was filed in this case?

22 A Yes, I am.

23 Q Do you have that available to you there?

24 A Yes, I do.

25 Q Could you turn to page 53 of that report? On

1 page 53 of the Staff's cost of service report on the last
2 line of that page, it begins, The company has consistently
3 -- has been consistently providing call center data to the
4 Staff, and Staff's monitoring has not resulted in any
5 matter known to date that it believes warrants action or
6 concern on the part of the Commission. Is that correct?

7 A Yes, it is.

8 Q Would it be correct to conclude from that
9 statement that Staff has not found any call center
10 problems at KCPL which warrant action or concern on the
11 part of the Commission?

12 A I think it's a fair characterization.

13 Q Okay. And let's turn to page 54 of the Staff's
14 cost of service report under the heading Reliability.

15 A Yes.

16 Q There it states, Reliability reflects overall
17 system performance and can help in assessing the
18 performance of a utility in its delivery of electric
19 service by providing quantitative measures of the quality
20 of service. Staff has reviewed the five years of data
21 containing the following four most common reliability
22 indexes and has not identified any long-term trends of
23 that data that should be cause for concern to the
24 Commission; is that correct?

25 A Yes, it is.

1 Q Would it be correct to conclude from that
2 portion of the Staff's cost of service report that Staff
3 has not identified any long-term trends of the reliability
4 measures that would be a cause of concern to the
5 Commission?

6 A Yes. That's a fair characterization of that
7 statement.

8 Q Would it be correct to conclude that KCPL is
9 providing adequate quality of service when measured by
10 these call center reliability metrics that are mentioned
11 in the Staff's cost of service report?

12 A I think that's a fair characterization of these
13 statements, yes.

14 Q Mr. Traxler, would you agree that KCPL needs to
15 compete in the employment market place to attract
16 employees to KCPL to serve its customers?

17 A Yes, I would.

18 Q And compensation is one factor that prospective
19 employees or current employees will take into account when
20 they decide whether to accept a job or stay on their job
21 at KCPL?

22 A That's correct.

23 Q And if KCPL fails to pay a competitive
24 compensation package over the long-term, KCPL will not be
25 able to attract and maintain a high quality work force.

1 Would you agree?

2 A That's correct.

3 MR. FISCHER: Thank you very much for your
4 patience. That's all I have.

5 JUDGE PRIDGIN: Mr. Fischer, thank you. Let me
6 see if we have any Bench questions. Commissioner Jarrett?
7 All right. I don't have any questions. Redirect?

8 MR. DOTTHEIM: Yes. Moment, please.

9 JUDGE PRIDGIN: Certainly.

10 CROSS-EXAMINATION

11 BY MR. DOTTHEIM:

12 Q Mr. Traxler, Mr. Fischer asked you a question or
13 two about KCPL, the need of attracting qualified
14 employees. Are you aware of KCPL having any difficulty
15 attracting qualified employees?

16 A Not at this time, no.

17 Q Okay. Mr. Fischer asked you a number of
18 questions regarding KCPL providing customer service and
19 the quality of service that it -- it provides and the
20 reliability of that service, and he referred you to
21 various portions of the staff's cost of service report.

22 And Mr. Fischer also made, I think, reference to
23 the incentivizing of -- of utility companies. Is -- is the
24 Staff in this case proposing any incentive plan to Kansas
25 City Power & Light?

1 A Proposing a -- a change or proposing a plan?

2 Q Proposing a plan, an incentive plan for Kansas
3 City Power & Light.

4 A We're not challenging the plan itself or
5 proposing any changes to the plan.

6 Q Well, I was referring to an incentive plan. I
7 think you may be referring to the Kansas City Power &
8 Light experimental regulatory plan. I wasn't referring to
9 the Kansas City Power & Light regulatory plan.

10 And I wasn't referring to the -- the long-term
11 or the short-term incentive compensation plan. I was
12 referring to the Staff itself is not proposing any
13 incentive plan for Kansas City Power & Light in this
14 proceeding, is it?

15 A No, it is not.

16 MR. DOTTHEIM: No further questions.

17 JUDGE PRIDGIN: Mr. Dottheim, thank you. All
18 right. This witness can be excused on this issue. And if
19 I'm not mistaken, since Mr. Dittmer is not available until
20 Thursday, is that the last scheduled witness for today?

21 MR. FISCHER: Yes, your Honor.

22 MR. DOTTHEIM: Yes.

23 JUDGE PRIDGIN: All right. Is there anything
24 further from counsel before we adjourn for the day? All
25 right. Hearing nothing, the schedule shows we will begin

1 with return on equity at 8:30 in the morning, and that is
2 the only scheduled issue, rate of your return, return on
3 equity and capital structure.

4 All right. If there's nothing further from
5 counsel, thank you very much, and we will go off the
6 record.

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1 REPORTER'S CERTIFICATE

2

3 STATE OF MISSOURI)
) ss.
4 COUNTY OF OSAGE)

5

6 I, Monnie S. VanZant, Certified Shorthand Reporter,
7 Certified Court Reporter #0538, and Registered
8 Professional Reporter, and Notary Public, within and for
9 the State of Missouri, do hereby certify that I was
10 personally present at the proceedings as set forth in the
11 caption sheet hereof; that I then and there took down in
12 stenotype the proceedings had at said time and was
13 thereafter transcribed by me, and is fully and accurately
14 set forth in the preceding pages.

15

16 IN WITNESS WHEREOF, I have hereunto set my hand and
17 seal on October 4, 2007.

18

19

20

21 _____
Monnie S. VanZant, CSR, CCR #0539
22 Registered Professional Reporter

23

24

25

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3 EXHIBIT

4 NO.	DESCRIPTION	OFFERED	ADMITTED
5 101	Cost-of Service Report	136	136
6 102	Staff Accounting Schedules	136	136
7 103	Class Cost of Service and Rate Design Report	*	*
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10 105	Direct Testimony of Matthew Barnes	*	*
11 106	Rebuttal Testimony of Matthew Barnes	*	*
12			
13 107	Surrebuttal Testimony of Matthew Barnes	*	*
14 108	Direct Testimony of Charles Hyneman	*	*
15			
16 109	Surrebuttal Testimony of Charles Hyneman	*	*
17 110	Rebuttal Testimony of Shawn Lange	*	*
18			
19 111	Surrebuttal Testimony of Janice Pyatte	*	*
20 112	Direct Testimony of Steven Traxler	*	*
21			
22 113	Rebuttal Testimony of Steven Traxler	*	*
23 114	Surrebuttal Testimony of Steven Traxler	*	*
24 115	Surrebuttal Testimony of Graham A. Vesely	*	*
25			

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2	STAFF			
2	EXHIBIT			
3	NO.	DESCRIPTION	OFFERED	ADMITTED
3	116	Direct Testimony of James C. Watkins	*	*
4				
5	117	Rebuttal Testimony of James C. Watkins	*	*
6	118	Surrebuttal Testimony of James C. Watkins	*	*
7	119	Direct Testimony of Curt Wells	*	*
8	120	Rebuttal Testimony of Curt Wells	*	*
9				
10	KCP&L			
11	EXHIBIT			
11	NO.	DESCRIPTION	OFFERED	ADMITTED
12	1-NP/HC	Direct Testimony of Ed Blunt	*	*
13	2	Direct Testimony of Lora Cheatum	*	*
14				
15	3-NP/HC	Direct Testimony of Michael Cline	*	*
16	4-NP/HC	Rebuttal Testimony of Michael Cline	*	*
17	5-NP/HC	Direct Testimony of Burton Crawford	*	*
18	6-NP/HC	Direct Testimony of F. Dana Crawford	*	*
19				
20				
21	7	Direct Testimony of Christine M. Davidson	*	*
22				
23	8-NP/HC	Direct Testimony of Chris Giles	*	*
24				
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1		E X H I B I T S (CONTINUED)		
2	KCP&L			
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4	NO.	DESCRIPTION	OFFERED	ADMITTED
5	9-NP/HC	Rebuttal Testimony	*	*
6		of Chris Giles		
7	10	Direct Testimony	*	*
8		of John Grimwade		
9	11	Direct Testimony of	*	*
10		Samuel C. Hadaway		
11	12	Rebuttal Testimony of	*	*
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17	15	Rebuttal Testimony of	*	*
18		Melissa K. Hardesty		
19	16	Direct Testimony of	*	*
20		William Herdegen, III		
21	17	Direct Testimony of	*	*
22		George McCollister, Ph.D.		
23	18	Direct Testimony of	*	*
24		Susan Nathan		
25	19	Direct Testimony of	*	*
		Tim Rush		
	20	Rebuttal Testimony of	*	*
		Tim Rush		
	21	Rebuttal Testimony of	*	*
		Tim Rush		
	22	Direct Testimony	*	*
		of Michael Schnitzer		
	23	Surrebuttal Testimony of	*	*
		Michael Schnitzer		

1	E X H I B I T S (CONTINUED)			
2	KCP&L			
3	EXHIBIT			
4	NO.	DESCRIPTION	OFFERED	ADMITTED
5	24	Rebuttal Testimony of	*	*
6		Robert Spielberg		
7	25	Direct Testimony of	*	*
8		Richard Spring		
9	26-NP/HC	Direct Testimony of	*	*
10		John Weisensee		
11	27	Rebuttal Testimony of	*	*
12		John Weisensee		
13	OPC			
14	EXHIBIT			
15	NO.	DESCRIPTION	OFFERED	ADMITTED
16	201	Direct Testimony of	*	*
17		Michael Gorman		
18	202-NP/HC	Rebuttal Testimony of	*	*
19		Michael Gorman		
20	203-NP/HC	Surrebuttal Testimony	*	*
21		of Michael Gorman		
22	204	Rebuttal Testimony	*	*
23		Barbara Meisenheimer		
24	205-NP/HC	Direct Testimony of	*	*
25		Ted Robertson		
26	206	Surrebuttal Testimony	*	*
27		of Ted Robertson		
28	207	Direct Testimony of	*	*
29		Russell Trippensee		
30	208	Rebuttal Testimony of	*	*
31		Russell Trippensee		
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2	PRAXAIR			
3	EXHIBIT			
4	NO.	DESCRIPTION	OFFERED	ADMITTED
5	601	Direct Testimony of Maurice Brubaker	*	*
6	602	Surrebuttal Testimony of Maurice Brubaker	*	*
7	TRIGEN			
8	EXHIBIT			
9	NO.	DESCRIPTION	OFFERED	ADMITTED
10	701	Direct Testimony of Joseph Herz	*	*
11	702-NP/HC	Rebuttal Testimony of Joseph Herz	*	*
12	703	Surrebuttal Testimony of Joseph Herz	*	*
13	U.S. DEPT. OF ENERGY			
14	EXHIBIT			
15	NO.	DESCRIPTION	OFFERED	ADMITTED
16	801-HC	Direct Testimony of James Dittmer	*	*
17	802	Direct Testimony of James Dittmer - Public	*	*
18	803	Surrebuttal Testimony of James Dittmer - Public	*	*
19	804	Direct Testimony of Gary Price - Public	*	*
20	805	Rebuttal Testimony of Gary Price - Public	*	*
21	806	Surrebuttal and Cross	*	*
22		Surrebuttal Testimony of		
23		Gary Price		
24				
25				