

Exhibit No.:
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Witness: Samuel C. Hadaway
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2007-0291
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
August 2007

Exhibit No. 12
Case No(s) ER-2007-0291
Date 10/1/07 Rptr MU

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

Case No. ER-2007-0291

1 **I. Introduction**

2 **Q. Please state your name and affiliation.**

3 A. My name is Samuel C. Hadaway. I previously filed Direct Testimony on behalf
4 of Kansas City Power & Light Company ("KCPL" or the "Company") in this
5 proceeding.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to respond to the return on equity
8 ("ROE") recommendations of Missouri Public Service Commission
9 ("Commission") Staff witness Matthew J. Barnes and Office of Public Counsel
10 ("OPC") witness Michael P. Gorman. I will also update my equity cost estimates.

11 **II. Overview of Rate of Return Positions**

12 **Q. What are the parties' rate of return recommendations?**

13 A. Mr. Barnes recommends an ROE range of 9.14 percent to 10.30 percent. For his
14 overall rate of return ("ROR") he uses an abnormal capital structure not updated
15 for the Company's recent *pro forma* debt issuance. However, he also notes that he
16 expects the agreed-to True-up Filing on November 2, 2007 to contain the
17 appropriate capital structure (Barnes Direct Testimony, at p. 14). Mr. Gorman
18 recommends an ROE of 10.1 percent. His overall ROR is 8.21 percent. This
19 ROR is based on his ROE recommendation and the Company's proposed capital
20 structure and embedded cost of debt (Gorman Direct Testimony, at p. 2). The

1 Company's requested ROE is 11.25 percent. The Company's request consists of
2 my comparable company base ROE estimate of 10.75 percent, plus a 50 basis
3 point increment for KCPL's higher construction risk.

4 **Q. Is your rate of return recommendation in this case consistent with the rate of**
5 **return recommendation you provided in KCPL's previous case (Case No.**
6 **ER-2006-0314)?**

7 A. Yes, it is. The comparable company selection, the financial models, and the input
8 data are exactly the same as the ones I used and that the Commission adopted in
9 Case No. ER-2006-0314 in its December 2006 Order. My base ROE
10 recommendation is 25 basis points lower in the present case because, when I was
11 preparing my Direct Testimony in this case, interest rates and interest rate
12 forecasts were slightly lower and my financial models indicated a slightly lower
13 ROE. Otherwise, my models and my recommendations to the Commission are
14 exactly the same as the ones I provided in Case No. ER-2006-0314.

15 **Q. More recently in Aquila's Case No. ER-2006-0004, the Commission found**
16 **that a smaller construction risk increment (10-15 basis points) should be**
17 **applied instead of the 50 basis point increment that you recommended. How**
18 **do you respond to this finding?**

19 A. While I respectfully disagree with the Commission's assessment of risk in the
20 Aquila case, if its assessment of KCPL's relative risk in the present case is the
21 same as it was in KCPL's Case No. 2006-0314, then a 25 basis point increment
22 should be added to the comparable company base ROE.

23 **Q. Do the other parties adjust their base ROE estimates to reflect KCPL's**
24 **higher risk profile?**

1 A. No, they do not. Neither Mr. Barnes nor Mr. Gorman makes any mention of
2 KCPL's larger construction program relative to other electric utilities. Mr.
3 Gorman, in fact, attempts to use an Edison Electric Institute discussion of an
4 increase in electric utility construction programs to lower the growth rate in his
5 DCF analysis and to produce an even lower ROE (Gorman Direct Testimony, at
6 p. 17). I am not aware of any accepted economic theory about capital
7 requirements or risk that would support the effect that Mr. Gorman advocates.
8 Such disregard for KCPL's capital requirements and the risks associated with
9 those requirements is indicative of the low rate of return recommendations of both
10 Staff and OPC.

11 **Q. In addition to the construction risk issue, what are your principal**
12 **disagreements with Mr. Barnes and Mr. Gorman?**

13 A. Mr. Barnes' DCF analysis is deficient because he presents only one version of the
14 DCF model and his inputs to that model are highly selective (Barnes Direct
15 Testimony, at pp. 17-19). He also provides three capital asset pricing model
16 ("CAPM") estimates, one of which is clearly unreasonable with an outcome of
17 (5.76 percent) (Barnes Direct Testimony, at pp. 19-20). Had Mr. Barnes simply
18 relied on the more reasonable results from his own analysis, his ROE
19 recommendation would have been much higher.

20 Mr. Gorman's testimony is inconsistent with his prior recommendations.
21 For example, in prior cases, he has severely criticized my use of gross domestic
22 product ("GDP") growth in the DCF model. In the present case, he finds his own
23 analysts' growth rate estimates too high because they produce an ROE of 10.7
24 percent (Gorman Direct Testimony, at p. 14, line 21-22 and Schedule MPG-5, at

1 p. 1). As a result, he applies my GDP approach (Schedule MPG-5, at p. 2), but
2 injects lower near-term GDP growth estimates to produce an ROE of only 9.3
3 percent (Gorman Direct Testimony, at p. 21, lines 8-11 and Schedule MPG-7, at
4 p. 1). Similarly, he provides no independent risk premium analysis, but extracts
5 portions of my analysis from which he obtains an ROE of 10.3 percent (Gorman
6 Direct Testimony, at p. 24). In addition, he minimizes the results of his own
7 CAPM estimate, which produces an ROE of 11.1 percent (Gorman Direct
8 Testimony, at p. 29). It is telling to simply review Mr. Gorman's Return on
9 Common Equity Summary in Table 2 on page 30 of his Direct Testimony. Of the
10 eight ROE estimates, based on his own input assumptions, only two are as low as
11 the 10.1 percent he recommends. Had he not forced unreasonably low GDP
12 growth into his version of the two-stage DCF model, the simple average of his
13 other comparable company base ROE estimates would have been 10.7 percent, or
14 within 5 basis points of my base ROE estimate of 10.75 percent. Mr. Gorman's
15 selective approach is unreasonable and should be carefully scrutinized by the
16 Commission.

17 **Q. How do the other parties' ROE recommendations compare to rates of return**
18 **allowed recently by other state regulators?**

19 **A.** I have prepared as Schedule SCH-9 a summary of electric utility ROEs allowed
20 by other state commissions over the past two and one-half years. The results from
21 that Schedule are shown in the following table:

Table 1:
Authorized Electric Utility Equity Returns

	2005	2006	2007
1st Quarter	10.51%	10.38%	10.27%
2nd Quarter	10.05%	10.69%	10.27%
3rd Quarter	10.84%	10.06%	
4th Quarter	10.75%	10.39%	
Full Year	10.54%	10.36%	10.27%

Source: Regulatory Research Associates, *Regulatory Focus*, July 3, 2007, page 2.

As shown in Table 1, average allowed Electric Utility ROEs for 2005-2007 were 10.54 percent, 10.36 percent, and 10.27 percent. Of these cases, in 2005, six of the 29 cases were for lower risk/lower ROE electric delivery-only companies; in 2006, 10 of 25 were electric delivery-only cases; and in 2007, four of 18 were electric delivery-only cases. Considering KCPL's higher risk profile and considering that the electric delivery-only companies not engaged in major generation construction programs were consistently assigned lower ROEs, these data indicate that Mr. Barnes' and Mr. Gorman's ROE recommendations are below KCPL's cost of capital.

Q. How have interest rates changed during the past two years?

A. The Federal Reserve Open Market Committee has now increased the Federal Funds rate 17 times (from 1.0 percent to 5.25 percent) since mid-2004. The Prime rate charged by banks to their best customers has similarly increased from 4.0 percent in June 2004 to a current level of 8.25 percent. Although long-term interest rates were slower to move, since mid-2005 long-term utility interest rates have increased by 80 basis points. I have prepared as Schedule SCH-10 a month-

1 by-month summary of long-term interest rates for August 2005 through July
 2 2007. Those monthly interest rate data are summarized in the following table:

Table 2:
Long-Term Interest Rate Trends

Month	Baa Utility Rates	Average Utility Rates	Long-Term Treasury Rates	10-Year Treasury Rates
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.25%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.63%	6.41%	5.29%	5.11%
Jul-06	6.63%	6.39%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.02%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.23%	6.03%	4.98%	4.75%
Jun-07	6.54%	6.34%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%

Sources: Mergent Bond Record (Utility Rates);
 www.federalreserve.gov (Treasury Rates).

3
 4 The data in Table 2 show that long-term Treasury rates have increased by about
 5 70 basis points during the past two years, and by more than 40 basis points since
 6 the Commission's December 2006 Report and Order in KCPL's last rate case.

1 Borrowing costs for Baa rated utilities like KCPL increased from 5.80 percent to
2 6.49 percent during this period (69 basis points). These increasing trends in long-
3 term borrowing costs should not be ignored and should be considered explicitly in
4 estimates of the on-going cost of equity capital.

5 **Q. What levels of interest rates are forecast for the coming year?**

6 A. Both corporate and government interest rates are expected to rise further from
7 present levels. I have reproduced as Schedule SCH-11 Standard & Poor's most
8 recent economic forecast from its *Trends & Projections* publication for August
9 23, 2007. The summary interest rate data from that publication are presented in
10 the following table:

11 **Table 3:**
12 **Standard & Poor's Interest Rate Forecast**

	Current	Average 2007 Est.	Average 2008 Est.
Treasury Bills	4.4%	4.8%	4.4%
10-Yr. T-Bonds	4.6%	4.9%	5.3%
30-Yr. T-Bonds	4.9%	5.0%	5.4%
Corporate Bonds	5.8%	5.6%	6.1%

13 Sources: www.yahoo.com Yahoo Finance (Current Rates);
14 Standard & Poor's *Trends & Projections*, August 23, 2007, page 8
15 (Projected Rates).
16
17
18

19 The data in Table 3 show that interest rates are projected to increase further
20 during the coming year. Relative to current levels, rates on 10-year and 30-year
21 Treasury bonds for 2008 are expected to increase by an additional 50 to 70 basis
22 points. Corporate borrowing costs are also expected by an additional 30 basis
23 points.
24

25 All these factors indicate that the other parties' ROE recommendations are
26 below the cost of equity for KCPL. Their recommendations are at or below the
27
28

1 average rate of return approved by other state regulators for electric utilities
2 during the past two and one-half years. Their recommendations are inconsistent
3 with the increasing trend in long-term interest rates during the past two years.
4 Their positions are also inconsistent with projections for further interest rate
5 increases in 2008. And, most important, neither Mr. Barnes nor Mr. Gorman
6 provides any compensation for KCPL's higher risk profile relative to the
7 companies used to estimate ROE. Had either more reasonably considered readily
8 available economic data and capital market trends, as well as KCPL's higher
9 construction risk, they should have recognized that their ROE recommendations
10 are too low.

11 **III. Technical Rebuttal of Staff Witness Matthew J. Barnes**

12 **Q. What are your principal areas of disagreement with Mr. Barnes?**

13 A. I disagree with Mr. Barnes' rejection of KCPL's requested increment to ROE for
14 its higher construction risk profile and I disagree with several technical aspects of
15 his ROE analysis. Mr. Barnes' ROE recommendation is below the cost of equity
16 of KCPL because he rejects any adjustment for the higher risk profile that results
17 from KCPL's large construction program. In addition, Mr. Barnes' DCF analysis
18 is too narrowly focused by his sole reliance on one version of the constant growth
19 version of the DCF model and his refusal to consider longer-term estimates of
20 growth in that model.

21 **Q. What are your primary technical disagreements with Mr. Barnes' ROE**
22 **analysis?**

23 A. With respect to the DCF analysis, I disagree with his sole reliance on the constant
24 growth version of the DCF model and his use of only near-term analysts' earnings

1 growth forecasts for the model's growth rate. I entirely disagree with Mr. Barnes
2 stand-alone analysis of Great Plains Energy because a single-company analysis is
3 not statistically reliable (as is demonstrated by the 8.0 percent to 8.8 percent ROE
4 he obtains from that analysis). The 3.69 percent growth rate for Great Plains
5 Energy he uses in that analysis is a further indication of why analysts' near-term
6 growth projections are not a proper estimate of long-term growth in the DCF
7 analysis. Finally, although not a criticism of Mr. Barnes, I will also show that
8 more recent (lower) utility stock prices cause his comparable group dividend
9 yield, and thus his DCF estimate, to increase by over 30 basis points.

10 **Q. How does Mr. Barnes determine the DCF growth rate and ultimately the**
11 **ROE for his comparable companies?**

12 A. With respect to growth rates, his analysis may be confusing because he offers
13 lengthy discussion and numerous growth rate calculations in his various
14 schedules. However, he ultimately selects the comparable group growth rates
15 from two analyst groups: Value Line (5.34 percent) and Standard & Poor's
16 ("S&P") (6.5 percent). He also presents an Institutional Brokers' Estimate
17 System ("IBES") growth rate average (6.37 percent), but he does not use this
18 estimate in his analysis. He forms the low end of his DCF range (9.14 percent) by
19 adding his 3.8 percent dividend yield to the Value Line growth rate (3.8 percent +
20 5.34 percent = 9.14 percent). Similarly, he forms the upper end of his range (10.3
21 percent) by adding the 3.8 percent dividend yield to the S&P growth rate (3.8
22 percent + 6.50 percent = 10.30 percent). Other than these two calculations, Mr.
23 Barnes provides no other DCF analysis or other DCF estimate for his comparable
24 group.

1 **Q. Have you updated Mr. Barnes' DCF analysis to reflect more reasonable**
2 **assumptions?**

3 A. Yes, I have. I have updated Mr. Barnes' DCF analysis to include more current
4 stock prices and to consider long-term growth estimates. This analysis is shown
5 in Schedule SCH-12, page 1. Simply updating the stock prices for his comparable
6 group (using monthly averages for June, July, and through August 24, 2007)
7 increases his dividend yield from 3.80 percent to 4.13 percent. Combining long-
8 term GDP growth of 6.60 percent with the average of his analysts' short-term
9 growth of 6.07 percent (see column 5 of Barnes Schedule 15) creates a more
10 realistic growth rate of 6.34 percent. When the updated dividend yield is
11 combined with this growth rate, the updated cost of equity from Mr. Barnes' DCF
12 analysis becomes 10.47 percent.

13 **Q. Did you update Mr. Barnes' CAPM analysis?**

14 A. Yes, I did. These updated results are shown in Schedule SCH-12, page 2. In his
15 initial analysis, Mr. Barnes obtained CAPM results of 5.76 percent, 9.92 percent,
16 and 11.33 percent (see columns 6-8 of Barnes Schedule 18). An ROE
17 recommendation of 5.76 percent can be ignored on its face because it is well
18 below the current cost of utility debt. The midpoint of his two remaining CAPM
19 estimates is 10.63 percent. This is a reasonable outcome and Mr. Barnes should
20 have relied on it in reaching his final ROE recommendation, rather than relying
21 exclusively on his DCF analysis. The only update I make to Mr. Barnes' CAPM
22 analysis is to replace the risk-free rate he used of 5.20 percent (average for June
23 2007) with the more recent average of 5.11 percent for the month of July 2007.
24 This lowers his CAPM result to 10.54 percent.

1 **Q. Based on these updates, what is the ROE that results from Mr. Barnes's**
2 **analysis?**

3 A. His analysis actually supports a base ROE of approximately 10.5 percent. As
4 shown in Schedule SCH-12, this result is the combination of an updated DCF
5 estimate of 10.47 percent (based on updated stock prices and the inclusion of
6 long-term GDP growth) and an updated CAPM estimate of 10.54 percent (using a
7 slightly lower risk-free interest rate for the month of July).

8 **IV. Technical Rebuttal of OPC Witness Michael P. Gorman**

9 **Q. Did you also update Mr. Gorman's DCF analysis?**

10 A. Yes, I did. These results are shown on Schedule SCH-13, pages 1-7. In Schedule
11 SCH-13, page 1, column 1, I summarize Mr. Gorman's initial ROE results for his
12 "Gorman Proxy Group." As the data show, only one of his model results (9.3
13 percent from the Two-Stage DCF model) is as low as his ultimate ROE
14 recommendation of 10.1 percent. Had he simply averaged all four of his model
15 outcomes, he would have found an ROE of 10.4 percent. In this light, had Mr.
16 Gorman more reasonably considered his own quantitative results and the other
17 checks of reasonableness that he offers, his ROE estimate would have higher.

18 **Q. What are your adjustments to Mr. Gorman's DCF analysis?**

19 A. My changes are summarized on Schedule SCH-13, page 1, column 2. They
20 indicate that had Mr. Gorman relied on more reasonable assumptions, he would
21 have found an ROE estimate very similar, if not higher than, my base ROE of
22 10.75 percent.

23 I made two adjustments to Mr. Gorman's Constant Growth DCF model, in
24 a similar fashion to the updates I made to Mr. Barnes' DCF analysis. First, I

1 updated the prices for his comparable group through August 24, 2007 (the most
2 recent period available) and I averaged the long-term GDP growth rate with his
3 short-term analysts' growth rate estimates. The effects of these two adjustments
4 are shown on Schedule SCH-13, page 2. With these changes, his constant growth
5 DCF estimate increases to 10.9 percent.

6 I also updated Mr. Gorman's Two-Stage Growth DCF analysis to consider
7 current stock prices, and I replaced his second stage growth estimate of 5.10
8 percent with my long-term projection of GDP growth of 6.60 percent. These
9 results are shown on Schedule SCH-13, page 3. They also indicate a Two-Stage
10 Growth DCF estimate of 10.9 percent.

11 **Q. Please comment on Mr. Gorman's risk premium analysis.**

12 A. In his bond yield plus risk premium analysis he uses the same general approach
13 that I use, based on allowed regulatory rates of return. In that analysis, however,
14 he shortens the analysis period and he fails to include the well documented
15 tendency for risk premiums to increase when interest rates decline. Without
16 including this characteristic of risk premiums, his risk premium analysis is not
17 consistent recent experience or with sound academic research, such as the Harris
18 and Marston studies I discussed in my direct testimony. With recent historically
19 low interest rates, this omission causes him to significantly understate his risk
20 premium estimates. In addition, his interpretation of his risk premium analysis
21 appears to be quite subjective in terms of the data he presents.

22 **Q. What does Mr. Gorman's risk premium analysis consist of?**

23 A. Mr. Gorman's risk premium analysis is presented in Schedules MPG-9 through
24 MPG-12. He discusses the analysis on pages 21-24 of his Direct Testimony. His

1 analysis consists of two parts. In one part he adds a Government bond equity risk
2 premium of 5.15 percent to a projected 20-year Treasury bond yield of 5.4%.
3 This produces an ROE of 10.5 percent. In his second approach, he adds a utility
4 bond risk premium of 3.7 percent to the recent Baa utility bond yield of 6.38
5 percent. This produces an ROE estimate of 10.1 percent. From these two results,
6 he concludes that a 10.3 percent ROE is appropriate.

7 **Q. Why do you say that Mr. Gorman's approach is subjective?**

8 A. On page 22, at lines 19-20 of his Direct Testimony, Mr. Gorman explains that 18
9 of his 22 Treasury bond risk premium observations range between 4.4 percent and
10 5.9 percent. From this range he selects the approximate midpoint of 5.15 percent
11 for his Treasury bond analysis. In the following paragraph, he says that his utility
12 bond risk premiums "...primarily fall in the range of 3.0% to 4.4%...." From this
13 range he selects the midpoint of 3.7 percent..

14 **Q. Why do you disagree with Mr. Gorman's selections in his Treasury bond**
15 **analysis?**

16 A. Without closer inspection, his selections might appear reasonable. In fact, they
17 are not. What Mr. Gorman fails to explain is that, with the lower interest rates in
18 recent years, in his own risk premium data since 2000 there is *not one*
19 Government bond risk premium as low as the 5.15 percent he recommends.
20 Indeed, Mr. Gorman excludes from his subjective range the one observation in
21 2002 when the Treasury bond yield was closest to the 5.4 percent projected
22 Government bond rate he finally applies. In 2002, the Treasury bond rate was
23 5.43 percent and, based on an average allowed ROE of 11.16 percent, the
24 indicated risk premium was 5.73 percent. Similarly, in 2005 when Treasury rates

1 dropped to 4.65 percent, the risk premium was 5.89 percent and the average ROE
2 was 10.54 percent. Without any further analysis, these Treasury bond data show
3 that Mr. Gorman's risk premium estimates of ROE should have been in the 10.5
4 percent to 11.0 percent range.

5 **Q. Is there a similar problem with Mr. Gorman's utility bond risk premium**
6 **analysis?**

7 A. Yes, there is. Mr. Gorman's Schedule MPG-10 shows that to find a risk premium
8 as low as his 3.7 percent one must revert to 2001 when the interest rate on A-rated
9 utility bonds was 7.76 percent. The effect of Mr. Gorman's improper omission of
10 the inverse risk premium-interest rate relationship can be seen further by
11 comparing the 7.98 percent average utility interest rate over his 22-year analysis
12 (Schedule MPG-10) to the 6.38 percent current Baa rate he uses to estimate ROE
13 (Schedule MPG-12). Based on a 7.98 percent average utility interest rate, the
14 average risk premium was 3.66 percent from his 22-year study. During the only
15 years in that analysis when interest rates were as low as 6.38 percent (2003-2006),
16 the average risk premium was 4.5 percent. Had Mr. Gorman simply used this
17 more recent risk premium for consistency with his low 6.38 percent utility interest
18 rate, he would have found an ROE of 10.9 percent ($10.88\% = 6.38\% + 4.50\%$).
19 These comparisons show that Mr. Gorman's risk premium data actually support
20 an ROE range of 10.5 percent to 11.0 percent.

21 **Q. In your risk premium analysis from your direct testimony, you used a**
22 **standard regression analysis to account for the inverse relationship between**
23 **risk premiums and interest rates. What does Mr. Gorman's risk premium**
24 **analysis indicate when this approach is applied to his data?**

1 A. In pages 4-7 of Schedule SCH-13, I have applied the standard regression analysis
2 to calculate "interest rate adjustment" factors for his two risk premium studies.
3 This approach properly takes into account the inverse relationship between equity
4 risk premiums and interest rates. Using this analysis, Mr. Gorman's Treasury
5 bond risk premium indicates an ROE of 10.9 percent. For his utility bond risk
6 premium, the indicated ROE is 10.7 percent. These results further confirm that
7 Mr. Gorman's risk premium data support a base ROE in the range of 10.5 percent
8 to 11.0 percent.

9 **Q. Has Mr. Gorman previously recognized the inverse risk premium-interest**
10 **rate relationship?**

11 A. Yes, he has. In his testimony in a Central Power & Light Company case before
12 the Public Utility of Commission of Texas in 1996, (Docket No. 14965) at page
13 15, lines 10-13, Mr. Gorman stated:

14 The results of my study indicate an inverse relationship between a
15 bond's real return and the equity risk premium. This result is
16 consistent with the findings of published studies which indicate
17 equity risk premiums move inversely with interest rates.

18 Had Mr. Gorman made a similar adjustment in this case, his risk premium results
19 would have indicated an ROE considerably higher than the one he recommends.

20 **V. ROE Update**

21 **Q. What are the results of your updated DCF analyses?**

22 A. My updated DCF estimates are based on the same comparable company methods
23 I used in my Direct Testimony. My updated DCF results are presented in
24 Schedule SCH-14. The reasonable range from my updated DCF analysis is 10.6
25 percent to 11.1 percent. These results are based on the two-stage growth DCF

1 model and the single-stage growth DCF model with the growth rate based on the
2 long-term GDP growth rate. The traditional constant growth DCF model
3 indicates an ROE of only 8.8 percent to 9.2 percent, which fails to meet my risk
4 premium checks of reasonableness and, therefore, continues to be excluded from
5 my recommended electric utility DCF range.

6 **Q. What are the results of your updated risk premium analysis?**

7 A. My updated risk premium analysis is presented in Schedule SCH-15. Based on
8 currently projected Baa utility interest rates for 2008, the electric utility risk
9 premium analysis indicates an ROE of 10.95 percent. The updated results of the
10 Ibbotson risk premium analysis and the Harris-Marston risk premium analysis
11 indicate ROEs of 11.2 percent ($6.70\% + 4.5\% = 11.40\%$) and 11.8 percent (6.70%
12 $+ 5.13\% = 11.83\%$), respectively.

13 **Q. What do you conclude from your updated ROE analyses?**

14 A. My updated analyses indicate that the Company's requested 10.75 percent base
15 ROE is a reasonable estimate of the fair cost of equity capital for my comparable
16 company group. With the additional construction risk increment of 50 basis
17 points, KCPL's cost of equity is 11.25 percent. My conclusions are also
18 supported by the interest rate risk associated with projections for higher rates over
19 the coming year and the ongoing risks and uncertainties that exist in the electric
20 utility industry as well as the specific risks that KCPL is currently facing.

21 **Q. Does this conclude your rebuttal testimony?**

22 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariff to) Case No. ER-2007-0291
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF SAMUEL C. HADAWAY

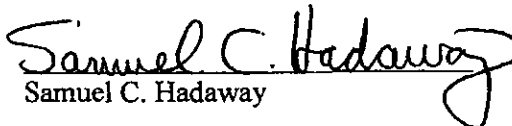
STATE OF TEXAS)
) ss
COUNTY OF TRAVIS)

Samuel C. Hadaway, being first duly sworn on his oath, states:

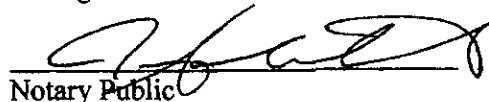
1. My name is Samuel C. Hadaway. I am employed by FINANCO, Inc. in Austin, Texas. I have been retained by Great Plains Energy, Inc., the parent company of Kansas City Power & Light Company, as an expert witness to provide cost of capital testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of sixteen(16) pages and Schedules SCH- 9 through SCH- 15, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

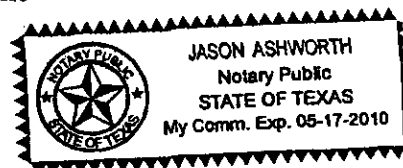
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Samuel C. Hadaway

Subscribed and sworn before me this 27th day of August 2007.


Notary Public

My commission expires: 5/17/2007



Kansas City Power & Light Co.
Authorized Electric Utility Equity Returns

	2005	2006	2007
1st Quarter	10.51%	10.38%	10.27%
2nd Quarter	10.05%	10.69%	10.27%
3rd Quarter	10.84%	10.06%	
4th Quarter	10.75%	10.39%	
Full Year	10.54%	10.36%	10.27%

Source: Regulatory Research Associates, *Regulatory Focus*,
July 3, 2007.

Kansas City Power & Light Co.
Long-Term Interest Rate Trends

Month	Baa Utility Rates	Average Utility Rates	Long-Term Treasury Rates	10-Year Treasury Rates
Aug-05	5.80%	5.51%	4.53%	4.26%
Sep-05	5.83%	5.54%	4.51%	4.20%
Oct-05	6.08%	5.79%	4.74%	4.46%
Nov-05	6.19%	5.88%	4.83%	4.54%
Dec-05	6.14%	5.83%	4.73%	4.47%
Jan-06	6.06%	5.77%	4.65%	4.42%
Feb-06	6.11%	5.83%	4.73%	4.57%
Mar-06	6.26%	5.98%	4.91%	4.72%
Apr-06	6.54%	6.28%	5.22%	4.99%
May-06	6.59%	6.39%	5.35%	5.11%
Jun-06	6.61%	6.39%	5.29%	5.11%
Jul-06	6.61%	6.37%	5.25%	5.09%
Aug-06	6.43%	6.20%	5.08%	4.88%
Sep-06	6.26%	6.03%	4.93%	4.72%
Oct-06	6.24%	6.01%	4.94%	4.73%
Nov-06	6.04%	5.82%	4.78%	4.60%
Dec-06	6.05%	5.83%	4.78%	4.56%
Jan-07	6.16%	5.97%	4.95%	4.76%
Feb-07	6.10%	5.91%	4.93%	4.72%
Mar-07	6.10%	5.87%	4.81%	4.56%
Apr-07	6.24%	6.01%	4.95%	4.69%
May-07	6.23%	6.03%	4.98%	4.75%
Jun-07	6.54%	6.34%	5.29%	5.10%
Jul-07	6.49%	6.28%	5.19%	5.00%

Sources: Mergent Bond Record (Utility Rates);
www.federalreserve.gov (Treasury Rates).

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

Annual % Change						2006		2007				E2008		
2006	E2007	E2008	2006	E2007	E2008		R4Q	R1Q	A2Q	E3Q	E4Q	1Q	2Q	3Q
Gross Domestic Product														
\$13,195.0	\$13,805.0	\$14,473.0	6.1	4.8	4.8	GDP (current dollars)	\$13,392.0	\$13,552.0	\$13,756.0	\$13,878.0	\$14,034.0	\$14,204.0	\$14,374.0	\$14,558.0
6.1	4.6	4.8	-	-	-	Annual rate of increase (%)	3.8	4.9	6.2	3.8	4.6	4.9	4.9	5.2
2.9	2.0	2.7	-	-	-	Annual rate of increase—real GDP (%)	2.1	0.6	3.4	2.8	2.6	2.4	2.7	3.0
3.2	2.6	2.1	-	-	-	Annual rate of increase—GDP deflator (%)	1.7	4.2	2.7	0.8	1.9	2.5	2.1	2.2
* Components of Real GDP														
\$8,044.0	\$8,276.0	\$8,506.0	3.1	2.9	2.8	Personal consumption expenditures	\$8,141.0	\$8,216.0	\$8,241.0	\$8,295.0	\$8,352.0	\$8,411.0	\$8,472.0	\$8,536.0
3.1	2.9	2.8	-	-	-	% change	3.9	3.7	1.3	2.7	2.8	2.9	2.9	3.1
1,180.5	1,234.4	1,286.6	3.8	4.6	2.6	Durable goods	1,197.6	1,223.2	1,228.2	1,238.0	1,248.3	1,248.9	1,256.4	1,274.2
2,337.6	2,393.9	2,465.8	3.7	2.4	3.0	Nondurable goods	2,368.8	2,386.6	2,381.8	2,395.7	2,411.3	2,436.6	2,457.2	2,475.1
4,545.5	4,672.9	4,798.7	2.7	2.8	2.7	Services	4,595.5	4,630.7	4,655.9	4,686.8	4,718.4	4,749.6	4,782.1	4,813.4
1,306.8	1,353.4	1,409.5	6.6	3.6	4.1	Nonresidential fixed investment	1,314.8	1,321.7	1,347.6	1,362.8	1,381.4	1,390.6	1,400.1	1,414.0
6.6	3.6	4.1	-	-	-	% change	(1.4)	2.1	8.1	4.6	5.6	2.7	2.8	4.0
1,050.6	1,061.0	1,120.1	5.9	1.0	5.8	Producers durable equipment	1,044.4	1,045.3	1,051.2	1,064.7	1,083.1	1,099.1	1,109.6	1,125.3
560.0	475.6	434.1	(4.7)	(15.1)	(8.7)	Residential fixed investment	520.1	497.1	485.1	469.6	450.5	433.1	429.5	433.7
(4.7)	(15.1)	(8.7)	-	-	-	% change	(17.3)	(18.6)	(9.3)	(12.2)	(15.3)	(14.6)	(3.3)	3.9
40.3	9.5	29.8	-	-	-	Net change in business inventories	17.4	0.1	3.6	15.4	18.9	28.6	28.6	27.8
1,981.4	2,018.0	2,052.9	1.8	1.9	1.7	Gov't purchases of goods & services	1,997.2	1,994.7	2,015.6	2,028.2	2,035.4	2,043.4	2,049.5	2,056.2
742.3	753.2	768.6	2.2	1.5	2.0	Federal	752.3	740.2	752.3	757.9	762.5	765.7	768.2	769.9
1,239.0	1,264.6	1,284.2	1.6	2.1	1.6	State & local	1,244.9	1,254.2	1,263.1	1,268.2	1,272.8	1,277.6	1,281.3	1,286.2
(624.5)	(580.5)	(549.9)	-	-	-	Net exports	(597.3)	(612.1)	(577.9)	(571.3)	(560.7)	(556.0)	(548.0)	(545.9)
1,304.1	1,393.2	1,519.2	8.4	6.8	9.0	Exports	1,350.9	1,354.7	1,375.9	1,403.8	1,438.2	1,472.2	1,503.8	1,534.4
1,928.6	1,973.6	2,069.1	5.9	2.3	4.8	Imports	1,948.2	1,966.8	1,953.7	1,975.1	1,998.9	2,028.2	2,051.8	2,080.3
** Income & Profits														
\$10,983.0	\$11,686.0	\$12,304.0	6.6	6.4	5.3	Personal income	\$11,200.0	\$11,484.0	\$11,598.0	\$11,757.0	\$11,906.0	\$12,069.0	\$12,224.0	\$12,376.0
9,828.0	10,192.0	10,740.0	5.9	5.8	5.4	Disposable personal income	9,799.0	10,025.0	10,112.0	10,250.0	10,379.0	10,518.0	10,670.0	10,808.0
0.4	0.9	1.3	-	-	-	Savings rate (%)	0.4	1.1	0.5	0.8	1.1	1.2	1.4	1.3
1,805.8	1,827.3	1,852.1	14.3	1.2	1.4	Corporate profits before taxes	1,789.2	1,815.8	1,881.8	1,814.3	1,797.4	1,815.9	1,841.7	1,873.0
1,351.9	1,375.9	1,398.1	13.9	1.8	1.6	Corporate profits after taxes	1,336.8	1,363.3	1,415.7	1,367.9	1,356.7	1,369.9	1,390.3	1,414.1
81.50	88.70	95.40	18.6	8.8	7.8	Earnings per share (S&P 500)	81.50	83.10	86.30	87.40	88.70	91.30	92.20	93.80
† Prices & Interest Rates														
3.2	2.6	2.1	-	-	-	Consumer price index	(2.1)	3.8	6.0	1.5	0.9	1.9	2.3	2.7
4.7	4.8	4.4	-	-	-	Treasury bills	4.9	5.0	4.8	4.8	4.8	4.6	4.4	4.3
4.8	4.9	5.3	-	-	-	10-yr notes	4.8	4.7	4.9	4.9	5.2	5.3	5.3	5.3
4.9	5.0	5.4	-	-	-	30-yr bonds	4.7	4.8	5.0	5.1	5.3	5.4	5.4	5.4
5.6	5.6	6.1	-	-	-	New issue rate—corporate bonds	5.4	5.4	5.6	5.7	5.9	6.0	6.0	6.0
Other Key Indicators														
1,810.0	1,400.0	1,400.0	(12.8)	(22.5)	(0.2)	Housing starts (1,000 units SAAR)	1,550.0	1,480.0	1,460.0	1,380.0	1,310.0	1,310.0	1,370.0	1,430.0
16.5	16.2	16.6	(2.6)	(1.8)	2.0	Auto & truck sales (1,000,000 units)	16.3	16.4	16.0	15.9	16.5	16.4	16.5	16.6
4.6	4.6	4.7	-	-	-	Unemployment rate (%)	4.5	4.5	4.5	4.6	4.8	4.8	4.8	4.7
(1.5)	(4.5)	(4.4)	-	-	-	\$U.S. dollar	(0.5)	1.8	(11.9)	(10.3)	(2.5)	(3.0)	(2.4)	(2.9)

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A—Advance data. P—Preliminary. E—Estimated. R—Revised. *1996 Chain-weighted dollars.

**Current dollars. †Trailing 4 quarters. ‡Average for period. \$Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Kansas City Power & Light Co.
Barnes DCF Analysis Considering Long-Term GDP Growth

No.	Company	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Dividend D ₁	Updated Price P ₀	Dividend Yield	Barnes Short-Term Growth (EPS)	Long-Term Growth (GDP)	Average Growth	Updated Cost of Equity
1	Alliant Energy	1.32	38.93	3.39%	6.07%	6.60%	6.34%	9.73%
2	Ameren Corp.	2.54	50.30	5.05%	6.07%	6.60%	6.34%	11.38%
3	American Electric Power	1.66	45.50	3.65%	6.07%	6.60%	6.34%	9.98%
4	Cleco Corp.	0.90	24.58	3.66%	6.07%	6.60%	6.34%	10.00%
5	DPL Inc.	1.06	28.29	3.75%	6.07%	6.60%	6.34%	10.08%
6	Empire Dist. Elec.	1.28	22.73	5.63%	6.07%	6.60%	6.34%	11.97%
7	Entergy Corp.	2.28	103.77	2.20%	6.07%	6.60%	6.34%	8.53%
8	FirstEnergy Corp.	2.09	64.00	3.27%	6.07%	6.60%	6.34%	9.60%
9	FPL Group	1.71	59.40	2.88%	6.07%	6.60%	6.34%	9.21%
10	Hawaiian Electric	1.24	23.01	5.39%	6.07%	6.60%	6.34%	11.73%
11	IDACORP, Inc.	1.20	32.38	3.71%	6.07%	6.60%	6.34%	10.04%
12	Pinnacle West Capital	2.18	40.52	5.38%	6.07%	6.60%	6.34%	11.72%
13	PNM Resources	0.98	26.49	3.70%	6.07%	6.60%	6.34%	10.04%
14	Progress Energy	2.45	46.45	5.28%	6.07%	6.60%	6.34%	11.61%
15	Southern Co.	1.63	34.90	4.67%	6.07%	6.60%	6.34%	11.01%
16	Westar Energy	1.12	24.76	4.52%	6.07%	6.60%	6.34%	10.86%
	Average			4.13%	6.07%	6.60%	6.34%	10.47%

	(8)	(9)
	Summary of Results	
	Barnes	
	Initial	Updated
	ROE	ROE
DCF Models (midpoint)		
Earnings Forecasts	9.72%	NA
Earnings & GDP	NA	10.47%
CAPM Models (midpoint)		
Long-Term	10.63%	10.54%
ROE Recommendation	9.72%	10.50%

Notes:

Column 1: See Column 1 of Barnes Schedule 17.

Column 2: Average of High and Low prices for each company for June, July, August 2007. August 2007 data is through August 24.

Column 3: Column 1 divided by Column 2.

Column 4: Average of three short-term earnings growth measures relied on by Mr. Barnes. See Column 5 of Barnes Schedule 15.

Column 5: See Schedule SCH-5 from Dr. Hadaway's direct testimony.

Column 6: Average of Columns 4 and 5.

Column 7: Sum of Columns 3 and 6.

Column 8: See midpoint of Barnes' estimated DCF cost of equity range (9.14% to 10.30%) from Barnes Schedule 17 and midpoint of arithmetic and geometric CAPM cost of equity range (11.33% to 9.92%) from Barnes Schedule 18.

Column 9: DCF result from Column 7 above; CAPM result from page 2, Column 4 of this schedule. ROE recommendation is average of DCF and CAPM results.

Kansas City Power & Light Co.
Updated Barnes CAPM Analysis

No.	Company	(1)	(2)	(3)	(4)
		Risk-Free Rate	Average Market Risk Premium	Beta	Cost of Equity
1	Alliant Energy	5.11%	5.75%	0.95	10.57%
2	Ameren Corp.	5.11%	5.75%	0.75	9.42%
3	American Electric Power	5.11%	5.75%	1.35	12.87%
4	Cleco Corp.	5.11%	5.75%	1.30	12.59%
5	DPL Inc.	5.11%	5.75%	0.95	10.57%
6	Empire Dist. Elec.	5.11%	5.75%	0.85	10.00%
7	Entergy Corp.	5.11%	5.75%	0.90	10.29%
8	FirstEnergy Corp.	5.11%	5.75%	0.85	10.00%
9	FPL Group	5.11%	5.75%	0.85	10.00%
10	Hawaiian Electric	5.11%	5.75%	0.75	9.42%
11	IDACORP, Inc.	5.11%	5.75%	1.05	11.15%
12	Pinnacle West Capital	5.11%	5.75%	1.00	10.86%
13	PNM Resources	5.11%	5.75%	0.95	10.57%
14	Progress Energy	5.11%	5.75%	0.95	10.57%
15	Southern Co.	5.11%	5.75%	0.70	9.14%
16	Westar Energy	5.11%	5.75%	0.95	10.57%
	Average			0.94	10.54%

Notes:

Column 1: See Column 1 of Barnes Schedule 18, updated with July 2007 data.

Column 2: Average of arithmetic and geometric market risk premium estimates. See Columns 3 and 4 of Barnes Schedule 18.

Column 3: See Column 2 of Barnes Schedule 18.

Column 4: Column 1 plus Column 2 multiplied by Column 3.

Kansas City Power & Light Company
Summary of Updated Gorman ROE Results

	(1)	(2)
	Summary of Results	
	Gorman	
	Initial	Updated
	ROE	ROE
DCF Models		
Constant Growth DCF	10.7%	10.9%
Two-Stage DCF	9.3%	10.9%
Risk Premium	10.3%	10.8%
CAPM	11.1%	11.1%
ROE Recommendation	10.1%	10.9%

Notes:

Column 1: See results for "Gorman's Proxy Group" in Table 2 at Gorman, page 30.

Column 2: See page 2 of this schedule for updated Constant Growth DCF result; page 3 for Two-Stage result; average of results from pages 4 and 6 for Risk Premium result; CAPM results unchanged.

Kansas City Power & Light Co.
Gorman Constant Growth DCF Analysis Considering Long-Term GDP Growth

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Gorman	Updated		Gorman	Long-Term		
	Dividend	Price	Dividend	Short-Term	Growth	Average	Updated
No. Company	D ₀	P ₀	Yield	Growth	(GDP)	Growth	Cost of
				(EPS)			Equity
1 American Electric Power	1.56	45.50	3.63%	5.26%	6.60%	5.93%	9.56%
2 Cleco Corp.	0.90	24.58	4.02%	12.87%	6.60%	9.74%	13.75%
3 Edison International	1.16	55.24	2.26%	8.46%	6.60%	7.53%	9.79%
4 Empire Dist. Elec.	1.28	22.73	6.12%	10.75%	6.60%	8.68%	14.80%
5 IDACORP, Inc.	1.20	32.38	3.93%	5.56%	6.60%	6.08%	10.01%
6 NiSource Inc.	0.92	20.28	4.77%	3.66%	6.60%	5.13%	9.90%
7 OGE Energy	1.36	34.20	4.19%	4.00%	6.60%	5.30%	9.49%
8 Pepco Holding	1.04	27.53	4.03%	7.00%	6.60%	6.80%	10.83%
9 PG&E Corp.	1.44	45.55	3.39%	7.76%	6.60%	7.18%	10.57%
10 Pinnacle West Capital	2.10	40.52	5.56%	7.78%	6.60%	7.19%	12.75%
11 PNM Resources	0.88	26.49	3.60%	10.29%	6.60%	8.45%	12.05%
12 Progress Energy	2.44	46.45	5.55%	4.78%	6.60%	5.69%	11.24%
13 SCANA Corp.	1.76	38.36	4.84%	4.33%	6.60%	5.47%	10.30%
14 Southern Co.	1.61	34.90	4.87%	4.52%	6.60%	5.56%	10.43%
15 Vectren Corp.	1.26	26.95	4.93%	4.22%	6.60%	5.41%	10.34%
16 Wisconsin Energy	1.00	44.48	2.41%	7.91%	6.60%	7.26%	9.67%
17 Xcel Energy, Inc.	0.89	20.91	4.50%	4.83%	6.60%	5.72%	10.21%
Average			4.27%	6.70%	6.60%	6.65%	10.92%

Notes:

Column 1: See Gorman Schedule MPG-5.

Column 2: Average of High and Low prices for each company for June, July, August (through August 24) 2007.

Column 3: Column 1 increased by column 6, divided by Column 2.

Column 4: See Gorman Schedule MPG-5.

Column 5: See Schedule SCH-5 from Dr. Hadaway's direct testimony.

Column 6: Average of Columns 4 and 5.

Column 7: Sum of Columns 3 and 6.

Kansas City Power & Light Co.

Gorman Two-Stage Growth DCF Analysis Considering Long-Term GDP Growth

No.	Company	(1)	(2)	(3)	(4)	(5)
		Gorman Dividend D ₀	Updated Price P ₀	Gorman First Stage Growth (EPS)	Second Stage Growth (GDP)	Updated Cost of Equity
1	American Electric Power	1.56	45.50	5.26%	6.60%	10.01%
2	Cleco Corp.	0.90	24.58	12.87%	6.60%	11.67%
3	Edison International	1.16	55.24	8.46%	6.60%	8.94%
4	Empire Dist. Elec.	1.28	22.73	10.75%	6.60%	13.71%
5	IDACORP, Inc.	1.20	32.38	5.56%	6.60%	10.35%
6	NiSource Inc.	0.92	20.28	3.66%	6.60%	10.84%
7	OGE Energy	1.36	34.20	4.00%	6.60%	10.36%
8	Pepco Holding	1.04	27.53	7.00%	6.60%	10.68%
9	PG&E Corp.	1.44	45.55	7.76%	6.60%	10.12%
10	Pinnacle West Capital	2.10	40.52	7.78%	6.60%	12.40%
11	PNM Resources	0.88	26.49	10.29%	6.60%	10.74%
12	Progress Energy	2.44	46.45	4.78%	6.60%	11.77%
13	SCANA Corp.	1.76	38.36	4.33%	6.60%	11.02%
14	Southern Co.	1.61	34.90	4.52%	6.60%	11.08%
15	Vectren Corp.	1.26	26.95	4.22%	6.60%	11.08%
16	Wisconsin Energy	1.00	44.48	7.91%	6.60%	9.06%
17	Xcel Energy, Inc.	0.89	20.91	4.83%	6.60%	10.79%
	Average			6.70%	6.60%	10.86%

Notes:

Column 1: See Gorman Schedule MPG-7.

Column 2: Average of High and Low prices for each company for June, July, August (through August 17) 2007.

Column 3: See Gorman Schedule MPG-7.

Column 4: See Schedule SCH-5 from Dr. Hadaway's direct testimony.

Column 5: The internal rate of return implied by the price in column 2 and dividends for 150 periods. The initial dividend shown in column 1 is assumed to grow for the first five periods at the rate in column 3, then at the rate in column 4 for the remaining periods.

Kansas City Power & Light Company
Update of Gorman Risk Premium Analysis - Treasury Bond

	(1) TREASURY BOND YIELD	(2) AUTHORIZED ELECTRIC RETURNS	(3) INDICATED RISK PREMIUM
1986	7.78%	13.93%	6.15%
1987	8.59%	12.99%	4.40%
1988	8.96%	12.79%	3.83%
1989	8.45%	12.97%	4.52%
1990	8.61%	12.70%	4.09%
1991	8.14%	12.55%	4.41%
1992	7.67%	12.09%	4.42%
1993	6.59%	11.41%	4.82%
1994	7.37%	11.34%	3.97%
1995	6.88%	11.55%	4.67%
1996	6.71%	11.39%	4.68%
1997	6.61%	11.40%	4.79%
1998	5.58%	11.66%	6.08%
1999	5.87%	10.77%	4.90%
2000	5.94%	11.43%	5.49%
2001	5.49%	11.09%	5.60%
2002	5.43%	11.16%	5.73%
2003	4.96%	10.97%	6.01%
2004	5.05%	10.75%	5.70%
2005	4.65%	10.54%	5.89%
2006	4.91%	10.36%	5.45%
Jun-07	4.89%	10.29%	5.40%
AVERAGE	6.60%	11.64%	5.05%

INDICATED COST OF EQUITY

GORMAN TREASURY BOND YIELD	5.40%
MOODY'S AVG ANNUAL YIELD DURING STUDY	6.60%
INTEREST RATE DIFFERENCE	-1.20%

INTEREST RATE CHANGE COEFFICIENT	-39.54%
ADJUSTMENT TO AVG RISK PREMIUM	0.47%

BASIC RISK PREMIUM	5.05%
INTEREST RATE ADJUSTMENT	0.47%
EQUITY RISK PREMIUM	5.52%

GORMAN TREASURY BOND YIELD	5.40%
INDICATED EQUITY RETURN	10.92%

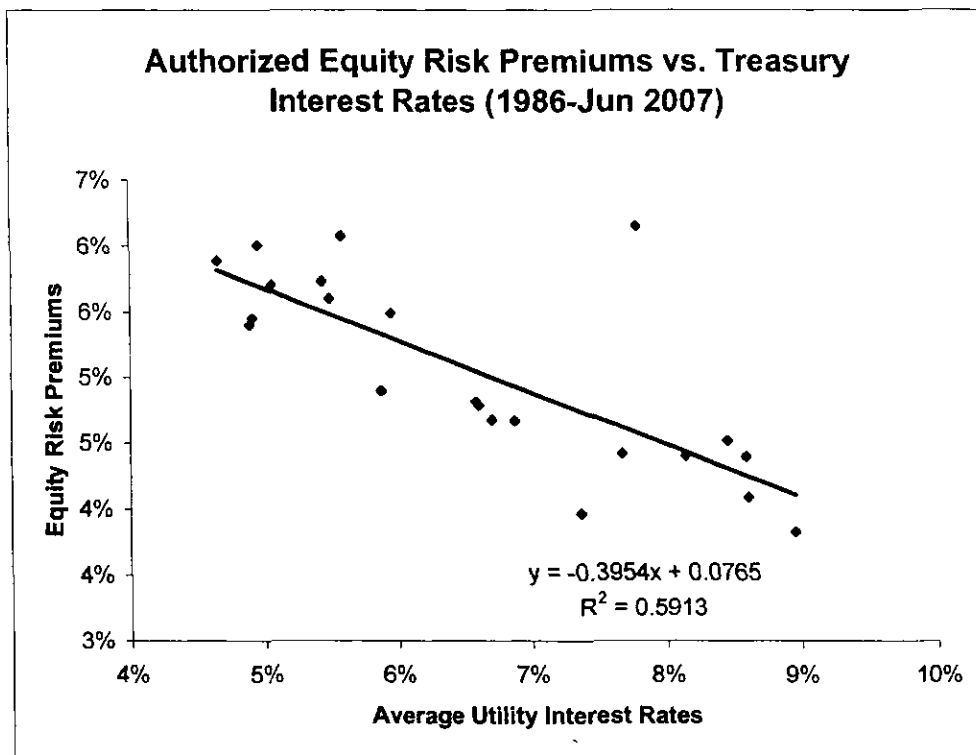
Notes:

Columns 1-3: Gorman Schedule MPG-9.

Gorman Direct, page 24, lines 3-9 for base Treasury bond yield.

See regression data on next page for derivation of "Interest Rate Change Coefficient."

Kansas City Power & Light Company
Update of Gorman Risk Premium Analysis - Treasury Bond



Kansas City Power & Light Company
Update of Gorman Risk Premium Analysis - Utility Bond

	(1) MOODY'S "A" RATED PUBLIC UTILITY BOND YIELD	(2) AUTHORIZED ELECTRIC RETURNS	(3) INDICATED RISK PREMIUM
1986	9.58%	13.93%	4.35%
1987	10.10%	12.99%	2.89%
1988	10.49%	12.79%	2.30%
1989	9.77%	12.97%	3.20%
1990	9.86%	12.70%	2.84%
1991	9.36%	12.55%	3.19%
1992	8.69%	12.09%	3.40%
1993	7.59%	11.41%	3.82%
1994	8.31%	11.34%	3.03%
1995	7.89%	11.55%	3.66%
1996	7.75%	11.39%	3.64%
1997	7.60%	11.40%	3.80%
1998	7.04%	11.66%	4.62%
1999	7.62%	10.77%	3.15%
2000	8.24%	11.43%	3.19%
2001	7.76%	11.09%	3.33%
2002	7.37%	11.16%	3.79%
2003	6.58%	10.97%	4.39%
2004	6.16%	10.75%	4.59%
2005	5.65%	10.54%	4.89%
2006	6.07%	10.36%	4.29%
Jun-07	6.12%	10.29%	4.17%
AVERAGE	7.98%	11.64%	3.66%

INDICATED COST OF EQUITY

GORMAN "Baa" UTILITY BOND YIELD	6.38%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.98%
INTEREST RATE DIFFERENCE	-1.60%

INTEREST RATE CHANGE COEFFICIENT	-37.94%
ADJUSTMENT TO AVG RISK PREMIUM	0.61%

BASIC RISK PREMIUM	3.66%
INTEREST RATE ADJUSTMENT	0.61%
EQUITY RISK PREMIUM	4.27%

GORMAN "Baa" UTILITY BOND YIELD	6.38%
INDICATED EQUITY RETURN	10.65%

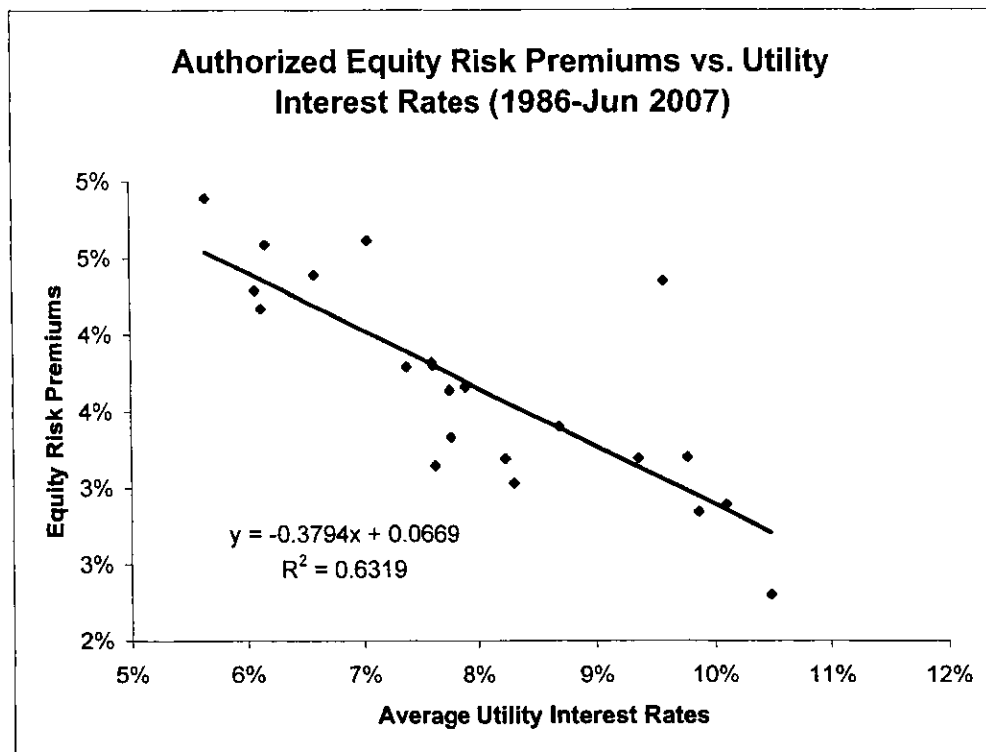
Source:

Columns 1-3: Gorman Schedule MPG-10.

Gorman Direct, page 24, lines 10-15 for base "Baa" utility bond yield.

See regression data on next page for derivation of "Interest Rate Change Coefficient."

Kansas City Power & Light Company
Update of Gorman Risk Premium Analysis - Utility Bond



Kansas City Power & Light Company
Discounted Cash Flow Analysis
Summary Of DCF Model Results

Company	Traditional Constant Growth DCF Model	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1 Alliant Energy Co.	8.7%	10.1%	9.7%
2 Ameren	9.2%	11.6%	10.8%
3 American Elec. Pwr.	9.4%	10.4%	10.6%
4 CH Energy Group	7.6%	11.3%	10.7%
5 Cent. Vermont P.S.	10.1%	9.1%	8.6%
6 Cleco Corporation	10.0%	10.3%	10.6%
7 Con. Edison	8.3%	11.7%	11.0%
8 DTE Energy Co.	8.7%	11.1%	10.7%
9 Empire District	11.4%	12.2%	11.7%
10 Energy East Corp.	7.8%	11.6%	11.3%
11 Hawaiian Electric	8.1%	12.0%	11.1%
12 IDACORP	7.5%	10.3%	9.6%
13 MGE Energy, Inc.	10.3%	11.0%	10.4%
14 NiSource Inc.	7.3%	11.1%	10.7%
15 Northeast Utilities	11.0%	9.5%	9.4%
16 NSTAR	11.4%	11.0%	11.0%
17 Pinnacle West	8.7%	12.1%	11.4%
18 PPL Corporation	13.8%	9.3%	10.0%
19 Progress Energy	8.4%	11.9%	11.1%
20 Puget Energy, Inc.	9.2%	10.7%	10.7%
21 SCANA Corp.	8.8%	11.3%	10.9%
22 Southern Co.	8.3%	11.4%	11.0%
23 Vectren Corp.	8.6%	11.5%	11.0%
24 Xcel Energy Inc.	9.2%	11.1%	10.9%
GROUP AVERAGE	9.2%	11.0%	10.6%
GROUP MEDIAN	8.8%	11.1%	10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.
Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Discounted Cash Flow Analysis
Traditional Constant Growth DCF Model

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	Projected Growth Rate Analysis									ROE K=Div Yld+G (Cols 3+12)
				Year 2011 "BR" Growth Rate Calculation						Zacks	Value Line	Average Growth (Cols 9-11)	
				DPS	EPS	Retention Rate (B)	NBV	ROE (R)	B*R Growth				
1 Alliant Energy Co.	38.93	1.37	3.52%	1.49	2.75	45.82%	28.05	9.80%	4.49%	6.00%	5.00%	5.16%	8.7%
2 Ameren	50.30	2.54	5.05%	2.54	3.35	24.18%	36.30	9.23%	2.23%	7.80%	2.50%	4.18%	9.2%
3 American Elec. Pwr.	45.50	1.72	3.78%	2.20	4.00	45.00%	31.75	12.60%	5.67%	4.70%	6.50%	5.62%	9.4%
4 CH Energy Group	45.91	2.16	4.71%	2.26	3.25	30.46%	35.75	9.09%	2.77%	NA	3.00%	2.88%	7.6%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	0.92	1.85	50.27%	22.45	8.24%	4.14%	NA	11.00%	7.57%	10.1%
6 Cleco Corporation	24.58	0.90	3.66%	1.20	1.75	31.43%	18.25	9.59%	3.01%	12.00%	4.00%	6.34%	10.0%
7 Con. Edison	45.90	2.34	5.10%	2.40	3.40	29.41%	38.05	8.94%	2.63%	3.50%	3.50%	3.21%	8.3%
8 DTE Energy Co.	49.03	2.20	4.49%	2.40	3.50	31.43%	37.75	9.27%	2.91%	5.70%	4.00%	4.20%	8.7%
9 Empire District	22.73	1.28	5.63%	1.40	2.00	30.00%	18.25	10.96%	3.29%	3.00%	11.00%	5.76%	11.4%
10 Energy East Corp.	25.44	1.26	4.95%	1.45	2.00	27.50%	21.75	9.20%	2.53%	3.50%	2.50%	2.84%	7.8%
11 Hawaiian Electric	23.01	1.24	5.39%	1.24	1.50	17.33%	14.00	10.71%	1.86%	4.90%	1.50%	2.75%	8.1%
12 IDACORP	32.38	1.20	3.71%	1.20	2.25	46.67%	30.95	7.27%	3.39%	6.00%	2.00%	3.80%	7.5%
13 MGE Energy, Inc.	32.34	1.43	4.42%	1.47	2.60	43.46%	19.45	13.37%	5.81%	NA	6.00%	5.90%	10.3%
14 NiSource Inc.	20.28	0.92	4.54%	1.00	1.50	33.33%	20.75	7.23%	2.41%	3.50%	2.50%	2.80%	7.3%
15 Northeast Utilities	28.40	0.83	2.92%	0.98	1.75	44.00%	20.45	8.56%	3.77%	13.00%	7.50%	8.09%	11.0%
16 NSTAR	32.63	1.43	4.38%	1.75	3.00	41.67%	19.75	15.19%	6.33%	6.30%	8.50%	7.04%	11.4%
17 Pinnacle West	40.52	2.21	5.45%	2.31	2.90	20.34%	37.00	7.84%	1.59%	6.70%	1.50%	3.26%	8.7%
18 PPL Corporation	47.42	1.30	2.74%	2.00	3.75	46.67%	19.00	19.74%	9.21%	13.00%	11.00%	11.07%	13.8%
19 Progress Energy	46.45	2.46	5.30%	2.52	3.20	21.25%	34.70	9.22%	1.96%	4.40%	3.00%	3.12%	8.4%
20 Puget Energy, Inc.	24.15	1.00	4.14%	1.20	2.00	40.00%	22.00	9.09%	3.64%	5.50%	6.00%	5.05%	9.2%
21 SCANA Corp.	38.36	1.82	4.74%	2.00	3.25	38.46%	30.00	10.83%	4.17%	4.50%	3.50%	4.06%	8.8%
22 Southern Co.	34.90	1.66	4.76%	1.85	2.50	26.00%	19.50	12.82%	3.33%	4.40%	3.00%	3.58%	8.3%
23 Vectren Corp.	26.95	1.31	4.86%	1.43	2.00	28.50%	19.25	10.39%	2.96%	4.30%	4.00%	3.75%	8.6%
24 Xcel Energy Inc.	20.91	0.95	4.54%	1.10	1.75	37.14%	17.00	10.29%	3.82%	4.50%	5.50%	4.61%	9.2%
GROUP AVERAGE	34.73	1.52	4.39%						3.66%	6.06%	4.94%	4.86%	9.2%
GROUP MEDIAN			4.54%										8.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.
Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Discounted Cash Flow Analysis
Constant Growth DCF Model
Long-Term GDP Growth

	(14)	(15)	(16)	(17)	(18)
	Recent	Next	Dividend	GDP	ROE
Company	Price(P0)	Year's Div(D1)	Yield	Growth	K=Div Yld+G (Cols 16+17)
1 Alliant Energy Co.	38.93	1.37	3.52%	6.60%	10.1%
2 Ameren	50.30	2.54	5.05%	6.60%	11.6%
3 American Elec. Pwr.	45.50	1.72	3.78%	6.60%	10.4%
4 CH Energy Group	45.91	2.16	4.71%	6.60%	11.3%
5 Cent. Vermont P.S.	36.60	0.92	2.51%	6.60%	9.1%
6 Cleco Corporation	24.58	0.90	3.66%	6.60%	10.3%
7 Con. Edison	45.90	2.34	5.10%	6.60%	11.7%
8 DTE Energy Co.	49.03	2.20	4.49%	6.60%	11.1%
9 Empire District	22.73	1.28	5.63%	6.60%	12.2%
10 Energy East Corp.	25.44	1.26	4.95%	6.60%	11.6%
11 Hawaiian Electric	23.01	1.24	5.39%	6.60%	12.0%
12 IDACORP	32.38	1.20	3.71%	6.60%	10.3%
13 MGE Energy, Inc.	32.34	1.43	4.42%	6.60%	11.0%
14 NiSource Inc.	20.28	0.92	4.54%	6.60%	11.1%
15 Northeast Utilities	28.40	0.83	2.92%	6.60%	9.5%
16 NSTAR	32.63	1.43	4.38%	6.60%	11.0%
17 Pinnacle West	40.52	2.21	5.45%	6.60%	12.1%
18 PPL Corporation	47.42	1.30	2.74%	6.60%	9.3%
19 Progress Energy	46.45	2.46	5.30%	6.60%	11.9%
20 Puget Energy, Inc.	24.15	1.00	4.14%	6.60%	10.7%
21 SCANA Corp.	38.36	1.82	4.74%	6.60%	11.3%
22 Southern Co.	34.90	1.66	4.76%	6.60%	11.4%
23 Vectren Corp.	26.95	1.31	4.86%	6.60%	11.5%
24 Xcel Energy Inc.	20.91	0.95	4.54%	6.60%	11.1%
GROUP AVERAGE	34.73	1.52	4.39%	6.60%	11.0%
GROUP MEDIAN			4.54%		11.1%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.
Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Discounted Cash Flow Analysis
Low Near-Term Growth
Two-Stage Growth DCF Model

	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
Company	Next Year's Div	2011 Div	Annual Change to 2011	CASH FLOWS							ROE=Internal Rate of Return (Yrs 0-150)
				Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	
1 Alliant Energy Co.	1.37	1.49	0.04	38.93	1.37	1.41	1.45	1.49	1.59	6.60%	9.7%
2 Ameren	2.54	2.54	0.00	50.30	2.54	2.54	2.54	2.54	2.71	6.60%	10.8%
3 American Elec. Pwr.	1.72	2.20	0.18	45.50	1.72	1.88	2.04	2.20	2.35	6.60%	10.6%
4 CH Energy Group	2.16	2.26	0.03	45.91	2.16	2.19	2.23	2.26	2.41	6.60%	10.7%
5 Cent. Vermont P.S.	0.92	0.92	0.00	36.60	0.92	0.92	0.92	0.92	0.98	6.60%	8.6%
6 Cleco Corporation	0.90	1.20	0.10	24.58	0.90	1.00	1.10	1.20	1.28	6.60%	10.6%
7 Con. Edison	2.34	2.40	0.02	45.90	2.34	2.36	2.38	2.40	2.56	6.60%	11.0%
8 DTE Energy Co.	2.20	2.40	0.07	49.03	2.20	2.27	2.33	2.40	2.56	6.60%	10.7%
9 Empire District	1.28	1.40	0.04	22.73	1.28	1.32	1.36	1.40	1.49	6.60%	11.7%
10 Energy East Corp.	1.26	1.45	0.06	25.44	1.26	1.32	1.39	1.45	1.55	6.60%	11.3%
11 Hawaiian Electric	1.24	1.24	0.00	23.01	1.24	1.24	1.24	1.24	1.32	6.60%	11.1%
12 IDACORP	1.20	1.20	0.00	32.38	1.20	1.20	1.20	1.20	1.28	6.60%	9.6%
13 MGE Energy, Inc.	1.43	1.47	0.01	32.34	1.43	1.44	1.46	1.47	1.57	6.60%	10.4%
14 NiSource Inc.	0.92	1.00	0.03	20.28	0.92	0.95	0.97	1.00	1.07	6.60%	10.7%
15 Northeast Utilities	0.83	0.98	0.05	28.40	0.83	0.88	0.93	0.98	1.04	6.60%	9.4%
16 NSTAR	1.43	1.75	0.11	32.63	1.43	1.54	1.64	1.75	1.87	6.60%	11.0%
17 Pinnacle West	2.21	2.31	0.03	40.52	2.21	2.24	2.28	2.31	2.46	6.60%	11.4%
18 PPL Corporation	1.30	2.00	0.23	47.42	1.30	1.53	1.77	2.00	2.13	6.60%	10.0%
19 Progress Energy	2.46	2.52	0.02	46.45	2.46	2.48	2.50	2.52	2.69	6.60%	11.1%
20 Puget Energy, Inc.	1.00	1.20	0.07	24.15	1.00	1.07	1.13	1.20	1.28	6.60%	10.7%
21 SCANA Corp.	1.82	2.00	0.08	38.36	1.82	1.88	1.94	2.00	2.13	6.60%	10.9%
22 Southern Co.	1.66	1.85	0.06	34.90	1.66	1.72	1.79	1.85	1.97	6.60%	11.0%
23 Vectren Corp.	1.31	1.43	0.04	26.95	1.31	1.35	1.39	1.43	1.52	6.60%	11.0%
24 Xcel Energy Inc.	0.95	1.10	0.05	20.91	0.95	1.00	1.05	1.10	1.17	6.60%	10.9%
GROUP AVERAGE											10.6%
GROUP MEDIAN											10.8%

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.
Note: Duquesne Light and Green Mountain Power are no longer included in the comparable group due to mergers.

NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Discounted Cash Flow Analysis
DCF Analysis Column Descriptions

Column 1: Three-month Average Price per Share (Jun 2007-Aug 24, 2007)

Column 2: Estimated 2008 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: Estimated 2011 Dividends per Share from Value Line

Column 5: Estimated 2011 Earnings per Share from Value Line

Column 6: One Minus (Column 4 Divided by Column 5)

Column 7: Estimated 2011 Net Book Value per Share from Value Line

Column 8: Column 5 Divided by Column 7

Column 9: Column 6 Multiplied by Column 8

Column 10: "Next 5 Years" Company Growth Estimate as
Reported by Zacks.com

Column 11: "Est'd 04-06 to 10-12" Earnings Growth
Reported by Value Line.

Column 12: Average of Columns 9-11

Column 13: Column 3 Plus Column 12

Column 14: See Column 1

Column 15: See Column 2

Column 16: Column 15 Divided by Column 14

Column 17: Average of GDP Growth During the Last 10 year, 20 year,
30 year, 40 year, 50 year, and 59 year growth periods.

Column 18: Column 16 Plus Column 17

Column 19: See Column 2

Column 20: See Column 4

Column 21: (Column 20 Minus Column 19) Divided by Three

Column 22: See Column 1

Column 23: See Column 19

Column 24: Column 23 Plus Column 21

Column 25: Column 24 Plus Column 21

Column 26: Column 25 Plus Column 21

Column 27: Column 26 Increased by the Growth
Rate Shown in Column 28

Column 28: See Column 17

Column 29: The Internal Rate of Return of the Cash Flows
in Columns 22-27 along with the Dividends
for the Years 6-150 Implied by the Growth
Rates shown in Column 28

Kansas City Power & Light Company
Risk Premium Analysis

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1980	13.15%	14.23%	1.08%
1981	15.62%	15.22%	-0.40%
1982	15.33%	15.78%	0.45%
1983	13.31%	15.36%	2.05%
1984	14.03%	15.32%	1.29%
1985	12.29%	15.20%	2.91%
1986	9.46%	13.93%	4.47%
1987	9.98%	12.99%	3.01%
1988	10.45%	12.79%	2.34%
1989	9.66%	12.97%	3.31%
1990	9.76%	12.70%	2.94%
1991	9.21%	12.55%	3.34%
1992	8.57%	12.09%	3.52%
1993	7.56%	11.41%	3.85%
1994	8.30%	11.34%	3.04%
1995	7.91%	11.55%	3.64%
1996	7.74%	11.39%	3.65%
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
AVERAGE	9.35%	12.48%	3.13%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	-2.65%

INTEREST RATE CHANGE COEFFICIENT	-42.18%
ADJUSTMENT TO AVG RISK PREMIUM	1.12%

BASIC RISK PREMIUM	3.13%
INTEREST RATE ADJUSTMENT	1.12%
EQUITY RISK PREMIUM	4.25%

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
INDICATED EQUITY RETURN	10.95%

Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.6 percent) from S&P's Trends & Projections (Schedule SCH-11) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 133 basis points.

Kansas City Power & Light Company
Risk Premium Analysis

