Exhibit No.:
Witness: Michael Gorman
Type of Exhibit: Rebuttal Testimony
Issue: Rate of Return, Reg. Plan Amortization
Sponsoring Party: The Office of Public Counsel
Case No.: ER-2007-0291

Before the Public Service Commission of the State of Missouri

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

Rebuttal Testimony and Schedules of

Michael Gorman

On behalf of

The Office of Public Counsel

Project 8829
August 30, 2007

Exhibit No. 202 NP/PP
Case No(s). ER-2007-0291
Date 10/1/07 Rptr MV

BAI
Brubaker & Associates, Inc.
St. Louis, MO 63141-2000

Public Version

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF MICHAEL GORMAN

STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

Michael Gorman, of lawful age and being first duly sworn, deposes and states:

1. My name is Michael Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by the Office of Public Counsel in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules consisting of pages 1 through 33.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Michael Gorman
Consultant

Subscribed and sworn to me this 21st day of August 2007.

Notary Public

My commission expires May 5, 2009.

MARIA E. DECKER
Notary Public, State of Missouri
St. Louis City
Commission # 05706793
My Commission Expires May 05, 2009

Before the Public Service Commission
of the State of Missouri

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

Rebuttal Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Michael Gorman and my business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, MO 63141-2000.

Q ARE YOU THE SAME MICHAEL GORMAN THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A Yes, I am.

Q WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?

A I will respond to the following: (1) KCPL witness, Dr. Samuel Hadaway's return on equity recommendation, (2) KCPL witness, Mr. Michael W. Cline's regulatory plan financial ratios and proposed regulatory amortization, and (3) Staff witness Mr. Matthew Barnes' proposed capital structure for KCPL.

Q PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY TO DR. HADAWAY.

A Dr. Hadaway's proposed 11.25% return on equity for KCPL is excessive and unnecessarily increases KCPL's claimed revenue requirement in this proceeding. For

the reasons set forth below, Dr. Hadaway's proposal for a 50 basis point return on equity add-on to reflect his claim that KCPL is more risky than his proxy group is without merit and should be rejected. Further, his return on equity estimate for KCPL of 10.75%, without the return on equity add-on of 0.50%, is based on unreasonable DCF and risk premium studies and significantly exceeds a fair return on equity for a regulated utility company in today's very low capital cost market.

Dr. Hadaway's 10.75% return on equity does not reasonably compare to industry average authorized returns on equity for electric utilities of approximately 10.27% in the second quarter of 2007.[1] As such, Dr. Hadaway's recommendations significantly exceed fair and reasonable returns on equity as determined by other regulatory commissions around the country, and also exceed a fair return based on reasonable applications of financial models.

As set forth below, use of more reasonable market-based data in Dr. Hadaway's own analyses, without his inappropriate return on equity add-on adjustment, will show that a return on equity of 10.1%, as I recommended in my direct testimony, is a fair and reasonable return for setting KCPL rates in this proceeding.

Q PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY TO KCPL WITNESS, MR. CLINE.

A Mr. Cline's financial ratio calculation does not include all amortization expense reflected in KCPL's revenue requirement. He has, therefore, understated the financial ratios and overstated the regulatory plan amortization expense needed to meet the credit rating financial ratio targets.

[1] Edison Electric Institute, Q2 2007 Financial Update.

Specifically, Mr. Cline did not include the imputed amortization expenses associated with operating leases and the amortization of certain debt costs included in KCPL's embedded cost of debt. By including these amortization expenses in the financial ratio calculation, the amount of additional amortization expense revenue needed under the regulatory plan will be reduced by approximately $9.4 million.

Q PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY OF STAFF WITNESS, MR. BARNES.

A Mr. Barnes proposed to develop KCPL's overall rate of return using a capital structure composed of 66.01% common equity. In arriving at his proposed capital structure, Mr. Barnes did not include KCPL's expected debt issuances in 2007. He noted on page 13 of his testimony, that Staff would update the proposed capital structure for the Company after those debt issuances took place. He noted that reflecting the expected debt issuances would reduce KCPL's capital structure common equity ratio from 66% down to 53.4%.

Mr. Barnes' proposed capital structure reflecting a 66% common equity ratio is not reasonable for setting rates, because it is excessively weighted with common equity and does not reflect the prudent management of KCPL's capital structure. Further, this capital structure does not reflect the capital structure that KCPL anticipates to have in place during the period that rates determined in this proceeding will be in effect. Therefore, the capital structure Mr. Barnes included in his testimony should be rejected as unjust and unreasonable.

Instead, the Company's proposed capital structure should be used to set rates in this proceeding.

RESPONSE TO KCPL WITNESS, DR. SAMUEL HADAWAY

Q WHAT RETURN ON COMMON EQUITY IS KCPL PROPOSING FOR THIS PROCEEDING?

A KCPL is proposing to set rates based on a return on equity of 11.25%, which includes an upward adjustment of 50 basis points. Dr. Hadaway estimates a fair return based on his proxy group of electric utility companies of 10.75%. To that, he adds 50 basis points to reflect KCPL's greater construction risk, heavy reliance on wholesale transactions, and historical lack of a fuel adjustment clause (FAC).

Q DO YOU HAVE ANY GENERAL COMMENTS CONCERNING DR. HADAWAY'S OUTLOOK AND PRINCIPLES IN ESTABLISHING A FAIR RETURN ON EQUITY FOR KCPL IN THIS PROCEEDING?

A Yes. At page 6 of his direct testimony, Dr. Hadaway takes issue with the constant growth DCF model because he asserts that it depends on historically low dividend yields and pessimistic growth forecasts. He believes that these near-term circumstances do not reasonably reflect his longer-term expectations for higher capital costs. As such, he makes several adjustments to increase current capital market estimates to reflect his belief that capital costs will increase in the long term.

Q DO YOU BELIEVE IT IS REASONABLE FOR DR. HADAWAY TO INCREASE HIS RETURN ON EQUITY ESTIMATES FOR HIS BELIEF THAT CAPITAL COSTS WILL INCREASE OVER THE LONG TERM?

A No. This is unreasonable and a biased assessment for the following reasons:

1. Dr. Hadaway has not provided any corroborating evidence that any market participant shares his expectation of increases in capital costs.

2. Return on equity estimates should be based on an assessment of the **market's** capital cost requirements, not an assessment of the expected return of the individual **analyst**. Dr. Hadaway's return on equity estimates are based on his own belief and risk assessment. He is not attempting to measure KCPL's cost of capital in the marketplace today. This is significant, because KCPL will attract capital from the market, not from Dr. Hadaway. Hence, it is appropriate to develop an authorized return on equity based on the demands of the marketplace, not the individual opinion of Dr. Hadaway.

Q ON PAGE 4 OF HIS TESTIMONY, DR. HADAWAY ASSERTED THAT HE RELIED ON A CONSENSUS FORECASTS IN ARRIVING AT HIS BELIEF THAT INTEREST RATES WILL INCREASE. PLEASE RESPOND.

A Dr. Hadaway's consensus forecast is actually an individual forecast published by Standard & Poor's (S&P). S&P does not publish a consensus forecast, and it is incorrect for Dr. Hadaway to assert otherwise. A true consensus forecast is published by the Blue Chip Economic Forecast, which surveys economists, including S&P, and publishes a consensus of economists' projections of future economic indicators, including interest rates, GDP growth, and inflation. Dr. Hadaway did not rely on consensus market data.

Q IS DR. HADAWAY'S PROPOSED 50 BASIS POINT RETURN ON EQUITY ADD-ON FOR CONSTRUCTION AND OPERATING RISK REASONABLE?

A No. Dr. Hadway's proposed 50 basis point return on equity add-on is unreasonable for KCPL in this proceeding for several reasons. First, KCPL is not unique in that it is involved in a major construction program. Indeed, most utilities in the electric industry today are involved in major construction programs, and the companies in the proxy group used to estimate KCPL's return on equity are also involved in major construction activity. Second, KCPL has a regulatory plan to help support and

mitigate the risk of its major construction program. KCPL currently has over $21 million of additional amortization expense to provide stronger cash flows to support its credit metrics during construction, and the Company has proposed to increase that amortization expense by over $17 million in this proceeding. This regulatory plan amortization expense significantly strengthens KCPL's cash flow during construction which mitigates its construction risk at significant cost to retail ratepayers. It is unreasonable for Dr. Hadaway to ask for additional compensation on top of this significant ratepayer funded risk mitigation provided to KCPL to support its construction program.

KCPL's regulatory plan also mitigates construction and regulatory risks by commission review and approval of construction cost budgets and rate treatment after the asset is placed in-service.

Finally, the risks Dr. Hadaway identifies for KCPL are only components of KCPL's total investment risk. It is the total risk that determines KCPL's cost of capital not the limited components of investment risk that Dr. Hadaway is focused on.

Q WHY DO YOU BELIEVE THAT THE ELECTRIC UTILITY INDUSTRY AS A WHOLE IS INVOLVED IN A MAJOR CONSTRUCTION PROGRAM?

A The entire electric utility industry has significantly increased construction activities. For example, the Edison Electric Institute (EEI) estimates that the utilities' capital spending is expected to increase by over 50% in 2007 relative to 2005. KCPL capital spending is comparable to the industry's increased capital spending outlook. Therefore, KCPL construction risk is typical of the industry.

Q HOW DO KCPL'S CONSTRUCTION EXPENDITURES COMPARE TO THE PROXY GROUP'S PROJECTED CAPITAL EXPENDITURE?

A KCPL's capital expenditures are greater than the proxy group average but within the group range of capital expenditures. I have updated Dr. Hadaway's Schedule SCH-1 using actual 2006 data. Dr. Hadaway relied on actual data through 2005. In this study, Dr. Hadaway compared the average capital spending of his proxy group to KCPL and its parent company, Great Plains Energy. Table 1 summarizes the results shown on my Rebuttal Schedule MPG-1. As shown in the table below, updating Dr. Hadaway's analysis shows that the Great Plains and KCPL construction expenditures are comparable to expenditures of the proxy group used to estimate KCPL's return of equity in this case.

TABLE 1

Capital Spending

Description	Proxy Group Average	Great Plains
Hadaway Direct: Schedule SCH-1 (Actual data through 2005)	62%	96%
Gorman Rebuttal: Updated Schedule SCH-1 (Actual data through 2006)	66%	84%

Source: Schedule SCH-1 and Rebuttal Schedule MPG-1

Q HAS DR. HADAWAY CONSIDERED THE RISK MITIGATION PROVIDED BY THE REGULATORY PLAN IN HIS EVALUATION OF KCPL'S CONSTRUCTION RISK?

A I do not believe so. KCPL has been permitted to set rates based on regulatory principles that are specifically designed to ensure KCPL cash flows meet specified credit metrics in order to enhance KCPL credit rating during this construction period. The financial ratios included in Mr. Cline's analysis are adequate to allow KCPL to have financial ratios within the top one-third of its current credit rating guideline range as set by Standard & Poor's.

Increasing KCPL rates to enhance its cash flows during this construction period mitigates KCPL's construction risk. This reduced construction risk is paid for by ratepayers via the increased rates needed to cover the regulatory plan amortization expense. Dr. Hadaway ignored this construction risk mitigation regulatory plan paid for by ratepayers.

Q SHOULD KCPL'S RETURN ON EQUITY BE INCREASED TO REFLECT ONLY CERTAIN COMPONENTS OF KCPL'S INVESTMENT RISK?

A No. A rational investor will assess KCPL's risk based on its total investment risk, not on only limited components of total risk as suggested by Dr. Hadway. Hence, selecting companies with similar total investment risk to KCPL can then be used to estimate a fair rate of return to compensate investors for KCPL's total investment risk. Importantly, in my direct testimony, I demonstrated that both my proposed proxy group and Dr. Hadaway's proposed proxy group reasonably approximate KCPL's total investment risk. KCPL's construction risk is part of its total investment risk. Therefore, no return on equity adder is needed to fairly compensate KCPL for its total investment risk.

Q DO DR. HADAWAY'S METHODOLOGIES SUPPORT HIS 10.75% RETURN ON EQUITY FOR HIS PROXY GROUP?

A No. As discussed in detail below, reflecting current market data and properly applying his models, Dr. Hadaway's own analyses would support a return on equity of 10.1%.

Q PLEASE DESCRIBE DR. HADAWAY'S METHODOLOGY SUPPORTING HIS RETURN ON COMMON EQUITY RECOMMENDATION.

A Dr. Hadaway develops his return on common equity recommendation using three versions of the Discounted Cash Flow analysis and a utility risk premium analysis. Further, he tests his results using risk premium analyses conducted by Ibbotson & Associates and a study published by Harris & Marston ("H&M"). The results of Dr. Hadaway's return on equity analysis are shown at Page 39 of his direct testimony. I have summarized Dr. Hadaway's results below in Table 2 under Column 1. Under Column 2, I show the results of Dr. Hadaway's analyses adjusted for updated data and more reasonable application of the models.

As shown below in Table 2, using updated information and more reasonable estimates of Gross Domestic Product (GDP) growth, Dr. Hadaway's own analyses would support a return on equity for KCPL of 10.1%. The update and corrections to Dr. Hadaway's cost of equity models prove that a 10.1% equity return is reasonable. This is discussed in detail below.

TABLE 2

Summary of Hadaway's ROE Estimate

Description	Hadaway Results (1)	Adjusted Hadaway Results (2)
Constant Growth DCF (Traditional)	9.4% - 9.5%	9.1%
Constant Growth (GDP Growth)	10.7% - 10.8%	9.3%
Two-Stage Growth DCF	10.5%	9.1%
Estimated DCF*	10.5% - 10.8%	9.2%
Risk Premium Utility	10.72%	10.1%
Ibbotson Risk Premium	10.80%	10.2%
Harris-Marston Risk Premium	11.43%	10.7%
Average		10.1%

Source: Hadaway Direct at 39.

* The constant growth DCF model was excluded from Dr. Hadaway's range.

Q PLEASE DESCRIBE DR. HADAWAY'S CONSTANT GROWTH DCF ANALYSIS.

A Dr. Hadaway's constant growth DCF analysis is shown on his Schedule SCH-9, Page 2 of 5. As shown on that schedule, Dr. Hadaway's constant growth DCF analysis is based on a recent price and an average of three growth rates: (1) Zacks; (2) Value Line; and (3) Dr. Hadaway's estimate of GDP growth.

Q IN WHAT WAY DID DR. HADAWAY OVERSTATE HIS DCF ESTIMATES?

A Dr. Hadaway used a GDP growth rate of 6.6% as one of three growth rates. This GDP growth is excessive and not reflective of current market expectations.

Q HOW DID DR. HADAWAY DEVELOP HIS GDP GROWTH RATE?

A He states that the GDP growth rate is based on the achieved GDP growth over the last 10, 20, 30, 40, and 50-year periods. Dr. Hadaway's projected GDP growth rate is unreasonable. Historical GDP growth over the last 20 and 40-year periods was strongly influenced by the actual inflation rate experienced over that time period.

Q WHY IS DR. HADWAY'S DCF ESTIMATE EXCESSIVE IN COMPARISON TO THAT OF PUBLISHED MARKET ANALYSTS?

A The consensus economists' projected GDP growth rate is much lower than the GDP growth rate used by Dr. Hadaway in his DCF analysis. A comparison of Dr. Hadaway's GDP growth rates and consensus economists' projected GDP growth over the next five and ten years is shown below in Table 3. As shown in the table below, Dr. Hadaway's GDP rate of 6.6% reflects real GDP of 3.2% and an inflation GDP of 3.3%. However, consensus economists' projections of nominal GDP include real GDP and GDP inflation expectations over the next five and ten years of 3.0%, and 2.1%, respectively.

As is clearly evident in the table below, Dr. Hadaway's historical GDP growth reflects historical inflation, which is much higher than, and not representative of, consensus market expected forward-looking inflation.

TABLE 3

GDP Projections

Description	GDP Inflation	Real GDP	Nominal GDP
Hadaway	3.3%	3.2%	6.6%
Consensus 5-Year Projection	2.1%	3.0%	5.1%
Consensus 10-Year Projection	2.1%	3.0%	5.1%

Source: Blue Chip Economic Forecast, March 10, 2007.

As such, Dr. Hadaway's 6.6% nominal GDP growth rate is not reflective of consensus market expectations, and should be rejected.

Q HOW WOULD DR. HADAWAY'S DCF ANALYSES CHANGE IF CURRENT MARKET-BASED GDP GROWTH RATE PROJECTIONS ARE INCLUDED IN HIS ANALYSIS RATHER THAN HIS EXCESSIVE GDP GROWTH RATE?

A As shown on my Rebuttal Schedule MPG-2, I updated Dr. Hadaway's DCF analyses using a GDP growth rate of 5.1%. This is the consensus five-year projected growth rate of the GDP. As shown on page 1 of my Rebuttal Schedule MPG-2, using this consensus projected GDP growth rate reduces his constant growth DCF result from 9.5% to 9.1%.

Using a GDP growth rate of 5.1% would reduce his long-term GDP growth rate from 10.8% to 9.3% as shown on page 2 of my Rebuttal Schedule MPG-2, and his two-stage growth DCF model from 10.5% to 9.1% as shown on page 3 of my Rebuttal Schedule MPG-2.

Q WITH THESE ADJUSTMENTS, WHAT RETURN ON EQUITY WOULD DR. HADAWAY'S DCF MODELS SUGGEST IS A FAIR RETURN ON EQUITY FOR KCPL IN THIS PROCEEDING?

A Reflecting a consensus economists' GDP growth forecast would produce an average DCF result using Dr. Hadaway's models of 9.2% similar to, but lower, my estimated DCF return on equity of 9.5%.

Q PLEASE DESCRIBE DR. HADAWAY'S UTILITY RISK PREMIUM ANALYSIS.

A Dr. Hadaway's utility bond yield versus authorized return on common equity risk premium is shown on his Schedule SCH-7, Page 1. As shown on this schedule, Dr. Hadaway compares the contemporary Moody's average bond yield for utility companies and the authorized regulatory commission return on common equity over the period 1980 through September 2006. Based on this analysis, Dr. Hadaway estimates an average indicated equity risk premium over contemporary utility bond yields of 3.13%.

Dr. Hadaway then adjusts this average equity risk premium using a regression analysis based on an expectation that there is an ongoing inverse relationship between interest rates and equity risk premiums. Based on this regression analysis, Dr. Hadaway increases his equity risk premium from 3.13%, as reflected in his analysis, up to 4.42%. He then adds this inflated equity risk premium to a projected "Baa" bond yield of 6.30% to produce a return on equity of 10.72% for KCPL.

Q IS DR. HADAWAY'S UTILITY RISK PREMIUM ANALYSIS REASONABLE?

A No. Dr. Hadaway has unreasonably attempted to create a forward-looking specific risk premium point estimate using this historical data. This is not reasonable because

the data and model are not that precise. For example, interest rate volatility and inflation uncertainty in the 1980s and early 1990s are not reasonably representative of interest rate volatility and inflation outlooks currently and going forward. Inflation volatility or uncertainty over this historical time period had an impact on utility bond yields, valuations and equity risk premiums. This inflation volatility, however, is not characteristic of the current capital markets.

Q IS IT APPROPRIATE TO USE ONLY FORECASTED INTEREST RATES IN A RISK PREMIUM ANALYSIS AS DR. HADAWAY HAS DONE?

A No. As indicated in my direct testimony, the accuracy of projected interest rates is highly problematic. Indeed, while interest rates have been projected to increase over the last five years, those increased interest rate projections have turned out to be wrong and significantly inflated. Despite economists' continued pessimistic projections of increases to interest rates over the last five years, interest rates have actually either stayed flat or have declined. Accordingly, Dr. Hadaway's analysis should be performed based on current interest rates, with some consideration given to forecasted interest rates.

Q DOES DR. HADAWAY'S RISK PREMIUM ANALYSIS SUPPORT A RETURN ON EQUITY OF 11.25% IN THIS PROCEEDING?

A No. His equity risk premium estimate of 4.42% is overstated. As discussed in my direct testimony, since the spread between utility bond yields and Treasury bond yields is currently relatively low, an average equity risk premium of 3.1% based on Dr. Hadaway's study applied to a current "Baa" bond yield of 6.4% would indicate a fair return on equity for KCPL of 9.5%. In any case, the reasonable application of

Dr. Hadaway's model, and observation of current real capital market costs for utility companies, indicate a fair return on equity for KCPL in the range of 9.5% to 10.7%, with a midpoint of 10.1%. This range supports my recommended return on equity of 10.1% for KCPL in this proceeding.

Q DID DR. HADAWAY PERFORM ANY TESTS OF HIS RISK PREMIUM ANALYSIS RESULTS?

A Yes. Dr. Hadaway compared his utility risk premium analysis to studies performed by Ibbotson & Associates and H&M. Dr. Hadaway states that Ibbotson & Associates studied the return on common stocks versus corporate bonds for the period 1926 through 2005. The Ibbotson study found that the arithmetic mean risk premium was 6.1%, and the geometric mean return was 4.5%. He states that using the geometric mean return and a debt cost of 4.5%, and his projected 6.3% "Baa" utility bond yield would produce an indicated equity return of 10.80% for KCPL. (Hadaway Direct at 37-38).

According to Dr. Hadaway, the H&M study found an equity risk premium over U.S. Government bonds of 6.47%, and the equity risk premium over corporate bonds to be 5.13%. Dr. Hadaway finds that the H&M study would support an equity risk premium over an A-rated corporate debt of 11.43% (6.30% debt cost and 5.13% risk premium). (*Id.* at 38).

Q DO THE INDICATED RISK PREMIUM RESULTS FROM THE IBBOTSON & ASSOCIATES AND H&M STUDIES SUPPORT A RETURN ON COMMON EQUITY FOR KCPL OF 10.80% AND 11.43%, RESPECTIVELY, AS ESTIMATED BY DR. HADAWAY?

A No. There are several flaws in this analysis. First, the Ibbotson & Associates and H&M studies are based on common equity returns and equity risk premiums for the overall market. Both of these studies are based on the returns for the S&P 500. Dr. Hadaway did not, and cannot, show that the S&P 500 is risk comparable to KCPL as a regulated electric utility.

In fact, it is widely recognized that electric utility risk is considerably lower than that of the overall market. This is evident by a review of the beta coefficients measured by Value Line for utility companies, as illustrated on my Schedule MPG-15, to my direct testimony. As I noted in my direct testimony with respect to my CAPM analysis, utility company stock market risk is approximately 90% of that of the overall market. Hence, while the equity risk premiums derived from these two studies may be appropriate for the overall market, they overstate significantly a reasonable equity risk premium for a low risk regulated electric utility such as KCPL. Therefore, Dr. Hadaway's use of the Ibbotson and H&M studies' equity risk premiums to produce a return on common equity for KCPL is unreasonable and should be rejected.

Second, Dr. Hadaway claims that he is producing these return on equity estimates based on an "A" bond yield. However, the 6.30% bond yield is that for a "Baa" bond yield (Dr. Hadaway's Schedule 7, page 1). A bond yield of "A" would be a lower yield than that of a "Baa" bond yield, and hence his return on equity estimates from this model are overstated because of his improper use of utility bond yields.

Further, as noted above, Dr. Hadaway's projected bond yields are not reflective of current market expectations.

Q CAN THE RISK PREMIUM STUDIES PUBLISHED BY IBBOTSON AND H&M BE USED TO DEVELOP A COMMON EQUITY ESTIMATE FOR KCPL?

A Only generally. By recognizing KCPL's much lower risk than that of the overall market, the equity risk premiums developed by Ibbotson and H&M, of 4.5%, and 5.13%, respectively, should be adjusted by a factor of approximately 90%. This 90% represents the current estimate of a utility beta as published by the Value Line Investment Survey. Using a 90% adjustment factor to reflect KCPL's lower than market risk, these studies' equity risk premiums adjusted for the lower risk would be reduced to 4.1% (4.5% * 90%) in the case of Ibbotson, and 4.6% (5.13% * 90%) in the case of H&M. Comparing a 4.1% and 4.6% equity risk premium to the current cost of an "A" rated electric utility bond of 6.1% would indicate a return on common equity of 10.2% to 10.7%.

RESPONSE TO KCPL WITNESS, MICHAEL CLINE

Q WHAT ISSUES DO YOU HAVE WITH MR. CLINE'S REGULATORY PLAN FINANCIAL RATIOS?

A Mr. Cline's financial ratios are flawed because he did not properly include all amortization expense (i.e., cash flow) reflected in KCPL's proposed revenue requirement. Correcting Mr. Cline's financial ratios will lower the amount of additional regulatory amortization expense needed to support the financial ratio targets included in KCPL's regulatory plan.

Specifically, Mr. Cline has failed to reflect an imputed amortization expense associated with the off-balance sheet (OBS) debt for operating leases. Mr. Cline did reflect imputed interest expense for operating leases, but failed to include imputed amortization expense for operating leases. In its financial ratio methodology used in its credit rating review for utility companies, Standard & Poor's imputes both amortization expense and interest expense for the off-balance debt equivalent for operating leases in calculating the credit metrics.

Also, Mr. Cline failed to recognize the amortization of certain debt costs included in KCPL's embedded debt interest rate. The embedded debt cost includes amortization of debt issuance costs, which is a non-cash debt expense. This debt cost amortization enhances KCPL's cash flow and should be considered in the regulatory plan financial ratios.

Q DID YOU INVESTIGATE WHY KCPL NEGLECTED TO INCLUDE AN IMPUTED AMORTIZATION EXPENSE ASSOCIATED WITH OPERATING LEASES?

A Yes. In response to OPC Data Request 2015, KCPL acknowledged that Standard & Poor's does include imputed amortization expense associated with off-balance sheet operating leases in its ratio calculations. KCPL believes that this is a revision to S&P's credit metric methodology, and it stated that it would revise its financial ratios in this proceeding. I have attached KCPL's confidential response to OPC 2015 as Highly Confidential Rebuttal Schedule MPG-3.

Q HOW MUCH IMPUTED AMORTIZATION EXPENSE ASSOCIATED WITH KCPL'S OPERATING LEASES SHOULD BE INCLUDED IN THE DEVELOPMENT OF THE MISSOURI JURISDICTIONAL FINANCIAL RATIO?

A In an e-mail response from John Weisensee of KCPL to Steve Traxler of Commission Staff dated July 19, 2007, KCPL provided the spreadsheet used to develop the off-balance sheet obligations for operating leases and purchased power commitments. On that workpaper, the Company estimated the operating lease off-balance sheet debt equivalent and related imputed interest, and amortization expense consistent with S&P's methodology. Consistent with S&P's methodology, KCPL estimates the operating lease off-balance sheet debt amortization expense to be the difference between the lease payment and imputed interest expense.

In order to properly calculate the financial ratio used in S&P's methodology, the imputed operating lease amortization expense should be included in the financial ratio calculations adjusted by the Missouri capital allocation factor.

Q HOW MUCH AMORTIZATION EXPENSE WAS BUILT IN TO KCPL'S EMBEDDED DEBT COST IN THIS PROCEEDING?

A This is shown on KCPL witness Dr. Hadaway's embedded debt cost Schedule SCH-2, page 7. As shown on Dr. Hadaway's SCH-7, $690,385 of debt amortization expense was included in KCPL's estimated embedded debt cost of 6.09%. Using the Missouri jurisdictional capital allocator of 52.62%, $363,231 of this debt cost amortization expense should also be reflected in KCPL's Missouri retail financial ratio calculation.

Q HOW WOULD KCPL'S FINANCIAL RATIOS BE IMPACTED IF THESE ADDITIONAL AMORTIZATION EXPENSES WERE INCLUDED IN THE DEVELOPMENT OF THE FINANCIAL RATIOS?

A This is shown on my Highly Confidential Rebuttal Schedule MPG-4. Reflecting these additional amortization expenses would improve all funds from operation interest coverage ratios without an increase to the regulatory amortization expense.

In an update filing, the Company increased its current amortization expense to $17.78 million. This is at a return on equity of 11.25%. Reflecting this additional amortization expense will decrease the regulatory plan amortization expense to $8.3 million as shown on Highly Confidential Rebuttal Schedule MPG-4.

If the return on equity is properly set at 10.1%, as I propose, the revenue requirement attributable to return on equity would decrease, but the regulatory plan amortization expense would increase as shown on my Rebuttal Schedule MPG-5. The net impact on the regulatory plan amortization expense is that an additional $21.4 million of amortization expense would be necessary to keep KCPL's cash flows at the prescribed regulatory plan financial ratio targets at a 10.1% return on equity.

Q WOULD A REDUCTION TO THE RETURN ON EQUITY REDUCE THE REVENUE REQUIREMENT IN THIS PROCEEDING RECOGNIZING THE REGULATORY PLAN AMORTIZATION EXPENSE ADJUSTMENT TO REVENUE REQUIREMENT?

A No. However, as noted in my direct testimony, ratepayers are better off paying a higher regulatory plan amortization expense in this proceeding than they are paying an excessive return on equity. Ratepayers are better off paying a higher regulatory plan amortization expense because after the current construction period has ended, the regulatory plan calls for use of the accumulated regulatory plan amortizations to

mitigate future rate increases. As such, ratepayers will pay more today but will benefit by paying lower rates later.

Q FROM A CREDIT RATING STANDPOINT, DOES IT MATTER IF THE FINANCIAL RATIOS ARE STRENGTHENED DUE TO AN INCREASE IN THE RETURN ON EQUITY OR AN INCREASE TO THE REGULATORY PLAN AMORTIZATION EXPENSE?

A From a mechanistic standpoint, no. However, KCPL's credit rating is strengthened with the regulatory plan because it is designed to stabilize the Company's cash flow through this construction period. This cash flow stabilization is paid for by ratepayers.

However, the regulatory plan continues to balance the interest of investors and shareholders by also stabilizing rates. Specifically, while KCPL's cash flow is stabilized during construction, rates will be stabilized after construction is completed and the assets under construction are placed in-service.

The regulatory plan will mitigate the rate increase needed to initially include the additional assets in rate base. This is done by a flow back of regulatory plan amortization expense, which temporarily reduces KCPL's revenue requirement after the asset is first placed in-service.

While the accumulated regulatory amortization is credited back to customers, KCPL will accumulate depreciation and deferred taxes on the new asset, which will reduce its rate base value. As a result, by the time the regulatory plan amortization is completed, the rate base value of the new asset is reduced and the on-going revenue needed to cover the asset cost is mitigated. This plan will, therefore, stabilize KCPL's revenue requirement after the asset is placed in-service. Hence, ratepayers benefit

from the regulatory plan via a stabilization of rates after the construction projects are completed and the assets are placed in-service.

RESPONSE TO STAFF WITNESS, MATTHEW BARNES

Q PLEASE DESCRIBE THE ISSUE YOU HAVE WITH MR. BARNES' PROPOSED CAPITAL STRUCTURE.

A Staff witness, Mr. Barnes has proposed, at least preliminarily, a capital structure composed of 66.04% common equity and 32.32% long-term debt. (Direct Testimony at 13). In reaching this conclusion, Mr. Barnes ignores the anticipated debt issuances in 2007 needed to fund capital expenditures. Had he reflected these anticipated 2007 debt expenditures, the capital structure of KCPL would have been composed of 53.43% common equity and 45.24% long-term debt. (Id). He states that he did not consider the expected debt issuances because it is his understanding that Staff does not rely on pro forma capital structures to set rates.

Q IS IT APPROPRIATE TO USE THE CAPITAL STRUCTURE PROPOSED BY MR. BARNES IN THIS PROCEEDING?

A No. Mr. Barnes' proposed capital structure is composed of 66.01% common equity and 32.32% long-term debt. This capital structure is unreasonable and unjust for setting rates for the following reasons:

First, this capital structure does not reflect the regulatory plan's targeted capitalization mix of debt and equity. In the regulatory plan, KCPL's total debt ratio, including off-balance sheet data equivalence, should be approximately 55%. Mr. Barnes' proposed capital structure is composed of 32.32% debt (excluding off-

balance sheet debt). This abnormally low debt ratio is inconsistent with the regulatory plan, and significantly increases KCPL's revenue requirement in this proceeding.

Second, Mr. Barnes' proposed capital structure does not reflect KCPL's obligation to manage its utility cost of service in a prudent and reasonable manner. A 66% common equity ratio is not reflective of a prudently managed utility capital structure, and does not reflect reasonable cost of service for utility operations.

Q WHY DOES MR. BARNES' PROPOSED CAPITAL STRUCTURE FAIL TO REFLECT PRUDENT UTILITY COST MANAGEMENT?

A Using a capital structure composed of an inflated common equity balance, as Mr. Barnes proposes, unnecessarily increases the Company's revenue requirement because common equity is the most expensive form of capital, and is subject to income tax expense. Indeed, on a revenue requirement basis, common equity capital is approximately three times more expensive than debt capital. Specifically, a 10% return on equity has a revenue requirement cost of around 16% (including income taxes). This compares to the revenue requirement cost of KCPL's marginal cost of debt of around 6.3%. There is a significant and material difference in the revenue requirement cost of equity versus debt capital.

A utility should manage its capital structures with a reasonable balance of common equity and debt. A reasonably balanced capital structure is targeted in KCPL's regulatory plan. Mr. Barnes' proposed capital structure ignores planned debt issuances in the test year and this results in a capital structure that is not reasonable.

Q **IS MR. BARNES' PROPOSED CAPITAL STRUCTURE COMPARABLE TO THAT TYPICALLY USED TO SET UTILITY RATES?**

A No. As shown in the table below, the average common equity ratio authorized for the electric utilities over the last five years has averaged from 46% to 49%. In 2006, the electric authorized common equity ratio was 48.67%. Similarly, the gas utilities have an authorized common equity ratio in the range of 46%-50%.

TABLE 4
Common Equity Ratio

Year	Electric	Gas
2002	46.27%	48.29%
2003	49.41%	49.93%
2004	46.84%	45.90%
2005	46.73%	48.66%
2006	48.67%	47.60%

Source: Regulatory Research Associates, Inc.

Authorizing a common equity ratio of 66% is not reasonable and produces an unjust and unreasonable cost burden on ratepayers. Therefore, the common equity ratio and capital structure proposed by Mr. Barnes should be rejected.

Q **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A Yes, it does.

Kansas City Power & Light Company

Capital Spending

Line	Company Name	2006 Net Plant	Shares Outstanding 2007	Shares Outstanding 2008	Shares Outstanding 2010-2012	Capital Spending 2007	Capital Spending 2008	Capital Spending 2009-2012	Total Capital Spending 2007-2012	Relative to Net Plant
1	Alliant Energy	4,944.90	109.50	110.30	113.00	5.30	9.85	4.40	3,655.61	73.9%
2	Ameren Corp.	14,286.00	208.80	210.80	216.80	4.80	5.70	5.55	7,016.76	49.1%
3	Amer. Elec. Power	26,781.00	399.00	401.00	406.00	8.95	7.75	7.50	18,858.80	70.4%
4	CH Energy Group	827.05	15.76	15.76	15.00	5.85	5.40	5.25	492.30	59.5%
5	Cen. Vermont Pub. Serv.	308.80	10.30	10.40	10.70	3.60	2.40	2.35	162.62	52.7%
6	Cleco Corp.	1,304.89	60.00	61.00	64.00	8.65	4.50	1.75	1,241.50	95.1%
7	Consol. Edison	18,445.00	267.00	259.00	275.00	7.65	7.15	5.45	9,889.40	53.6%
8	DTE Energy	11,451.00	175.00	171.00	167.00	8.00	8.20	8.50	8,480.20	74.1%
9	Empire Dist. Elec.	1,030.99	31.25	32.80	33.00	6.05	6.20	3.00	788.42	76.5%
10	Energy East Corp.	5,948.02	158.00	158.00	158.00	3.15	2.85	2.75	2,686.00	45.2%
11	Hawaiian Elec.	2,647.49	83.50	85.50	87.00	2.80	3.55	2.25	1,320.33	49.9%
12	IDACORP Inc.	2,419.08	44.00	30.00	46.30	6.95	6.15	5.25	1,462.60	60.5%
13	MGE Energy	728.42	20.70	20.70	20.70	4.00	4.00	4.00	496.80	68.2%
14	NiSource Inc.	9,694.50	274.75	275.50	277.00	2.90	2.90	3.00	4,919.73	50.7%
15	Northeast Utilities	6,242.19	156.20	158.20	164.20	7.70	5.70	4.25	4,895.88	78.4%
16	NSTAR	3,945.26	106.81	106.81	106.81	3.80	2.95	2.75	1,895.88	48.1%
17	Pinnacle West Capital	7,881.93	100.00	100.00	100.00	7.95	7.95	7.95	4,770.00	60.5%
18	PPL Corp.	12,069.00	386.00	387.00	375.00	4.50	3.60	3.50	8,380.20	69.4%
19	Progress Energy	15,245.00	260.00	263.00	272.00	9.35	9.60	7.35	12,952.60	85.0%
20	Puget Energy Inc.	5,181.05	117.00	117.75	124.25	4.55	5.30	5.25	3,765.68	72.7%
21	SCANA Corp.	7,007.00	117.00	117.00	117.00	6.40	7.45	5.25	4,077.45	58.2%
22	Southern Co.	31,092.00	765.00	783.00	805.00	5.10	5.75	4.25	22,088.75	71.0%
23	Vectren Corp.	2,385.50	80.80	81.00	81.60	4.40	5.35	3.30	1,865.99	78.2%
24	Xcel Energy Inc.	15,548.66	427.00	429.00	435.00	4.45	4.45	4.00	10,769.20	69.3%
25	**Average**	**8,642.28**	182.22	182.69	186.27	5.70	5.61	4.54	**5,705.53**	**66.0%**
26	Great Plains Energy	**3,066.20**	86.00	94.00	94.00	6.70	8.40	3.25	**2,587.80**	**84.4%**
27	Aquila, Inc.	**1,955.30**	376.00	377.00	380.00	0.90	1.25	0.55	**1,645.65**	**84.2%**
28	Merged Company	**5,021.50**							**4,233.45**	**84.3%**

Source:
The Value Line Investment Survey; May 11, June 1, June 29, 2007.

Kansas City Power & Light Company

Discounted Cash Flow Analysis
Traditional Constant Growth DCF Model

Line	Utility	Stock Price (P0) (1)	Next Year's Div (D1) (2)	Dividend Yield (3)	2010 DPS (4)	2010 EPS (5)	Retention Rate (B) (6)	2010 BVPS (7)	ROE (R) (8)	BxR Growth (9)	Zacks (10)	Value Line (11)	GDP (12)	Average Growth (13)	ROE (14)
1	Alliant Energy	38.37	1.27	3.31%	1.57	2.60	39.62%	26.10	9.96%	3.95%	4.00%	5.50%	5.10%	4.64%	7.9%
2	Ameren Corp.	53.97	2.54	4.71%	2.54	3.20	20.63%	34.65	9.24%	1.90%	6.10%	1.00%	5.10%	3.53%	8.2%
3	American Electric Power	40.95	1.59	3.88%	2.00	3.75	46.67%	30.25	12.40%	5.79%	3.90%	6.50%	5.10%	5.32%	9.2%
4	CH Energy	52.40	2.16	4.12%	2.20	3.25	32.31%	35.50	9.15%	2.96%	N/A	3.00%	5.10%	3.69%	7.8%
5	Cent. Vermount P.S.	22.37	0.92	4.11%	0.92	1.60	42.50%	19.65	8.14%	3.46%	N/A	10.00%	5.10%	6.19%	10.3%
6	Cleco Corp.	25.54	0.90	3.52%	1.20	2.00	40.00%	18.25	10.96%	4.38%	8.00%	7.00%	5.10%	6.12%	9.6%
7	Consolidated Edison	47.96	2.32	4.84%	2.38	3.05	21.97%	33.65	9.06%	1.99%	3.70%	2.00%	5.10%	3.20%	8.0%
8	DTE Enrgy	46.06	2.14	4.65%	2.32	3.50	33.71%	36.25	9.66%	3.26%	4.30%	3.00%	5.10%	3.91%	8.6%
9	Duquesne Light	19.89	1.00	5.03%	1.00	1.50	33.33%	11.00	13.64%	4.55%	N/A	5.00%	5.10%	4.88%	9.9%
10	Empire District	23.70	1.28	5.40%	1.28	1.75	26.86%	17.00	10.29%	2.76%	N/A	9.50%	5.10%	5.79%	11.2%
11	Energy East Corp.	24.48	1.21	4.94%	1.40	2.00	30.00%	21.25	9.41%	2.82%	4.50%	4.00%	5.10%	4.11%	9.0%
12	Green Mountain	33.74	1.18	3.50%	1.54	2.55	39.61%	25.35	10.06%	3.98%	N/A	3.50%	5.10%	4.19%	7.7%
13	Hawaiian Electric	27.41	1.24	4.52%	1.24	1.75	29.14%	17.00	10.29%	3.00%	6.50%	3.00%	5.10%	4.40%	8.9%
14	IDACORP.	39.05	1.20	3.07%	1.20	2.40	50.00%	30.20	7.95%	3.97%	4.70%	7.50%	5.10%	5.32%	8.4%
15	MGE Energy	34.19	1.40	4.09%	1.44	2.45	41.22%	18.95	12.93%	5.33%	N/A	6.00%	5.10%	5.48%	9.6%
16	NiSource Inc.	23.58	0.92	3.90%	1.00	1.75	42.86%	21.00	8.33%	3.57%	3.30%	3.50%	5.10%	3.87%	7.8%
17	Northeast Utilities	26.32	0.78	2.96%	0.93	1.70	45.29%	19.55	8.70%	3.94%	8.70%	8.50%	5.10%	6.56%	9.5%
18	NSTAR	34.79	1.33	3.82%	1.65	2.75	40.00%	19.00	14.47%	5.79%	5.80%	7.50%	5.10%	6.05%	9.9%
19	Pinnacle West Capital	48.41	2.13	4.40%	2.43	3.70	34.32%	41.05	9.01%	3.09%	6.80%	7.00%	5.10%	5.50%	9.9%
20	PPL Corporation	35.07	1.20	3.42%	1.80	3.50	48.57%	17.00	20.59%	10.00%	9.20%	11.00%	5.10%	8.83%	12.2%
21	Progress Energy	47.01	2.46	5.23%	2.52	2.90	13.10%	33.95	8.54%	1.12%	3.60%	N/A	5.10%	3.27%	8.5%
22	Puget Energy, Inc.	24.31	1.00	4.11%	1.10	1.75	37.14%	21.25	8.24%	3.06%	7.00%	5.00%	5.10%	5.04%	9.2%
23	SCANA Corp.	41.02	1.72	4.19%	1.90	3.25	41.54%	29.25	11.11%	4.62%	4.70%	3.50%	5.10%	4.48%	8.7%
24	Southern Co.	36.13	1.60	4.43%	1.80	2.50	28.00%	18.25	13.70%	3.84%	4.70%	3.50%	5.10%	4.28%	8.7%
25	Vectren Corp.	28.32	1.27	4.48%	1.39	1.90	26.84%	17.40	10.92%	2.93%	4.00%	3.00%	5.10%	3.76%	8.2%
26	Xcel Energy, Inc.	22.31	0.93	4.17%	1.10	1.75	37.14%	16.00	10.94%	4.06%	4.30%	6.00%	5.10%	4.87%	9.0%
27	**Group Average**	**34.51**	**1.45**	**4.19%**	**1.61**	**2.49**	**35.48%**	**24.18**	**10.68%**	**3.85%**	**5.39%**	**5.40%**	**5.10%**	**4.89%**	**9.1%**
28	**Group Median**			**4.15%**											**9.0%**

Source:
Schedule SCH-6 Page 2 of 5.

Kansas City Power and Light Company

Discounted Cash Flow Analysis
Constant Growth DCF Model
Long-Term GDP Growth

Line	Utility	Stock Price (P0) (15)	Next Year's Div (D1) (16)	Dividend Yield (17)	GDP (18)	ROE Col 17+18 (19)
1	Alliant Energy	38.37	1.27	3.31%	5.10%	8.41%
2	Ameren Corp.	53.97	2.54	4.71%	5.10%	9.81%
3	American Electric Power	40.95	1.59	3.88%	5.10%	8.98%
4	CH Energy	52.40	2.16	4.12%	5.10%	9.22%
5	Cent. Vermount P.S.	22.37	0.92	4.11%	5.10%	9.21%
6	Cleco Corp.	25.54	0.90	3.52%	5.10%	8.62%
7	Consolidated Edison	47.96	2.32	4.84%	5.10%	9.94%
8	DTE Enrgy	46.06	2.14	4.65%	5.10%	9.75%
9	Duquesne Light	19.89	1.00	5.03%	5.10%	10.13%
10	Empire District	23.70	1.28	5.40%	5.10%	10.50%
11	Energy East Corp.	24.48	1.21	4.94%	5.10%	10.04%
12	Green Mountain	33.74	1.18	3.50%	5.10%	8.60%
13	Hawaiian Electric	27.41	1.24	4.52%	5.10%	9.62%
14	IDACORP.	39.05	1.20	3.07%	5.10%	8.17%
15	MGE Energy	34.19	1.40	4.09%	5.10%	9.19%
16	NiSource Inc.	23.58	0.92	3.90%	5.10%	9.00%
17	Northeast Utilities	26.32	0.78	2.96%	5.10%	8.06%
18	NSTAR	34.79	1.33	3.82%	5.10%	8.92%
19	Pinnacle West Capital	48.41	2.13	4.40%	5.10%	9.50%
20	PPL Corporation	35.07	1.20	3.42%	5.10%	8.52%
21	Progress Energy	47.01	2.46	5.23%	5.10%	10.33%
22	Puget Energy, Inc.	24.31	1.00	4.11%	5.10%	9.21%
23	SCANA Corp.	41.02	1.72	4.19%	5.10%	9.29%
24	Southern Co.	36.13	1.60	4.43%	5.10%	9.53%
25	Vectren Corp.	28.32	1.27	4.48%	5.10%	9.58%
26	Xcel Energy, Inc.	22.31	0.93	4.17%	5.10%	9.27%
27	**Group Average**	**34.51**	**1.45**	**4.19%**	**5.10%**	**9.3%**
28	**Group Median**			**4.15%**		**9.2%**

Source:
Schedule SCH-6 Page 3 of 5.

Kansas City Power & Light Company

Discounted Cash Flow Analysis
Low Near-Term Growth
Two-Stage Growth DCF Model

Line	Utility	Next Year's Div (D_1) (20)	2010 DPS (21)	Annual Change to 2008 (22)	Stock Price (P0) (23)	Year 1 Div (24)	Year 2 Div (25)	Year 3 Div (26)	Year 4 Div (27)	Year 5 Div (28)	Year 5-150 Growth (29)	ROE = IRR (30)
1	Alliant Energy	1.27	1.57	10.00%	-38.37	1.27	1.37	1.47	1.57	1.65	5.10%	8.6%
2	Ameren Corp.	2.54	2.54	0.00%	-53.97	2.54	2.54	2.54	2.54	2.67	5.10%	9.2%
3	American Electric Power	1.59	2.00	13.67%	-40.95	1.59	1.73	1.86	2.00	2.10	5.10%	9.3%
4	CH Energy	2.16	2.20	1.33%	-52.4	2.16	2.17	2.19	2.20	2.31	5.10%	8.7%
5	Cent. Vermount P.S.	0.92	0.92	0.00%	-22.37	0.92	0.92	0.92	0.92	0.97	5.10%	8.7%
6	Cleco Corp.	0.9	1.20	10.00%	-25.54	0.90	1.00	1.10	1.20	1.26	5.10%	9.1%
7	Consolidated Edison	2.32	2.38	2.00%	-47.96	2.32	2.34	2.36	2.38	2.50	5.10%	9.4%
8	DTE Enrgy	2.14	2.32	6.00%	-46.06	2.14	2.20	2.26	2.32	2.44	5.10%	9.5%
9	Duquesne Light	1	1.00	0.00%	-19.89	1.00	1.00	1.00	1.00	1.05	5.10%	9.5%
10	Empire District	1.28	1.28	0.00%	-23.7	1.28	1.28	1.28	1.28	1.35	5.10%	9.8%
11	Energy East Corp.	1.21	1.40	6.33%	-24.48	1.21	1.27	1.34	1.40	1.47	5.10%	10.0%
12	Green Mountain	1.18	1.54	12.00%	-33.74	1.18	1.30	1.42	1.54	1.62	5.10%	9.0%
13	Hawaiian Electric	1.24	1.24	0.00%	-27.41	1.24	1.24	1.24	1.24	1.30	5.10%	9.0%
14	IDACORP.	1.2	1.20	0.00%	-39.05	1.20	1.20	1.20	1.20	1.26	5.10%	7.7%
15	MGE Energy	1.4	1.44	1.33%	-34.19	1.40	1.41	1.43	1.44	1.51	5.10%	8.7%
16	NiSource Inc.	0.92	1.00	2.67%	-23.58	0.92	0.95	0.97	1.00	1.05	5.10%	8.7%
17	Northeast Utilities	0.78	0.93	5.00%	-26.32	0.78	0.83	0.88	0.93	0.98	5.10%	8.1%
18	NSTAR	1.33	1.65	10.67%	-34.79	1.33	1.44	1.54	1.65	1.73	5.10%	9.2%
19	Pinnacle West Capital	2.13	2.43	10.00%	-48.41	2.13	2.23	2.33	2.43	2.55	5.10%	9.4%
20	PPL Corporation	1.2	1.80	20.00%	-35.07	1.20	1.40	1.60	1.80	1.89	5.10%	9.4%
21	Progress Energy	2.46	2.52	2.00%	-47.01	2.46	2.48	2.50	2.52	2.65	5.10%	9.8%
22	Puget Energy, Inc.	1	1.10	3.33%	-24.31	1.00	1.03	1.07	1.10	1.16	5.10%	9.0%
23	SCANA Corp.	1.72	1.90	6.00%	-41.02	1.72	1.78	1.84	1.90	2.00	5.10%	9.1%
24	Southern Co.	1.6	1.80	6.67%	-36.13	1.60	1.67	1.73	1.80	1.89	5.10%	9.4%
25	Vectren Corp.	1.27	1.39	4.00%	-28.32	1.27	1.31	1.35	1.39	1.46	5.10%	9.3%
26	Xcel Energy, Inc.	0.93	1.10	5.67%	-22.31	0.93	0.99	1.04	1.10	1.16	5.10%	9.3%
27	**Group Average**											**9.1%**
28	**Group Median**											**9.2%**

Source:
Schedule SCH-9 Page 4 of 5.

DATA REQUEST– Set OPC_20070726
Case: ER-2007-0291
Date of Response: 08/09/2007
Information Provided By: Gregg Clizer
Requested by: Gorman Mike

Question No. : 2015
Please explain why KCPL deviated from S&P's publish methodology for adjusting the credit metric ratios for off-balance sheet lease obligations or, alternatively, explain how it did not deviated from S&P's prescribed methodology.

Response:

Attachments: None

Kansas City Power & Light Company

Missouri Jurisdictional Additional Amortization for 2007 Filing

Credit Metrics at 11.25% ROE

Includes $21,679,061 Credit Ratio Amortization from ER-2006-0314

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
1	Additional Net Assets on KCPL's balance sheet			[redacted]		
2	Rate Base	Rev Req Model Sch 1-057 (COL 604)	NA			
3	Net Assets supported by LTD & Equity					
4	Jurisdictional Allocator for Capital	Jurisdictional Rate Base (COL 604 / Total Company Rate Base (COL 603)				
5	Total Capital	Misc% %-031*1000	[redacted]			
6	Equity	Misc% % 030*1000				
7	Preferred	Misc% %-029*1000				
8	Long-term Debt	Misc% %-028*1000				
9	Cost of Debt	Misc% %-034				
10	Interest Expense	Line 8 * Line 9				
11	Retail Sales Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement	[redacted]			
12	Other Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement				
13	Operating Revenue	Rev Req Model Sch 1 014 plus Revenue Requirement				
14	Operating & Maintenance Expenses	Rev Req Model Sch 1-017 through 1-019 plus Rev Req Bad Debt		[redacted]		
15	Depreciation	Rev Req Model Sch 1-020				
16	Amortization	Rev Req Model Sch 1-021				
17	Interest on Customer Deposits	Rev Req Model Sch 1-022 (MO) or 1-023 (KS)				
18	Taxes other than income taxes	Rev Req Model Sch 1-024 plus Rev Req KCMO Earnings Taxes				
19	Federal and State income taxes	Rev Req Model Sch 1-025 plus Rev Req Income Taxes				
20	Gains on disposition of plant	Rev Req Model Sch 1-026				
21	Total Electric Operating Expenses	Sum of Lines 17 to 23	[redacted]			
22	Operating Income	Rev Req Model Sch 1-029	[redacted]			
23	less Interest Expense	- Line 10				
24	Depreciation	Rev Req Model Sch 1 020				
25	Amortization	Rev Req Model Sch 1-021				
26	[illegible]	Hardesty Direct Schedule SCH 2 Page 7 Line 16				
27	Deferred Taxes	Rev Req Model Sch 7 111 (COL 604)				
28	Funds from Operations (FFO)	Sum of Lines 22 to 27				
29	Net Income	Line 22 + Line 23	[redacted]			
30	Return on Equity	Line 29 / Line 6				
31	Unadjusted Equity Ratio	Line 6 / Line 5				
	Additional financial information needed for the calculation of ratios					
32	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100	[redacted]			
33	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	-	-		-
34	Short term Debt Interest	KCPL T B accts 831014 831015 831016	-	-		-
	Adjustments made by Rating Agencies for Off-Balance Sheet Obligations					
35	Debt Adjustments for Off-Balance Sheet Obligations					
36	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 6 04%	[redacted]			
37	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 6 04%				
38	Accounts Receivable Sale	KCPL Trial Balance account 142011				
39	Total OBS Debt Adjustment	Sum of Lines 36 to 38				
40	Interest Adjustments for Off-Balance Sheet Obligations					
41	Present Value of Operating Leases	Line 36 * 6 04%	[redacted]			
42	Purchase Power Debt Equivalent	Line 37 * 6 04%				
43	Accounts Receivable Sale	Line 38 * 5%				
44	Total OBS Interest Adjustment	Sum of Lines 41 to 43				
45	[illegible]	[illegible]	[redacted]			
	Ratio Calculations					
46	Adjusted Interest Expense	Line 10 + Line 34 + Line 44	[redacted]			
47	Adjusted Total Debt	Line 8 + Line 32 + Line 33 + Line 39				
48	Adjusted Total Capital	Line 5 + Line 32 + Line 33 + Line 39				
49	[illegible]	Line 28 + Line 45				
50	FFO Interest Coverage	(Line 28 + Line 46) / Line 46	1 00	5 07	(0 01)	5 06
51	FFO as a % of Average Total Debt	Line 28 / Line 47	0 0%	24 3%	0 0%	24 3%
52	Total Debt to Total Capital	Line 47 / Line 48	48 7%	49 0%	0 0%	49 0%
	Changes required to meet ratio targets					
53	FFO Interest Coverage Target		3 80	3 80	0 00	3 80
54	FFO adjustment to meet target	(Line 53 - Line 50) * Line 46	[redacted]			
55	Interest adjustment to meet target	Line 28 * (1 / (Line 53 - 1) - 1 / (Line 50 - 1))				
56	FFO as a % of Average Total Debt Target		25%	25%	0%	25%
57	FFO adjustment to meet target	(Line 56 - Line 51) * Line 47	[redacted]			
58	[illegible]	Line 28 * (1 / Line 56 - 1 / Line 51)				
59	Total Debt to Total Capital Target		51%	51%	0%	51%
60	Debt adjustment to meet target	(Line 59 - Line 52) * Line 48	[redacted]			
61	Total Capital adjustment to meet target	Line 47 / Line 59 - Line 48				
	Amortization and Revenue needed to meet targeted ratios					
62	FFO adjustment needed to meet target ratios	Maximum of Line 54 Line 57 or Zero	[redacted]			
63	Effective income tax rate	Accounting Schedule 11				
64	Deferred income taxes *	Line 62 * Line 63 / (1 - Line 63)				
65	Total amortization required for the FFO adjustment	Line 62 Line 64				
66	Retail Sales Revenue Adjustment	Line 11		[redacted]		
67	Percent increase in retail sales revenue	Line 66 Jurisdictional Adjustments / Line 66 Jurisdictional			[redacted]	
	Adjusted for known and measurable changes including changes related to new plant in-service					

Rebuttal Schdule MPG-4
HIGHLY CONFIDENTIAL

Kansas City Power & Light Company

Missouri Jurisdictional Additional Amortization for 2007 Filing
Credit Metrics at 10.10% ROE

Includes $21,679,061 Credit Ratio Amortization from ER-2006-0314

Line			Total Company	Jurisdictional Allocation	Jurisdictional Adjustments	Jurisdictional Proforma
1	Additional net Assets on KCPL's balance sheet					
2	Rate Base	Rev Req Model Sch 1-057 (COL 604)	NA			
3	Net Assets supported by LTD & Equity					
4	Jurisdictional Allocator for Capital	Jurisdictional Rate Base (COL 604) / Total Company Rate Base (COL 603)				
5	Total Capital	Misc% %-031*1000				
6	Equity	Misc% %-030*1000				
7	Preferred	Misc% %-029*1000				
8	Long-term Debt	Misc% %-028*1000				
9	Cost of Debt	Misc% %-034				
10	Interest Expense	Line 6 * Line 9				
11	Retail Sales Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement				
12	Other Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement				
13	ROE Revenue Adjustment					
14	Operating Revenue	Rev Req Model Sch 1-014 plus Revenue Requirement				
15	Operating & Maintenance Expenses	Rev Req Model Sch 1-017 through 1-019 plus Rev Req Bad Debt				
16	Depreciation	Rev Req Model Sch 1-020				
17	Amortization	Rev Req Model Sch 1-021				
18	Interest on Customer Deposits	Rev Req Model Sch 1-022 (MO) or 1-023 (KS)				
19	Taxes other than income taxes	Rev Req Model Sch 1-024 plus Rev Req KCMO Earnings Taxes				
20	ROE Tax Adjustment					
21	Federal and State income taxes	Rev Req Model Sch 1-025 plus Rev Req Income Taxes				
22	Gains on disposition of plant	Rev Req Model Sch 1-026				0
23	Total Electric Operating Expenses	Sum of Lines 15 to 22				
24	Operating Income	Rev Req Model Sch 1-029				
25	less Interest Expense	- Line 10				
26	Depreciation	Rev Req Model Sch 1-020				
27	Amortization	Rev Req Model Sch 1-021				
28	Debt Amortization	Hardway Direct, Schedule SCH 2, Page 7, Line 3				
29	Deferred Taxes	Rev Req Model Sch 7-111 (COL 604)				
30	Funds from Operations (FFO)	Sum of Lines 24 to 29	-			
31	Net Income	Line 24 + Line 25				
32	Return on Equity	Line 31 / Line 6				
33	Unadjusted Equity Ratio	Line 6/ Line 5				

Additional financial information needed for the calculation of ratios

34	Capitalized Lease Obligations	KCPL Trial Balance accts 227100 & 243100				
35	Short-term Debt Balance	KCPL Trial Balance accts 231xxx	-	-		-
36	Short-term Debt Interest	KCPL T.B. accts 831014, 831015, 831016	-	-		-

Adjustments made by Rating Agencies for Off-Balance Sheet Obligations

37	Debt Adjustments for Off-Balance Sheet Obligations					
38	Operating Lease Debt Equivalent	Present Value of Operating Lease Obligations discounted @ 6.04%				
39	Purchase Power Debt Equivalent	Present Value of Purchase Power Obligations discounted @ 6.04%				
40	Accounts Receivable Sale	KCPL Trial Balance account 142011				
41	Total OBS Debt Adjustment	Sum of Lines 38 to 40				
42	Interest Adjustments for Off-Balance Sheet Obligations					
43	Present Value of Operating Leases	Line 38* 6.04%				
44	Purchase Power Debt Equivalent	Line 39* 6.04%				
45	Accounts Receivable Sale	Line 40 * 5%				
46	Total OBS Interest Adjustment	Sum of Lines 43 to 45				
47	Imputed OBS Lease Adjustment	Lease PMT (15.3) - Line 43				

Ratio Calculations

48	Adjusted Interest Expense	Line 10 + Line 36 + Line 46				
49	Adjusted Total Debt	Line 8 + Line 34 + Line 35 + Line 41				
50	Adjusted Total Capital	Line 5 + Line 34 + Line 35 + Line 41				
51	Adjusted FFO	Line 30 + Line 47				
52	FFO Interest Coverage	(Line 30 + Line 48 / Line 48	1.00	4.88	0.06	4.94
53	FFO as a % of Average Total Debt	Line 30 / Line 49	0.0%	23.2%	0.4%	23.6%
54	Total Debt to Total Capital	Line 49 / Line 50	48.7%	49.0%	0.0%	49.0%

Changes required to meet ratio targets

55	FFO Interest Coverage Target		3.80	3.80	0.00	3.80
56	FFO adjustment to meet target	(Line 55 - Line 52) * Line 48				
57	Interest adjustment to meet target	Line 30* (1 / (Line 55 - 1) - 1 / (Line 52 - 1))				
58	FFO as a % of Average Total Debt Target		25%	25%	0%	25%
59	FFO adjustment to meet target	(Line 58 - Line 53)* Line 49				
60	Debt adjustment to meet target	Line 30 * (1 / Line 58 - 1 / Line 53)				
61	Total Debt to Total Capital Target		51%	51%	0%	51%
62	Debt adjustment to meet target	(Line 61 - Line 54) * Line 50				
63	Total Capital adjustment to meet targe	Line 49 / Line 61 - Line 50				

Amortization and Revenue needed to meet targeted ratios

64	FFO adjustment needed to meet target ratios	Maximum of Line 56, Line 59, or Zero				
65	Effective income tax rate	Accounting Schedule 11				
66	Deferred income taxes *	- Line 64 * Line 65 / (1 - Line 65)				
67	Total amortization required for the FFO adjustment	Line 64 - Line 66				
68	Retail Sales Revenue Adjustment	Line 11				
69	Percent increase in retail sales revenue	Line 68 Jurisdictional Adjustments / Line 68 Jurisdictional				

* Adjusted for known and measurable changes including changes related to new plant in-servi