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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2009

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Case No. ER-2009-0089

I. Introduction and Purpose of Rebuttal Testimony

Q. Are you the same Samuel C. Hadaway who submitted Direct Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L") on or about September 5, 2008?

A. Yes, I am.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my rebuttal testimony is to respond to the rate of return on equity (ROE) recommendations offered by Missouri Public Service Commission Staff witness David Murray and Office of Public Counsel (OPC) witness Michael Gorman. In my analysis, I will respond to the other parties' rate of return recommendations and demonstrate that their recommendations are not consistent with current market turmoil or the higher capital costs that corporate borrowers are currently required to pay. I will also update my ROE analysis for current market costs and conditions.

II. Overview of Rate of Return Positions

Q. What are the parties' ROE recommendations?

A. Mr. Murray estimates an ROE range of 9.25 percent to 10.25 percent and recommends the midpoint of this range at 9.75 percent. Mr. Gorman recommends an ROE of 10.3 percent. My updated analysis shows that KCP&L's current cost of equity is in the range

of 11.2 percent to 11.9 percent with a midpoint estimate of 11.55 percent, which is my revised ROE recommendation. My updated results demonstrate that my initial ROE recommendation at 10.75 percent was extremely conservative and that the other parties' recommendations are well below KCP&L's current cost of equity capital.

Q. Have you also reviewed the comments on ROE offered by Jatinder Kumar on behalf of the United States Department of Energy, the National Nuclear Security Administration and the Federal Executive Agencies?

A. Yes.

Q. Are his comments relevant to the Commission's ROE deliberations in this case?

A. No. The data he offers are out of date and his comments are not consistent with this Commission's procedures. Additionally, his comments about my use of risk premium data are generally not accurate because many commissions around the county do use risk premium data similar to mine either as a check of reasonableness or, in some cases, as a direct part of the ROE analysis. His remarks concerning ROE should be disregarded.

Q. Are the other parties' ROE recommendations consistent with current capital market conditions or within the reasonable range?

A. No. The other parties' recommendations are far below KCP&L's cost of capital because they are based on flawed analysis and they do not reasonably reflect current market conditions. During the past several months, corporate capital costs have increased dramatically. Current borrowing costs for triple-B companies like KCP&L are more than 100 basis points higher than they were in 2007 when the Company's prior case was presented. In this environment, for Mr. Murray to offer essentially the same ROE as Staff supported (and the Commission rejected) in the prior case borders on nonsense.

Similarly, under these conditions for Mr. Gorman to continue to support ROEs in the low 10 percent range is not reasonable. While the other parties' recommendations may fall within the Commission's historical benchmark for the range of reasonableness, based on ROEs from state regulators for the most recent 12 months, at this point in time that historical benchmark obviously does not reflect the current economic crisis or the higher corporate capital costs that have resulted. In this environment, even before considering the technical merits of their ROE presentations, the other parties' extremely low ROE recommendations are at face value unreasonable.

The other parties seem to hold a mistaken belief that utility capital costs have not increased significantly over the past several months. This contention is simply wrong. While governmental policies and "flight to safety" issues have driven down short-term interest rates for banks and rates on U.S. Treasury securities, corporate capital costs have increased.[1] I will show that KCP&L's required ROE has increased significantly and that the other parties have not reasonably included current capital market conditions in their recommendations.

Q. Are there specific capital market data that demonstrate the increases in corporate capital costs?

A. Yes. Recent government efforts to stabilize the economy have had their major impact on borrowing costs for banks, not corporate borrowers. Providers of long-term capital for corporations now require higher, not lower, rates. Corporate interest rate "spreads" (the

[1] The term "flight to safety" refers to the tendency for investors, during periods of market turbulence, to remove money from more risky investments, such as corporate bonds and stocks, and to put the money into government securities such as Treasury bills and bonds. The effect causes a reduction in the supply of funds to corporations and an increase in funds invested in government securities. The result is wider "spreads" between corporate bond and government bond interest rates and higher capital costs for corporations.

difference between corporate borrowing costs and rates on U.S. Treasury bonds) remain almost three times as large as they were before the credit crisis began. These wider spreads are signaling a clear increase in the price of risk, a cost that affects equity holders even more than debt holders. Although the other parties discuss the economic crisis, they ignore this important capital market message in their cost of equity analyses.

Q. If the other parties had more reasonably considered the recent market turmoil, what would the effect have been?

A. During the past several months, capital markets in the U.S. have been more turbulent than at any time since the 1930s. Extremely large daily swings in the stock market and unprecedented corporate interest rate spreads in the debt markets have resulted in near chaos. The S&P 500 and the Dow Jones Industrial Average have dipped by over 50 percent since November 2007. In this environment, many large financial institutions such as Countrywide Financial, Washington Mutual, the Federal Home Loan Mortgage Association, the Federal National Mortgage Association, Wachovia, Bear Sterns, and Merrill Lynch were unable to survive as independent institutions. Lehman Brothers was forced to file for bankruptcy. Other surviving institutions such as Citigroup, Goldman Sachs, American International Group, Morgan Stanley and others have required multibillion dollar capital infusions.

The Federal government enacted emergency legislation (the $700 billion Troubled Asset Relief Program) in October 2008 in an attempt to stabilize the economy. As part of that effort the government has increased federal deposit insurance, lent billions of dollars to financial institutions, purchased hundreds of billions of dollars in illiquid securities, guaranteed loans between financial institutions, and purchased equity in banks.

In November 2008, the Federal Reserve pledged to pump another $800 billion into ailing credit markets - $600 billion to purchase federal government agency mortgage securities and, with support from the U.S. Treasury, the Federal Reserve will provide up to $200 billion in financing to investors buying securities tied to student loans, car loans, credit card debt and small business loans. In addition, President Obama has signed an additional $789 billion economic package in hopes of providing further economic stimulus for the economy. There is no question that the economic and financial uncertainties generated by the credit crisis have significantly increased the risk premiums contained in public utility companies' cost of capital.

Q. Can you be more specific regarding the impact of the credit crisis on the cost of capital of public utilities?

A. Yes. The month-by-month interest rates paid by triple-B rated utilities and the U.S. Treasury over the past two years are presented in Schedule SCH-7, page 1. Those data are summarized below in Table 1. The dramatic increase in the spread between public utility bond yields and long-term Treasury yields are clearly shown in the most recent periods. On page 2 of Schedule SCH-7, I also provide the most recent Standard & Poor's (S&P) forecasts of economic conditions and interest rates for 2009.

Table 1
Long-Term Interest Rate Trends

Month	Triple-B Utility Rate	30-Year Treasury Rate	Triple-B Utility Spread
Jan-07	6.16	4.85	1.31
Feb-07	6.10	4.82	1.28
Mar-07	6.10	4.72	1.38
Apr-07	6.24	4.87	1.37
May-07	6.23	4.90	1.33
Jun-07	6.54	5.20	1.34
Jul-07	6.49	5.11	1.38
Aug-07	6.51	4.93	1.58
Sep-07	6.45	4.79	1.66
Oct-07	6.36	4.77	1.59
Nov-07	6.27	4.52	1.75
Dec-07	6.51	4.53	1.98
Jan-08	6.35	4.33	2.02
Feb-08	6.60	4.52	2.08
Mar-08	6.68	4.39	2.29
Apr-08	6.81	4.44	2.37
May-08	6.79	4.60	2.19
Jun-08	6.93	4.69	2.24
Jul-08	6.97	4.57	2.40
Aug-08	6.98	4.50	2.48
Sep-08	7.15	4.27	2.88
Oct-08	8.58	4.17	4.41
Nov-08	8.98	4.00	4.98
Dec-08	8.11	2.87	5.24
Jan-09	7.90	3.13	4.77
Feb-09	7.44	3.59	3.85
3-Mo Avg	**7.82**	**3.20**	**4.62**

Sources: Mergent Bond Record (Utility Rates); www.federalreserve.gov (Treasury Rates).
Three-month average is Dec. 2009-Feb. 2009.

The data in Table 1 vividly illustrate the market turmoil that has occurred. Although interest rates for triple-B utilities have come down from the peaks reached in October and November 2008, they remain well above the rates that existed prior to September 2008. More important, continuing market turbulence has caused interest rate spreads to remain

extremely wide. The Federal Reserve's efforts to reduce short-term borrowing cost for banks (the Fed Funds rate) and lower rates on U.S. Treasury bonds have not had the same effect for corporate borrowers. In fact, increased risk aversion and market illiquidity have resulted in continuing significantly higher borrowing costs for corporations. While the effects of market turbulence may not be easily captured in financial models for estimating the rate of return, these higher borrowing costs should be considered explicitly in estimates of the cost of equity capital.

Q. Do Messrs. Murray and Gorman adequately incorporate these higher utility borrowing costs into their analyses?

A. No. While they discuss market conditions and interest rates, they both present analyses and offer opinions that effectively ignore actual market activity. Mr. Murray repeatedly states that the net effect of recent market turbulence and government interest rate policy has produced little change in the cost of capital. See Staff Report at 27 and 41. Mr. Gorman similarly provides an outdated discussion of utility stock performance (through the first three quarters of 2008) and concludes that utilities are perceived as "safe haven investments. " See Gorman Direct Testimony at 7. Such misdirected discussion is simply not consistent with the market conditions that utilities face. Based on these opinions, Mr. Murray and Mr. Gorman reject the portions of their analyses that reflect actual market conditions and resort to alternative analyses that better suit their opinions. The cost of raising capital for all corporations has increased dramatically over the past several months, and any reasonable cost of equity should reflect these effects.

Q. What are the implications of higher corporate borrowing costs for KCP&L's cost of equity?

A. There are several important implications. First, since equity must compete with debt for investor dollars, and because equity is riskier than debt, an increase in corporate borrowing costs will also cause an increase in the cost of equity. In addition, since corporate bond yields are a direct input to the risk premium method of estimating the cost of equity, higher corporate yields should result in higher risk premium-based estimates of the cost of equity. Finally, as I will discuss in more detail below, widening corporate interest rate spreads relative to Treasuries will cause understated ROE estimates in the capital asset pricing model (CAPM). The other parties' failure to account for these factors cause their ROE estimates to understate KCP&L's cost of equity.

Q. How do the other parties' ROE recommendations compare to the rates of return authorized by other state utility commissions around the country?

A. They are generally lower, with Staff's recommendation substantially lower than the average for any quarter over the past five years. Table 2 below shows the average rates of return for each quarter over the past five years.

Table 2

Authorized Electric Utility Equity Returns

	2004	2005	2006	2007	2008
1st Quarter	11.00%	10.51%	10.38%	10.27%	10.45%
2nd Quarter	10.54%	10.05%	10.68%	10.27%	10.57%
3rd Quarter	10.33%	10.84%	10.06%	10.02%	10.47%
4th Quarter	10.91%	10.75%	10.39%	10.56%	10.33%
Full Year Average	10.75%	10.54%	10.36%	10.36%	10.46%
Average Utility Debt Cost	6.20%	5.67%	6.08%	6.11%	6.65%
Indicated Average Risk Premium	4.55%	4.87%	4.28%	4.25%	3.81%

Source: *Regulatory Focus*, Regulatory Research Associates, Inc., Major Rate Case Decisions, January 12, 2009. Utility debt costs are the "average" public utility bond yields as reported by Moody's.

Since 2004, equity risk premiums (the difference between allowed equity returns and utility interest rates) have ranged from 3.81 percent to 4.87 percent. At the low end of this risk premium range, based on average triple-B utility bond yields for the three months ended in February, the indicated cost of equity is 11.63 percent (7.82% triple-B bond yield + 3.81% risk premium = 11.63%). At the upper end of this risk premium range, with an allowed equity risk premium of 4.87 percent, the indicated cost of equity is 12.69 percent (7.82% current triple-B bond yield + 4.87% risk premium = 12.69%).[2] In this environment, Mr. Murray and Mr. Gorman should have recommended substantially higher ROEs.

Q. **In their analyses, Mr. Murray and Mr. Gorman present CAPM estimates of ROE. Can you explain why the CAPM currently understates ROE and why their CAPM estimates should not be included?**

A. Yes. The CAPM requires three inputs to estimate ROE:[3]

1) the risk-free interest rate (R_f);

2) the market risk premium for stocks relative to the risk-free rate (R_m - R_f); and

3) a measure of market-related, or nondiversifiable, risk (β or beta).

The CAPM estimate of ROE is calculated from the following equation:

$$ROE = R_f + \beta(Rm - R_f)$$

Under present market conditions, and as applied by the other parties in their CAPM analyses, two of the three CAPM inputs tend to understate ROE. The risk-free rate, R_f, is

[2] The triple-B bond yield is the average rate for the three-months ended February 2009 of Moody's triple-B utility bond index as shown previously in Table 1.

[3] While Mr. Murray acknowledges at pages 32-33 of the Staff Report that his CAPM estimates are below the reasonable range, he attempts to use his CAPM discussion to justify his rejection of higher constant growth DCF results.

understated because, due to monetary policy and investors' flight to safety, the U.S. Treasury rates used for R_f are artificially low. The second input, the market risk premium (R_m - R_f) is also severely understated. This is the case because the other parties' market risk premium estimates are based on historical data that cannot possibly reflect the current market turmoil. While there is no single objective source for measuring the widening equity risk premium phenomenon, the unprecedented risk spreads shown in Table 1 are indicative. Those rate spreads required on utility bonds relative to Treasuries are currently almost three times larger than previously existed. For the other parties' to apply the CAPM without any adjustment for current abnormal market conditions produces unreasonably low estimates of ROE. In this environment, CAPM estimates of ROE should be rejected and ROE should be determined from a combination of DCF and more traditional risk premium models.

III. Rebuttal of Staff Witness David Murray

Q. What is your general assessment of Mr. Murray's ROE testimony and recommendation?

A. Mr. Murray's ROE recommendation is far below KCP&L's cost of equity capital. Although he discusses the ongoing economic crisis and concedes that equity risk premiums have increased, he concludes that these factors "…may have caused a slight increase in the cost of capital to utilities." See Staff Report at 22 (emphasis added). He then recommends an ROE of only 9.75 percent. As noted previously, this recommendation is lower than the average ROE granted by state regulators in any quarter for the past five years, a period of time that does not reflect the current economic crisis. It is also 100 basis points lower than the 10.75 percent ROE this Commission set in

KCP&L's 2007 rate case when triple-B utility interest rates where more than 100 basis points lower than they are today. For Mr. Murray to acknowledge the market's increased risk aversion and the wider equity risk premiums that have resulted, but to recommend such a low ROE is, at best, inconsistent.

Q. What is the basis for Mr. Murray's 9.75 percent ROE recommendation?

A. His recommendation is based on the multi-stage DCF model that he presents in his Schedule 18. The average ROE from this analysis is 9.76 percent. From this result, he determines that a subjective ROE range of 9.25 per cent to 10.25 percent is appropriate, and from this range he selects the midpoint of 9.75 percent.

Q. How is his multi-stage DCF model structured?

A. He applies a three-stage version of the DCF model to an eleven-company comparable group. Although Mr. Gorman and I use a much larger group (which I believe is statistically more reliable), in this case Mr. Murray's comparable company selections do not appear to skew his results. He begins with annual dividends for 2008, and for a base stock price he uses the average of high and low prices for the four-month period ended January 31, 2008. He then applies three sets of growth rates in the three stages of his model. The growth rates for Stage 1 (years 1-5) are based on the analysts' estimates for each company as shown in his Schedule 13. The growth rates for Stage 2 (years 6-10) are a simple extrapolation between the rates in Stage 1 and Stage 3. The growth rate for Stage 3 (year 11 and beyond) is set at 3.1 percent for all companies. Mr. Murray discusses his 3.1 percent long-term growth rate on page 35 of the Staff Report. In that discussion, he states that his 3.1 estimate is the sum of projected real growth in electricity consumption (0.9 percent) and projected long-term inflation (2.2 percent). From these

inputs, he calculates ROE as the rate of return that investors would receive from the growing stream of dividends in the three stages of his model.

Q. Do you disagree with the technical aspects of Mr. Murray's multi-stage DCF approach?

A. No. While I disagree with his sole reliance on only one model and I disagree with his long-term growth rate input, the technical aspects of his calculations are correct. In fact, his three-stage approach is very similar to the two-stage model that I use as one of five approaches to estimate ROE.

Q. Why do you disagree with Mr. Murray's long-term growth estimate?

A. His long-term growth estimate is far too low because his method for calculating it is not consistent with the principles of the DCF model. The DCF model requires an estimate of the cash flows that investors expect to receive, and the growth rate in that model must reasonably reflect investor expectations. The resulting return from the expected cash flows must compensate investors for foregone consumption, for the risks that investors face, and for the effects of inflation. To the extent that the estimated growth rate leaves out any of these factors, it will understate investors' requirements.

Mr. Murray's approach fails because he considers only expected growth in electricity consumption plus the currently very low expected inflation rate published by the Congressional Budget Office. While growth in electricity consumption is one of the variables that investors may consider, many other factors such as growing new plant investment, the financial structure for new investment, and other fundamental business inputs must be considered as well. Also, as I demonstrated in Schedule SCH-4 of my direct testimony, the long-term inflation rate alone has exceeded 3 percent. Mr. Murray's

3.1 percent total long-term growth rate simply is not consistent with the DCF model's long-term requirements.

Q. Can you demonstrate the effect that Mr. Murray's growth rate has in his multi-stage model?

A. Yes. His model is very sensitive to the long-term growth rate input. In Schedule SCH-8, I present alternative calculations of Mr. Murray's model using alternative long-term growth rate inputs. On the first page of the schedule, I reproduce the results he reported in his Schedule 18 using his 3.1 percent growth rate. On page 2 of Schedule SCH-8, I replace his growth rate with Mr. Gorman's long-term growth rate estimate of 4.9 percent (Gorman Direct Testimony at 26). With a growth rate of 4.9 percent, Mr. Murray's model produces an ROE of 10.99 percent. On page 3 of Schedule SCH-8, I replace Mr. Murray's growth rate with my estimate of long-term GDP growth (6.2 percent), which I provide in my current ROE update (Schedule SCH-10). With a growth rate of 6.2 percent, Mr. Murray's model produces an ROE of 11.91 percent. On page 4 of Schedule SCH-8, I provide one additional growth rate scenario based on the 6.0 percent growth rate the Commission used in its recent Report and Order in the AmerenUE rate case, No. ER-2008-0318, at page 21 (Jan. 27, 2009).[4] As shown on page 4 of Schedule SCH-8, with a long-term growth rate of 6.0 percent, Mr. Murray's model produces an ROE of 11.77 percent. While I continue to disagree with many other aspects of Mr. Murray's testimony, these basic recalculations of his DCF model show that with more reasonable

[4] Mr. Gorman states that the Commission's preferred approach would currently produce a growth rate of 4.55 percent (Gorman Direct Testimony at 26). However, that estimate is highly suspect because it uses an inflation rate of only 1.08 percent. This indication is caused by current "flight to safety" anomalies in the Treasury bond market and the differing impact that those anomalies have had on nominal Treasury yields versus yields on the Treasury Inflation Protected Securities (TIPS) used in that analysis. In fact, there are

estimates of long-term growth his selected model would have produced a DCF range of 10.99 percent to 11.91 percent.

IV. Rebuttal of OPC Witness Michael Gorman

Q. Please summarize Mr. Gorman's ROE recommendation?

A. Mr. Gorman's recommendation is summarized in the following table (from Gorman Direct Testimony at page 42):

Table 3
Gorman ROE Summary

Description	Results
DCF	11.15%
Risk Premium	10.54%
CAPM	9.20%
Average	10.30%

Q. Does Mr. Gorman provide a more detailed analysis than is shown in Table 3?

A. Yes. What cannot be seen in Table 3 are the individual model results that Mr. Gorman averages for his summary. A closer examination of all of his results shows that his averaging may have diluted the higher results and given disproportionate weight to lower results. All of Mr. Gorman's model results are shown in Table 4 below:

no professional forecasts that I am aware of that project long-term inflation nearly as low as Mr. Gorman's 1.08 percent.

Table 4

Gorman All-Inclusive ROE Summary

Description	Results	
Constant Growth DCF (Analysts Growth)	12.02%	
Constant Growth DCF (Composite Long-Term Growth)	11.25%	
Two-Stage Growth DCF Model	10.59%	
Multi-Stage Growth DCF Model	10.75%	
Risk Premium (Triple-B Bond)	11.47%	
Risk Premium (Treasury Bond)	9.61%	
CAPM (Current Market Risk Premium)	9.46%	
CAPM (Historical Risk Premium)	~~8.94%~~	Not reasonable
Average Exluding Outliers & Extreme Data	**10.74%**	

As Shown in Table 4, five of Mr. Gorman's eight models produce ROEs above 10.5 percent. His Historical CAPM produces a result of only. 8.94 percent. This result should be removed because it is only 50 basis points above the 8.44 percent current cost of triple-B debt that Mr. Gorman uses in his risk premium analysis. When the remaining data are averaged the indicated ROE is 10.74 percent. Thus, by simply removing one unreasonably low estimate and considering all of Mr. Gorman's other models, the indicated ROE is significantly higher.

Q. Is there any potential confusion between Mr. Gorman's discussion and his table presentation of his results?

A. Yes. Mr. Gorman calculates a constant growth DCF result of 12.02 percent. On page 19 of his testimony, he states that "the constant growth DCF model is currently producing an inflated DCF return and should not be used in the calculation of KCP&L's return on equity." However, in his summary table on page 32, he clearly included his constant growth DCF result in developing the final DCF average result.

Q. What other general areas of disagreement do you have with Mr. Gorman's analysis and recommendations?

A. Mr. Gorman's analysis is negatively biased by his input assumptions and his application of the models. While he applies a non-constant growth DCF model similar to one I use and includes GDP growth as an input, he uses relatively short-term GDP growth rate forecasts that are significantly dominated by recent historically low inflation. His GDP growth forecast is based on inflation estimates that are almost a full percentage point below longer-term historical averages. This is inconsistent with the long-term growth assumption that is fundamental to the DCF model.

In his risk premium analysis, he selects risk premiums that are not consistent with recent risk premium data. He selectively applies those risk premiums in a way that creates a mismatch of older risk premium data with current interest rates. Furthermore, he fails to include the well documented inverse relationship between risk premiums and interest rates, i.e., the tendency for risk premiums to widen when interest rates are low and to narrow when interest rates are high. Without this feature, his risk premium theory is not consistent with sound academic research, such as studies by Harris and Marston. This omission causes his risk premium estimates to be significantly understated.

His CAPM analysis produces an average ROE estimate of 9.20 percent, which is by far the lowest number in his summary table. As I have demonstrated previously, under current market conditions, the CAPM understates ROE. For these reasons, his CAPM results should have been rejected. Without CAPM, a more reasonable interpretation of Mr. Gorman's analysis indicates that he should have found an ROE in the 10.5 percent to 11.2 percent range.

Q. **What specific disagreements do you have with Mr. Gorman's two-stage and three-stage DCF analyses?**

A. Mr. Gorman uses analysts' forecasts in the first five years of his two-stage model and the GDP forecast for years six and later. In his three-stage (or multi-stage) model, he uses analysts' growth forecasts in the first five years and a GDP forecast for years eleven and later; in years six through ten, he interpolates growth in a linear fashion between the first and third stages. In all these models, his estimate of future GDP growth is too low. His forecasts are for five- and ten-year periods, as published by *Blue Chip Financial Forecasts*. See Gorman Direct Testimony at 26. The current Blue Chip consensus is low because it is based on assumed inflation rates of only about 2.0 percent, which is much lower than the long-term U.S. average inflation rate of over 3.0 percent. The currently depressed nature of economic forecasts detracts from Mr. Gorman's use of these forecasts to estimate long-term growth.

Q. If Mr. Gorman had used your updated GDP growth forecast of 6.2 percent in his two-stage and multi-stage growth DCF analyses, what would his results have been?

A. In Schedule SCH-10, I update my forecast of long-term GDP growth by including data through year-end 2008. My updated forecast of GDP growth is now 6.2 percent, as compared to the 6.5 percent rate included in my direct testimony. In Schedule SCH-9, page 2, I have reproduced Mr. Gorman's two-stage growth DCF Schedule (Schedule MPG-13) with the 6.2 percent growth rate substituted for his long-term GDP growth estimate. That revised analysis indicates an ROE of 11.64 percent.

On page 3 of Schedule SCH-9, I substitute my 6.2 percent long-term GDP growth rate into Mr. Gorman's multi-stage DCF analysis. That revised analysis indicates an ROE of 11.67 percent.

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

A. His risk premium analysis is based on subjective and inappropriate selections from the data he presents, and it fails to include the well documented tendency for risk premiums to expand when interest rates are low. When his selectivity is removed and the analysis is modified to properly reflect wider risk premiums with lower interest rates, Mr. Gorman's risk premium analysis indicates a much higher ROE.

Q. Please elaborate.

A. His risk premium data are presented in Schedules MPG-16 through MPG-19. He discusses the analysis on pages 33-36 of his testimony. The analysis consists of two parts. In one approach he adds Government bond equity risk premiums of 5.21 percent and 6.01 percent to a projected 30-year Treasury bond yield of 4.00 percent. This produces an ROE range of 9.21 percent to 10.01 percent, with a midpoint of 9.61 percent. In his second approach, he adds utility bond risk premiums of 3.03 percent and 4.39 percent to the recent triple-B utility bond yield of 8.44 percent. This produces ROE estimates of 11.47 percent to 12.83 percent. From these results, he concludes that an ROE of 10.54 percent is appropriate (midpoint of 9.61 percent and 11.47 percent).

Q. Why do you disagree with Mr. Gorman's Government bond equity risk premium approach?

A. In this approach, he adds a risk premium of 5.61 percent to a Government bond yield of 4.00 percent to reach a result of 9.61 percent. An examination of the data in Mr.

Gorman's Schedule MPG-16 reveals the flaw in this analysis. In essence, Mr. Gorman is mismatching historical data with current rates in a way that is not reasonable.

The last column in Schedule MPG-13 indicates that over the past 10 years the average "Indicated Risk Premium" has been 5.63 percent. This is very close to the 5.61 percent risk premium that Mr. Gorman uses. However, the average Treasury Bond Yield over this ten year period has been 5.16 percent, much higher than the current rate of 4.00 percent he uses. In fact, there is not a rate as low as 4.00 percent in all of Mr. Gorman's data. It is not reasonable for Mr. Gorman to apply a historical risk premium to currently low interest rate data without some adjustment to account for the relationship between interest rate levels and risk premiums. Later in this testimony, I will make the proper adjustment to Mr. Gorman's data to account for this relationship and show that his Treasury bond risk premium result should have been much higher.

Q. **Is Mr. Gorman's utility bond risk premium analysis more reasonable?**

A. Yes. His analysis in Schedule MPG-17 supports my point that risk premiums must match current interest rates. A review of the data in Schedule MPG-17 shows that in 1994 interest rates were 8.31 percent and the risk premium was 3.03 percent. Both of these figures are very similar to the data Mr. Gorman used in his current utility bond risk premium analysis (8.44 percent triple-B interest rate and 3.03 percent risk premium). This corroborates the reasonableness of his utility bond risk premium analysis and of the 11.47 percent ROE recommendation that results.

Q. In your risk premium analysis from your direct testimony, you used a standard regression analysis to account for the inverse relationship between risk premiums

and interest rates. What do Mr. Gorman's risk premium data indicate when this approach is used?

A. In Schedule SCH-9, pages 4-7, I have applied the standard regression analysis to calculate "interest rate adjustment" factors for his two risk premium studies. This approach properly takes into account the inverse relationship between equity risk premiums and interest rates. With this update Mr. Gorman's Treasury bond risk premium analysis indicates an ROE of 10.11 percent, as shown in pages 4-5 of Schedule SCH-9. For his utility bond risk premium analysis, the indicated ROE is 11.93 percent (pages 6-7 of the same Schedule). These results further confirm that Mr. Gorman's risk premium data support a base ROE midpoint result of 11.02 percent.

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

A. Yes. In his testimony before the Texas Public Utility Commission in Docket No. 14965, page 15, lines 10-13, Mr. Gorman stated:

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

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

V. Update of ROE Analysis

Q. Have you updated your ROE analysis to take into account recent data and the current conditions in the capital markets?

A. Yes. Consistent with my customary practice, I have updated my ROE analysis for current conditions using the same methodologies that I employed in my previous analysis.

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

A. My updated DCF results are shown in Schedule SCH-11. The indicated DCF range is 11.2 percent to 11.9 percent, with a midpoint of 11.55 percent, which is my revised recommendation.

Q. What are the results of your updated bond yield plus risk premium analysis?

A. My updated risk premium analysis is presented in Schedules SCH-12 and SCH-13. Based on projected triple-B utility interest rates for 2009, the risk premium analysis indicates an ROE of 11.14 percent. Based on the most recent three month's average triple-B rates, the risk premium ROE is 11.56 percent.

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

A. My updated analyses show that KCP&L's current cost of equity capital is in the range of 11.2 percent to 11.9 percent, with a midpoint estimate of 11.55 percent. The fact that my updated study produces this result confirms that my original recommendation of 10.75 percent is extremely conservative and that the other parties' recommendations, as discussed herein, are not reasonable.

Q. Are you providing a CAPM analysis in your ROE update?

A. No. As I explained previously, government monetary policies and recent flight to safety issues have pushed Treasury bond interest rates to artificially low levels, while simultaneously corporate capital costs have increased. In this environment, CAPM estimates understate the market cost of equity capital. The negatively skewed Treasury

rates produce ROE estimates that are neither consistent with DCF estimates nor traditional risk premium estimates. For this reason, I do not include CAPM estimates in my ROE analysis.

Q. In light of your revised ROE recommendation, please summarize the Company's requested capital structure and overall rate of return.

A. The following table identifies the requested capital structure components and the resulting overall rate of return:

Requested Capital Structure

CAPITAL COMPONENT	PERCENT	REQUIRED RETURN	WEIGHTED RETURN
Long-Term Debt (Note 1)	48.39%	6.20%	3.00%
Preferred Stock	0.75%	4.29%	0.03%
Adj. Common Equity	50.86%	11.55%	5.87%
	100.00%		8.90%

Q. What is the basis for the Company's requested capital structure and overall rate of return?

A. KCP&L's requested capital structure is the actual Great Plains Energy capital structure as of the September 30, 2008 update. As addressed in the Rebuttal Testimony of KCP&L witness Michael W. Cline, the capital structure requested by KCP&L differs from Staff's recommendation. The cost of preferred stock and the cost of long-term debt are consistent with the Company's initial filing and Staff's testimony. The cost of equity reflects my recommendation above.

Q. Does that conclude your testimony?

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 Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

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 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, to serve 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 Twenty-two (22) pages and Schedule(s) SCH-1 through SCH-13, 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
Samuel C. Hadaway

Subscribed and sworn before me this 5th day of March 2009.

Notary Public

My commission expires: 7/8/12

APRIL DAWN DUHON
Notary Public
STATE OF TEXAS
My Comm. Exp. 07-08-2012

Kansas City Power & Light

Long-Term Interest Rate Trends

Month	Triple-B Utility Rate	30-Year Treasury Rate	Triple-B Utility Spread
Jan-07	6.16	4.85	1.31
Feb-07	6.10	4.82	1.28
Mar-07	6.10	4.72	1.38
Apr-07	6.24	4.87	1.37
May-07	6.23	4.90	1.33
Jun-07	6.54	5.20	1.34
Jul-07	6.49	5.11	1.38
Aug-07	6.51	4.93	1.58
Sep-07	6.45	4.79	1.66
Oct-07	6.36	4.77	1.59
Nov-07	6.27	4.52	1.75
Dec-07	6.51	4.53	1.98
Jan-08	6.35	4.33	2.02
Feb-08	6.60	4.52	2.08
Mar-08	6.68	4.39	2.29
Apr-08	6.81	4.44	2.37
May-08	6.79	4.60	2.19
Jun-08	6.93	4.69	2.24
Jul-08	6.97	4.57	2.40
Aug-08	6.98	4.50	2.48
Sep-08	7.15	4.27	2.88
Oct-08	8.58	4.17	4.41
Nov-08	8.98	4.00	4.98
Dec-08	8.11	2.87	5.24
Jan-09	7.90	3.13	4.77
Feb-09	7.44	3.59	3.85
3-Mo Avg	**7.82**	**3.20**	**4.62**
12-Mo Avg	**7.44**	**4.10**	**3.34**

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

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

2007	A2008	E2009	Annual % Change 2007	Annual % Change A2008	Annual % Change E2009		2Q 2008	3Q 2008	A4Q 2008	1Q E2009	2Q E2009	3Q E2009	4Q E2009	1Q E2010
						Gross Domestic Product								
$13,807.6	$14,280.7	$14,065.7	4.8	3.4	(1.5)	GDP (current dollars)	$14,294.5	$14,412.8	$14,264.6	$14,128.3	$14,011.8	$14,018.2	$14,104.7	$14,241.3
4.8	3.4	(1.5)	-	-	-	Annual rate of increase (%)	4.1	3.4	(4.1)	(3.8)	(3.3)	0.2	2.5	3.9
2.0	1.3	(2.5)	-	-	-	Annual rate of increase–real GDP (%)	2.8	(0.5)	(3.8)	(5.8)	(3.3)	0.1	2.3	2.5
2.7	2.2	1.0	-	-	-	Annual rate of increase–GDP deflator (%	1.1	3.9	(0.1)	1.7	0.0	0.1	0.2	1.4
						***Components of Real GDP**								
$8,252.8	$8,276.2	$8,181.8	2.8	0.3	(1.1)	Personal consumption expenditures	$8,341.3	$8,260.6	$8,186.9	$8,122.1	$8,130.9	$8,197.9	$8,276.3	$8,341.8
2.8	0.3	(1.1)	-	-	-	% change	1.2	(3.8)	(3.5)	(3.1)	0.4	3.3	3.9	3.2
1,242.4	1,188.3	1,109.8	4.8	(4.4)	(6.6)	Durable goods	1,228.3	1,180.1	1,107.7	1,084.6	1,083.1	1,114.4	1,157.1	1,201.9
2,392.6	2,381.9	2,310.4	2.5	(0.4)	(3.0)	Nondurable goods	2,420.7	2,376.3	2,332.8	2,292.8	2,292.7	2,314.7	2,341.4	2,363.2
4,646.2	4,714.8	4,746.8	2.6	1.5	0.7	Services	4,712.1	4,711.3	4,731.6	4,723.5	4,732.7	4,754.8	4,776.1	4,788.8
1,383.0	1,408.2	1,193.3	4.9	1.8	(15.3)	Nonresidental fixed investment	1,431.8	1,425.7	1,352.2	1,287.8	1,210.8	1,146.2	1,128.6	1,142.4
4.9	1.8	(15.3)	-	-	-	% change	2.5	(1.7)	(19.1)	(17.7)	(21.9)	(19.7)	(6.0)	5.0
1,078.9	1,047.2	893.6	1.7	(2.9)	(14.7)	Producers durable equipment	1,074.7	1,054.0	971.5	934.2	894.4	871.0	874.7	896.8
444.9	351.1	267.7	(18.1)	(21.1)	(23.7)	Residental fixed investment	361.1	345.6	323.0	291.1	262.6	255.1	261.9	270.2
(18.1)	(21.1)	(23.7)	-	-	-	% change	(13.7)	(16.0)	(23.7)	(34.0)	(33.7)	(10.9)	11.0	13.3
(2.5)	(21.1)	(88.3)	-	-	-	Net change in business inventories	(50.6)	(29.6)	6.2	(94.1)	(113.0)	(86.1)	(60.0)	(30.5)
2,012.1	2,071.0	2,119.5	2.1	2.9	2.3	Gov't purchases of goods & services	2,058.9	2,088.1	2,097.7	2,094.2	2,113.3	2,129.7	2,140.9	2,138.5
752.9	797.7	836.9	1.6	6.0	4.9	Federal	785.0	810.8	822.3	820.4	832.3	842.9	852.1	856.2
1,259.0	1,274.3	1,284.7	2.3	1.2	0.8	State & local	1,274.4	1,278.7	1,277.2	1,275.6	1,283.0	1,289.0	1,291.3	1,285.0
(546.5)	(388.2)	(305.1)	-	-	-	Net exports	(381.3)	(353.1)	(356.4)	(266.0)	(274.5)	(317.5)	(362.5)	(403.6)
1,425.9	1,518.6	1,376.3	8.4	6.5	(9.4)	Exports	1,544.7	1,556.1	1,472.8	1,424.1	1,390.4	1,353.6	1,336.9	1,339.7
1,972.4	1,906.7	1,681.4	2.2	(3.3)	(11.8)	Imports	1,926.0	1,909.1	1,829.2	1,690.1	1,664.9	1,671.1	1,699.4	1,743.4
						****Income & Profits**								
$11,663.3	$12,099.1	$12,194.4	6.1	3.7	0.8	Personal income	$12,152.2	$12,159.4	$12,124.1	$12,082.2	$12,247.0	$12,199.7	$12,248.9	$12,328.2
10,170.5	10,637.0	10,869.4	5.5	4.6	2.2	Disposable personal income	10,806.0	10,690.7	10,625.9	10,684.5	10,869.8	10,937.0	10,986.1	10,972.7
0.6	1.7	5.8	-	-	-	Savings rate (%)	2.4	1.2	2.9	4.8	6.5	6.3	5.6	4.2
1,886.3	1,613.4	1,380.9	0.7	(14.5)	(14.4)	Corporate profits before taxes	1,750.0	1,693.7	1,259.0	1,355.0	1,337.8	1,385.8	1,445.0	1,569.9
1,435.9	1,241.2	1,105.3	2.2	(13.6)	(10.9)	Corporate profits after taxes	1,343.2	1,300.1	973.6	1,086.5	1,074.0	1,109.9	1,150.9	1,220.6
66.18	31.63	32.41	(18.8)	(52.2)	2.5	‡Earnings per share (S&P 500)	51.37	45.95	31.63	24.45	19.84	18.09	32.41	34.58
						†Prices & Interest Rates								
2.9	3.8	(1.7)	-	-	-	Consumer price index	5.0	6.7	(9.2)	(3.1)	(1.8)	0.2	1.4	2.7
4.4	1.4	0.2	-	-	-	Treasury bills	1.6	1.5	0.3	0.3	0.2	0.2	0.3	0.3
4.6	3.7	3.0	-	-	-	10-yr notes	3.9	3.9	3.3	2.7	2.9	3.1	3.4	3.9
4.8	4.3	3.7	-	-	-	30-yr bonds	4.6	4.4	3.7	3.8	3.5	3.7	3.9	4.3
5.6	5.6	5.7	-	-	-	New issue rate–corporate bonds	5.6	5.7	5.8	5.9	5.4	5.5	5.8	6.3
						Other Key Indicators								
1,340.7	902.4	545.4	(26.0)	(32.7)	(39.6)	Housing starts (1,000 units SAAR)	1,025.0	875.7	656.0	510.0	496.6	544.6	630.4	721.0
16.1	13.1	10.3	(2.5)	(18.4)	(21.7)	Auto & truck sales (1,000,000 units)	14.1	12.9	10.3	9.6	9.7	10.4	11.4	12.9
4.6	5.8	8.6	-	-	-	Unemployment rate (%)	5.4	6.1	6.9	7.9	8.5	9.0	9.3	9.3
(5.6)	(4.4)	10.0	-	-	-	§U.S. dollar	(6.0)	15.7	49.5	1.8	2.3	(0.9)	(1.4)	(2.8)

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.

*2000 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 Company
Revised Murray Multi-Stage Growth DCF Analysis

Murray 3.10% Long-Term GDP Growth

No.	Company	(1) Price P_0	(2) Dividend D_0	(3) First Stage Growth (EPS)	(4) Second Stage Growth Year 6	(5) Year 7	(6) Year 8	(7) Year 9	(8) Year 10	(9) Third Stage Growth (GDP)	(10) **Updated Cost of Equity**
1	Ameren	$32.56	$2.54	4.25%	4.06%	3.87%	3.68%	3.48%	3.29%	3.10%	**11.68%**
2	American Elec. Pwr.	$30.80	$1.64	5.19%	4.84%	4.49%	4.15%	3.80%	3.45%	3.10%	**9.32%**
3	Cleco Corporation	$21.65	$0.90	12.07%	10.58%	9.08%	7.59%	6.09%	4.60%	3.10%	**10.31%**
4	DPL	$21.48	$1.10	10.67%	9.41%	8.15%	6.89%	5.62%	4.36%	3.10%	**11.21%**
5	IDACORP	$27.70	$1.20	3.50%	3.43%	3.37%	3.30%	3.23%	3.17%	3.10%	**7.67%**
6	Northeast Utilities	$22.23	$0.83	10.16%	8.98%	7.81%	6.63%	5.45%	4.28%	3.10%	**8.98%**
7	PG&E Corp.	$35.43	$1.56	6.00%	5.52%	5.03%	4.55%	4.07%	3.58%	3.10%	**8.52%**
8	Pinnacle West	$30.41	$2.10	3.17%	3.16%	3.15%	3.14%	3.12%	3.11%	3.10%	**10.25%**
9	Progress Energy	$38.74	$2.46	5.33%	4.96%	4.59%	4.22%	3.84%	3.47%	3.10%	**10.55%**
10	Southern Company	$34.92	$1.66	5.55%	5.14%	4.73%	4.33%	3.92%	3.51%	3.10%	**8.79%**
11	Xcel Energy	$17.85	$0.94	7.33%	6.63%	5.92%	5.22%	4.51%	3.81%	3.10%	**10.06%**
	Average	$28.52	$1.54	6.66%	6.06%	5.47%	4.88%	4.29%	3.69%	3.10%	**9.76%**

Notes:

Columns 1-3: Murray Schedule 18.

Columns 4-8: Linear interpolation between columns 3 and 9.

Column 9: Murray Schedule 18.

Column 10: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 is assumed to grow for the first five periods at the rate in column 3, then at the rate in columns 4-8 for years 6-10, than at the rate in column 9 for the remaining periods.

Kansas City Power & Light Company
Revised Murray Multi-Stage Growth DCF Analysis

Gorman 4.90% Long-Term GDP Growth

No.	Company	(1) Price P_0	(2) Dividend D_0	(3) First Stage Growth (EPS)	(4) Second Stage Growth Year 6	(5) Second Stage Growth Year 7	(6) Second Stage Growth Year 8	(7) Second Stage Growth Year 9	(8) Second Stage Growth Year 10	(9) Third Stage Growth (GDP)	(10) **Updated Cost of Equity**
1	Ameren	$32.56	$2.54	4.25%	4.36%	4.47%	4.58%	4.68%	4.79%	4.90%	**12.79%**
2	American Elec. Pwr.	$30.80	$1.64	5.19%	5.14%	5.09%	5.05%	5.00%	4.95%	4.90%	**10.58%**
3	Cleco Corporation	$21.65	$0.90	12.07%	10.88%	9.68%	8.49%	7.29%	6.10%	4.90%	**11.52%**
4	DPL	$21.48	$1.10	10.67%	9.71%	8.75%	7.79%	6.82%	5.86%	4.90%	**12.36%**
5	IDACORP	$27.70	$1.20	3.50%	3.73%	3.97%	4.20%	4.43%	4.67%	4.90%	**9.05%**
6	Northeast Utilities	$22.23	$0.83	10.16%	9.28%	8.41%	7.53%	6.65%	5.78%	4.90%	**10.27%**
7	PG&E Corp.	$35.43	$1.56	6.00%	5.82%	5.63%	5.45%	5.27%	5.08%	4.90%	**9.84%**
8	Pinnacle West	$30.41	$2.10	3.17%	3.46%	3.75%	4.04%	4.32%	4.61%	4.90%	**11.44%**
9	Progress Energy	$38.74	$2.46	5.33%	5.26%	5.19%	5.12%	5.04%	4.97%	4.90%	**11.73%**
10	Southern Company	$34.92	$1.66	5.55%	5.44%	5.33%	5.23%	5.12%	5.01%	4.90%	**10.08%**
11	Xcel Energy	$17.85	$0.94	7.33%	6.93%	6.52%	6.12%	5.71%	5.31%	4.90%	**11.27%**
	Average	$28.52	$1.54	6.66%	6.36%	6.07%	5.78%	5.49%	5.19%	4.90%	**10.99%**

Notes:

Columns 1-3: Murray Schedule 18.

Columns 4-8: Linear interpolation between columns 3 and 9.

Column 9: Gorman Schedule MPG-13.

Column 10: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 is assumed to grow for the first five periods at the rate in column 3, then at the rate in columns 4-8 for years 6-10, than at the rate in column 9 for the remaining periods.

Kansas City Power & Light Company
Revised Murray Multi-Stage Growth DCF Analysis

Hadaway 6.20% Long-Term GDP Growth

No.	Company	(1) Price P_0	(2) Dividend D_0	(3) First Stage Growth (EPS)	(4) Second Stage Growth Year 6	(5) Year 7	(6) Year 8	(7) Year 9	(8) Year 10	(9) Third Stage Growth (GDP)	(10) **Updated Cost of Equity**
1	Ameren	$32.56	$2.54	4.25%	4.58%	4.90%	5.23%	5.55%	5.88%	6.20%	**13.62%**
2	American Elec. Pwr.	$30.80	$1.64	5.19%	5.36%	5.53%	5.70%	5.86%	6.03%	6.20%	**11.52%**
3	Cleco Corporation	$21.65	$0.90	12.07%	11.09%	10.11%	9.14%	8.16%	7.18%	6.20%	**12.41%**
4	DPL	$21.48	$1.10	10.67%	9.93%	9.18%	8.44%	7.69%	6.95%	6.20%	**13.22%**
5	IDACORP	$27.70	$1.20	3.50%	3.95%	4.40%	4.85%	5.30%	5.75%	6.20%	**10.06%**
6	Northeast Utilities	$22.23	$0.83	10.16%	9.50%	8.84%	8.18%	7.52%	6.86%	6.20%	**11.23%**
7	PG&E Corp.	$35.43	$1.56	6.00%	6.03%	6.07%	6.10%	6.13%	6.17%	6.20%	**10.81%**
8	Pinnacle West	$30.41	$2.10	3.17%	3.68%	4.18%	4.69%	5.19%	5.70%	6.20%	**12.33%**
9	Progress Energy	$38.74	$2.46	5.33%	5.48%	5.62%	5.77%	5.91%	6.06%	6.20%	**12.61%**
10	Southern Company	$34.92	$1.66	5.55%	5.66%	5.77%	5.88%	5.98%	6.09%	6.20%	**11.05%**
11	Xcel Energy	$17.85	$0.94	7.33%	7.14%	6.95%	6.77%	6.58%	6.39%	6.20%	**12.18%**
	Average	$28.52	$1.54	6.66%	6.58%	6.50%	6.43%	6.35%	6.28%	6.20%	**11.91%**

Notes:

Columns 1-3: Murray Schedule 18.

Columns 4-8: Linear interpolation between columns 3 and 9.

Column 9: Hadaway Schedule SCH-10.

Column 10: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 is assumed to grow for the first five periods at the rate in column 3, then at the rate in columns 4-8 for years 6-10, than at the rate in column 9 for the remaining periods.

Kansas City Power & Light Company
Revised Murray Multi-Stage Growth DCF Analysis

PSC Case No. ER-2008-0318 (Ameren) 6.00% Long-Term GDP Growth

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
					Second Stage Growth					Third Stage	**Updated**
No.	Company	Price P_0	Dividend D_0	First Stage Growth (EPS)	Year 6	Year 7	Year 8	Year 9	Year 10	Growth (GDP)	**Cost of Equity**
1	Ameren	$32.56	$2.54	4.25%	4.54%	4.83%	5.13%	5.42%	5.71%	6.00%	**13.49%**
2	American Elec. Pwr.	$30.80	$1.64	5.19%	5.33%	5.46%	5.60%	5.73%	5.87%	6.00%	**11.37%**
3	Cleco Corporation	$21.65	$0.90	12.07%	11.06%	10.05%	9.04%	8.02%	7.01%	6.00%	**12.27%**
4	DPL	$21.48	$1.10	10.67%	9.89%	9.11%	8.34%	7.56%	6.78%	6.00%	**13.09%**
5	IDACORP	$27.70	$1.20	3.50%	3.92%	4.33%	4.75%	5.17%	5.58%	6.00%	**9.91%**
6	Northeast Utilities	$22.23	$0.83	10.16%	9.47%	8.77%	8.08%	7.39%	6.69%	6.00%	**11.08%**
7	PG&E Corp.	$35.43	$1.56	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	**10.66%**
8	Pinnacle West	$30.41	$2.10	3.17%	3.64%	4.11%	4.59%	5.06%	5.53%	6.00%	**12.20%**
9	Progress Energy	$38.74	$2.46	5.33%	5.44%	5.55%	5.67%	5.78%	5.89%	6.00%	**12.47%**
10	Southern Company	$34.92	$1.66	5.55%	5.63%	5.70%	5.78%	5.85%	5.93%	6.00%	**10.90%**
11	Xcel Energy	$17.85	$0.94	7.33%	7.11%	6.89%	6.67%	6.44%	6.22%	6.00%	**12.04%**
	Average	$28.52	$1.54	6.66%	6.55%	6.44%	6.33%	6.22%	6.11%	6.00%	**11.77%**

Notes:

Columns 1-3: Murray Schedule 18.

Columns 4-8: Linear interpolation between columns 3 and 9.

Column 9: Case No. ER-2008-0318 Final Order, page 21.

Column 10: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 is assumed to grow for the first five periods at the rate in column 3, then at the rate in columns 4-8 for years 6-10, than at the rate in column 9 for the remaining periods.

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

	(1)	(2)
	Summary of Results	
	Gorman Initial ROE	**Updated ROE**
DCF Models		
Constant Growth DCF (Analysts' Growth)	12.02%	**12.02%**
Constant Growth DCF (Composite Growth)	11.25%	**11.25%**
Two-Stage DCF	10.59%	**11.64%**
Multi-Stage DCF	10.75%	**11.67%**
Average DCF	11.15%	**11.65%**
Risk Premium Average	10.54%	**11.02%**
CAPM	9.20%	**NA**
ROE (Average DCF, Risk Premium, CAPM)	10.30%	**NA**
ROE (excluding CAPM)	10.85%	**11.33%**

Notes:

Column 1: Gorman, pages 32 and 42.

Column 2: Constant Growth and Composite Growth DCF results not changed; see page 2 of this Ex Two-Stage DCF result; see page 3 of this Exhibit for updated Multi-Stage DCF result; see average of results from pages 4 and 6 of this Exhibit for updated Risk Premium result; CAPM results are not reliable and are excluded as discussed in my testimony.

Kansas City Power & Light Company

Gorman Two-Stage Growth DCF Analysis (with Long-Term GDP Growth)

No.	Company	(1) Price P_0	(2) Dividend D_0	(3) First Stage Growth (EPS)	(4) Second Stage Growth (GDP)	(5) **Updated Cost of Equity**
1	ALLETE	$32.61	$1.72	5.75%	6.20%	**11.69%**
2	Alliant Energy Co.	$29.23	$1.40	5.55%	6.20%	**11.14%**
3	Ameren	$32.44	$2.54	4.75%	6.20%	**14.03%**
4	American Elec. Pwr.	$31.09	$1.64	5.15%	6.20%	**11.55%**
5	Avista Corp.	$18.51	$0.72	7.75%	6.20%	**10.61%**
6	Cent. Vermont P.S.	$20.44	$0.92	NA	6.20%	**NA**
7	Cleco Corporation	$21.91	$0.90	14.30%	6.20%	**12.29%**
8	Con. Edison	$39.73	$2.34	2.67%	6.20%	**11.57%**
9	DTE Energy Co.	$35.31	$2.12	4.75%	6.20%	**12.19%**
10	Edison Internat.	$32.40	$1.22	7.00%	6.20%	**10.33%**
11	Empire District	$17.48	$1.28	NA	6.20%	**NA**
12	Entergy Corp.	$80.93	$3.00	9.88%	6.20%	**10.80%**
13	FPL Group, Inc.	$47.22	$1.78	9.67%	6.20%	**10.84%**
14	FirstEnergy	$51.96	$2.20	8.34%	6.20%	**11.12%**
15	Hawaiian Electric	$24.10	$1.24	3.75%	6.20%	**11.11%**
16	IDACORP	$28.26	$1.20	5.50%	6.20%	**10.56%**
17	NiSource	$11.61	$0.92	2.75%	6.20%	**13.48%**
18	Northeast Utilities	$22.71	$0.85	9.25%	6.20%	**10.72%**
19	NSTAR	$33.86	$1.40	6.70%	6.20%	**10.68%**
20	PG&E Corp.	$36.76	$1.56	7.25%	6.20%	**10.91%**
21	Pinnacle West	$30.54	$2.10	5.00%	6.20%	**13.14%**
22	Portland General	$18.46	$0.98	5.90%	6.20%	**11.76%**
23	Progress Energy	$38.62	$2.46	4.94%	6.20%	**12.61%**
24	Southern Co.	$35.49	$1.68	5.50%	6.20%	**11.07%**
25	Teco Energy, Inc.	$12.23	$0.80	8.18%	6.20%	**13.73%**
26	UIL Holdings Co.	$29.86	$1.73	7.00%	6.20%	**12.56%**
27	Vectren Corp.	$25.13	$1.34	6.20%	6.20%	**11.86%**
28	Westar Energy	$19.20	$1.16	5.00%	6.20%	**12.30%**
29	Wisconsin Energy	$41.52	$1.08	9.50%	6.20%	**9.35%**
30	Xcel Energy Inc.	$17.90	$0.95	6.90%	6.20%	**12.00%**
	Average	$30.58	$1.51	6.60%	6.20%	**11.64%**

Notes:

Columns 1-3: Gorman Schedule MPG-13.

Column 4: Hadaway Schedule SCH-10.

Column 5: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 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

Gorman Multi-Stage Growth DCF Analysis (with Long-Term GDP Growth)

No.	Company	(1) Price P_0	(2) Dividend D_0	(3) First Stage Growth (EPS)	(4) Second Stage Growth Year 6	(5) Year 7	(6) Year 8	(7) Year 9	(8) Year 10	(9) Third Stage Growth (GDP)	(10) **Updated Cost of Equity**
1	ALLETE	$32.61	$1.72	5.75%	5.83%	5.90%	5.98%	6.05%	6.13%	6.20%	**11.65%**
2	Alliant Energy Co.	$29.23	$1.40	5.55%	5.66%	5.77%	5.88%	5.98%	6.09%	6.20%	**11.08%**
3	Ameren	$32.44	$2.54	4.75%	4.99%	5.23%	5.48%	5.72%	5.96%	6.20%	**13.86%**
4	American Elec. Pwr.	$31.09	$1.64	5.15%	5.33%	5.50%	5.68%	5.85%	6.03%	6.20%	**11.45%**
5	Avista Corp.	$18.51	$0.72	7.75%	7.49%	7.23%	6.98%	6.72%	6.46%	6.20%	**10.73%**
6	Cent. Vermont P.S.	$20.44	$0.92	NA	NA	NA	NA	NA	NA	6.20%	**NA**
7	Cleco Corporation	$21.91	$0.90	14.30%	12.95%	11.60%	10.25%	8.90%	7.55%	6.20%	**13.12%**
8	Con. Edison	$39.73	$2.34	2.67%	3.26%	3.85%	4.44%	5.02%	5.61%	6.20%	**11.24%**
9	DTE Energy Co.	$35.31	$2.12	4.75%	4.99%	5.23%	5.48%	5.72%	5.96%	6.20%	**12.05%**
10	Edison Internat.	$32.40	$1.22	7.00%	6.87%	6.73%	6.60%	6.47%	6.33%	6.20%	**10.39%**
11	Empire District	$17.48	$1.28	NA	NA	NA	NA	NA	NA	6.20%	**NA**
12	Entergy Corp.	$80.93	$3.00	9.88%	9.27%	8.65%	8.04%	7.43%	6.81%	6.20%	**11.11%**
13	FPL Group, Inc.	$47.22	$1.78	9.67%	9.09%	8.51%	7.94%	7.36%	6.78%	6.20%	**11.13%**
14	FirstEnergy	$51.96	$2.20	8.34%	7.98%	7.63%	7.27%	6.91%	6.56%	6.20%	**11.31%**
15	Hawaiian Electric	$24.10	$1.24	3.75%	4.16%	4.57%	4.98%	5.38%	5.79%	6.20%	**10.89%**
16	IDACORP	$28.26	$1.20	5.50%	5.62%	5.73%	5.85%	5.97%	6.08%	6.20%	**10.51%**
17	NiSource	$11.61	$0.92	2.75%	3.33%	3.90%	4.48%	5.05%	5.63%	6.20%	**13.10%**
18	Northeast Utilities	$22.71	$0.85	9.25%	8.74%	8.23%	7.73%	7.22%	6.71%	6.20%	**10.98%**
19	NSTAR	$33.86	$1.40	6.70%	6.62%	6.53%	6.45%	6.37%	6.28%	6.20%	**10.72%**
20	PG&E Corp.	$36.76	$1.56	7.25%	7.08%	6.90%	6.73%	6.55%	6.38%	6.20%	**11.00%**
21	Pinnacle West	$30.54	$2.10	5.00%	5.20%	5.40%	5.60%	5.80%	6.00%	6.20%	**13.01%**
22	Portland General	$18.46	$0.98	5.90%	5.95%	6.00%	6.05%	6.10%	6.15%	6.20%	**11.74%**
23	Progress Energy	$38.62	$2.46	4.94%	5.15%	5.36%	5.57%	5.78%	5.99%	6.20%	**12.48%**
24	Southern Co.	$35.49	$1.68	5.50%	5.62%	5.73%	5.85%	5.97%	6.08%	6.20%	**11.01%**
25	Teco Energy, Inc.	$12.23	$0.80	8.18%	7.85%	7.52%	7.19%	6.86%	6.53%	6.20%	**13.96%**
26	UIL Holdings Co.	$29.86	$1.73	7.00%	6.87%	6.73%	6.60%	6.47%	6.33%	6.20%	**12.65%**
27	Vectren Corp.	$25.13	$1.34	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	**11.86%**
28	Westar Energy	$19.20	$1.16	5.00%	5.20%	5.40%	5.60%	5.80%	6.00%	6.20%	**12.18%**
29	Wisconsin Energy	$41.52	$1.08	9.50%	8.95%	8.40%	7.85%	7.30%	6.75%	6.20%	**9.57%**
30	Xcel Energy Inc.	$17.90	$0.95	6.90%	6.78%	6.67%	6.55%	6.43%	6.32%	6.20%	**12.07%**
	Average	$30.58	$1.51	6.60%	6.54%	6.47%	6.40%	6.33%	6.27%	6.20%	**11.67%**

Notes:

Columns 1-3: Gorman Schedule MPG-13.

Columns 4-8: Linear interpolation between columns 3 and 9.

Column 9: Hadaway Schedule SCH-10.

Column 10: The internal rate of return implied by the price in column 1 and dividends for 150 periods. The initial dividend shown in column 2 is assumed to grow for the first five periods at the rate in column 3, then at the rate in columns 4-8 for years 6-10, than at the rate in column 9 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%
2007	4.84%	10.36%	5.52%
Sep-08	4.48%	10.51%	6.03%
AVERAGE	6.50%	11.60%	5.09%

INDICATED COST OF EQUITY

PROJECTED TREASURY BOND YIELD*	4.00%
MOODY'S AVG ANNUAL YIELD DURING STUDY	6.50%
INTEREST RATE DIFFERENCE	-2.50%
INTEREST RATE CHANGE COEFFICIENT	-40.51%
ADUSTMENT TO AVG RISK PREMIUM	1.01%
BASIC RISK PREMIUM	5.09%
INTEREST RATE ADJUSTMENT	1.01%
EQUITY RISK PREMIUM	6.11%
PROJECTED TREASURY BOND YIELD*	4.00%
INDICATED EQUITY RETURN	**10.11%**

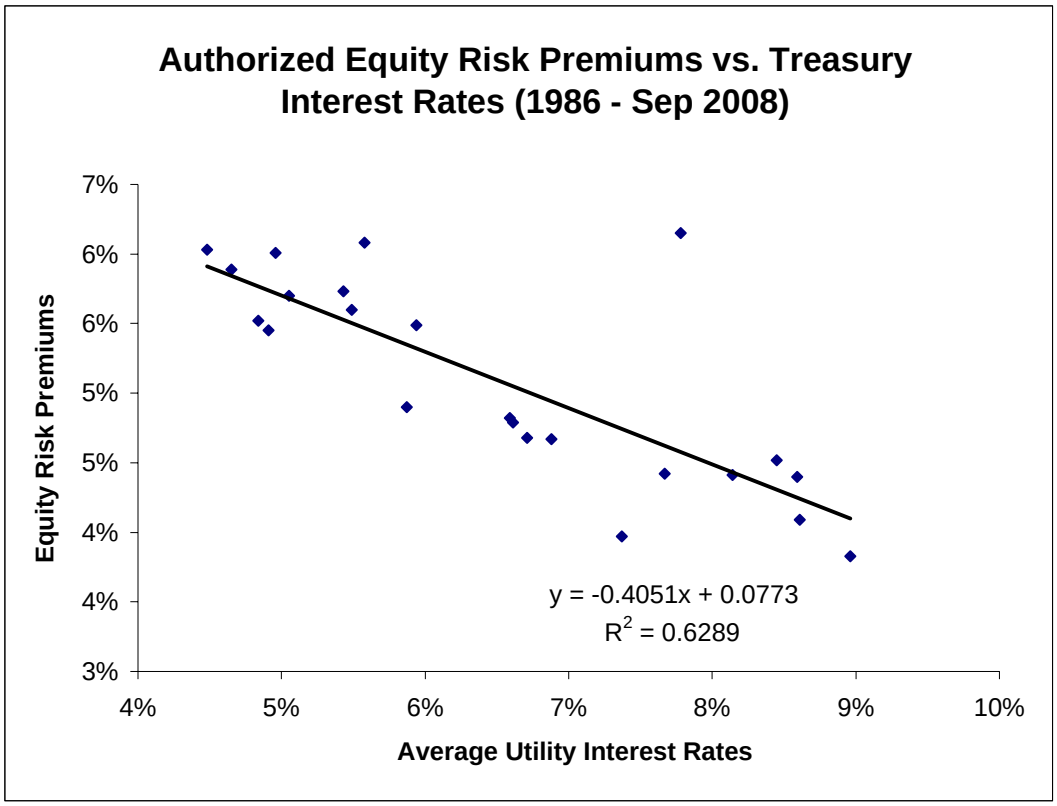
Notes:

Columns 1-3: Gorman Schedule MPG-16.

*Gorman page 35 for Projected 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%
2007	6.07%	10.36%	4.29%
Sep-08	6.29%	10.51%	4.22%
AVERAGE	7.91%	11.60%	3.69%

INDICATED COST OF EQUITY	
CURRENT "Baa" UTILITY BOND YIELD*	8.44%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.91%
INTEREST RATE DIFFERENCE	0.53%
INTEREST RATE CHANGE COEFFICIENT	-38.03%
ADUSTMENT TO AVG RISK PREMIUM	-0.20%
BASIC RISK PREMIUM	3.69%
INTEREST RATE ADJUSTMENT	-0.20%
EQUITY RISK PREMIUM	3.49%
CURRENT "Baa" UTILITY BOND YIELD*	8.44%
INDICATED EQUITY RETURN	**11.93%**

Source:

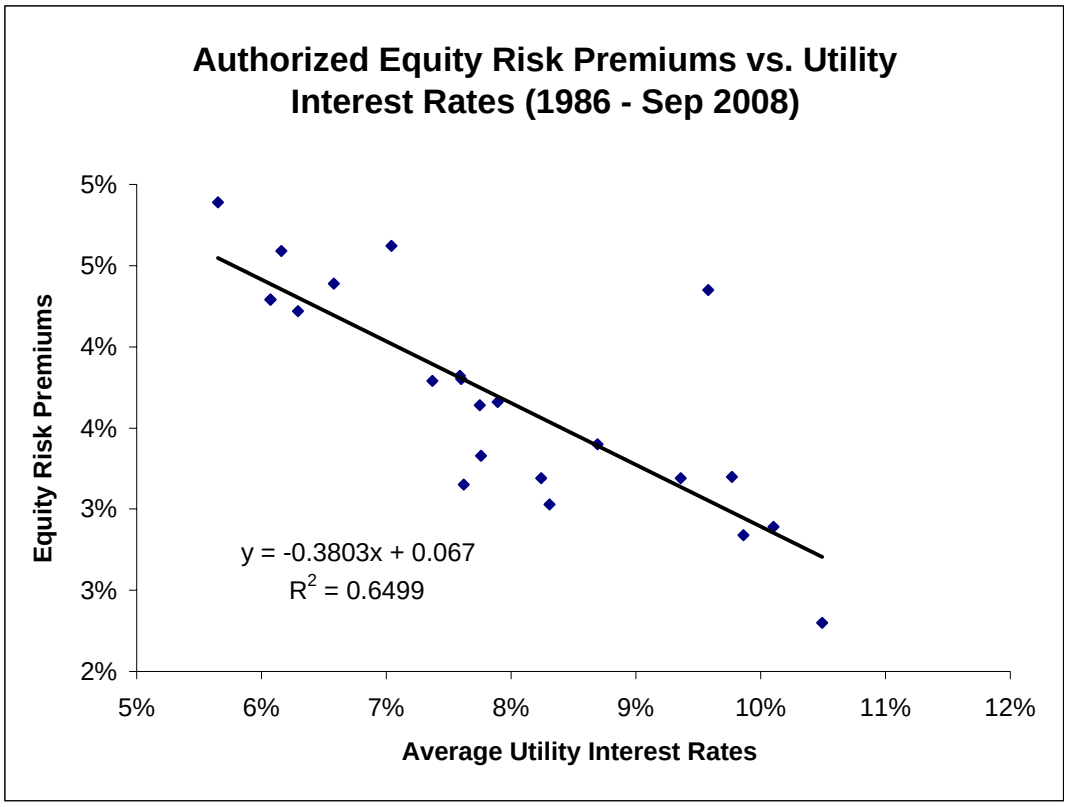
Columns 1-3: Gorman Schedule MPG-16.

*Gorman page 36 for Current "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
GDP Growth Rate Forecast

	Nominal GDP	% Change	GDP Price Deflator	% Change	CPI	% Change
1948	275.2		16.6		24.1	
1949	265.2	-3.6%	16.3	-2.0%	23.6	-1.8%
1950	313.4	18.2%	17.0	4.2%	25.0	5.8%
1951	348.0	11.0%	17.9	5.6%	26.5	6.0%
1952	371.4	6.7%	18.2	1.5%	26.7	0.9%
1953	375.9	1.2%	18.3	0.8%	26.9	0.6%
1954	389.5	3.6%	18.5	0.9%	26.8	-0.4%
1955	426.0	9.4%	19.0	2.7%	26.9	0.4%
1956	448.1	5.2%	19.6	3.3%	27.6	2.8%
1957	461.5	3.0%	20.1	2.7%	28.5	3.0%
1958	485.0	5.1%	20.7	2.6%	29.0	1.8%
1959	513.2	5.8%	20.8	0.9%	29.4	1.5%
1960	523.6	2.0%	21.1	1.5%	29.8	1.4%
1961	562.5	7.4%	21.4	1.1%	30.0	0.7%
1962	593.3	5.5%	21.7	1.3%	30.4	1.2%
1963	633.5	6.8%	22.0	1.4%	30.9	1.6%
1964	675.6	6.6%	22.3	1.5%	31.3	1.2%
1965	747.5	10.6%	22.7	2.0%	31.9	1.9%
1966	807.1	8.0%	23.5	3.5%	32.9	3.4%
1967	852.8	5.7%	24.2	3.1%	34.0	3.3%
1968	936.3	9.8%	25.4	4.6%	35.6	4.7%
1969	1004.6	7.3%	26.7	5.2%	37.7	5.9%
1970	1052.9	4.8%	28.0	5.0%	39.8	5.6%
1971	1151.7	9.4%	29.3	4.7%	41.1	3.3%
1972	1287.0	11.7%	30.7	4.5%	42.5	3.4%
1973	1432.3	11.3%	32.8	6.8%	46.3	8.9%
1974	1553.4	8.5%	36.2	10.6%	51.9	12.1%
1975	1714.6	10.4%	39.0	7.6%	55.6	7.1%
1976	1885.3	10.0%	41.1	5.5%	58.4	5.0%
1977	2111.6	12.0%	43.9	6.6%	62.3	6.7%
1978	2417.0	14.5%	47.0	7.3%	67.9	9.0%
1979	2660.5	10.1%	51.1	8.7%	76.9	13.3%
1980	2916.9	9.6%	56.1	9.7%	86.4	12.4%
1981	3196.4	9.6%	60.7	8.3%	94.1	8.9%
1982	3314.4	3.7%	63.9	5.2%	97.7	3.8%
1983	3690.4	11.3%	66.0	3.4%	101.4	3.8%
1984	4036.3	9.4%	68.4	3.6%	105.5	4.0%
1985	4321.8	7.1%	70.3	2.8%	109.5	3.8%
1986	4546.1	5.2%	71.9	2.3%	110.8	1.2%
1987	4886.3	7.5%	74.0	2.9%	115.6	4.3%
1988	5253.7	7.5%	76.7	3.7%	120.7	4.4%
1989	5584.3	6.3%	79.4	3.5%	126.3	4.6%
1990	5848.8	4.7%	82.6	4.1%	134.2	6.3%
1991	6095.8	4.2%	85.2	3.1%	138.2	3.0%
1992	6484.3	6.4%	87.0	2.1%	142.3	3.0%
1993	6800.2	4.9%	89.0	2.3%	146.3	2.8%
1994	7232.2	6.4%	91.0	2.1%	150.1	2.6%
1995	7522.5	4.0%	92.7	2.0%	153.9	2.5%
1996	8000.4	6.4%	94.5	1.9%	159.1	3.4%
1997	8471.2	5.9%	95.8	1.5%	161.8	1.7%
1998	8953.8	5.7%	96.9	1.1%	164.4	1.6%
1999	9519.5	6.3%	98.4	1.5%	168.8	2.7%
2000	9953.6	4.6%	100.7	2.3%	174.6	3.4%
2001	10226.3	2.7%	103.2	2.5%	177.4	1.6%
2002	10591.1	3.6%	104.9	1.7%	181.8	2.5%
2003	11219.5	5.9%	107.2	2.2%	185.5	2.0%
2004	11948.5	6.5%	110.7	3.2%	191.7	3.3%
2005	12696.4	6.3%	114.5	3.5%	198.2	3.4%
2006	13370.1	5.3%	117.7	2.8%	203.3	2.6%
2007	14031.2	4.9%	120.7	2.6%	211.7	4.1%
2008	14264.6	1.7%	123.0	1.8%	211.5	-0.1%
10-Year Average		4.8%		2.4%		2.6%
20-Year Average		5.1%		2.4%		2.9%
30-Year Average		6.1%		3.3%		3.9%
40-Year Average		7.1%		4.1%		4.6%
50-Year Average		7.0%		3.7%		4.1%
60-Year Average		6.9%		3.4%		3.7%
Average of Periods		6.2%		3.2%		3.6%

Source: St. Louis Federal Reserve Bank, www.research.stlouisfed.org

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

	Company	Constant Growth DCF Model Analysts' Growth Rates	Constant Growth DCF Model Long-Term GDP Growth	Low Near-Term Growth Two-Stage Growth DCF Model
1	ALLETE	12.0%	11.7%	11.2%
2	Alliant Energy Co.	10.8%	11.3%	11.7%
3	Ameren	12.4%	13.9%	12.8%
4	American Elec. Pwr.	10.4%	11.5%	11.3%
5	Avista Corp.	11.7%	10.4%	11.3%
6	Cent. Vermont P.S.	12.6%	10.6%	9.9%
7	Cleco Corporation	17.4%	10.5%	11.9%
8	Con. Edison	8.2%	12.1%	11.3%
9	DTE Energy Co.	11.0%	12.4%	12.3%
10	Edison Internat.	10.5%	10.1%	9.9%
11	Empire District	15.4%	13.6%	13.0%
12	Entergy Corp.	12.2%	9.9%	9.6%
13	FPL Group, Inc.	13.4%	10.1%	10.0%
14	FirstEnergy	13.6%	10.9%	11.1%
15	Hawaiian Electric	9.8%	11.4%	10.8%
16	IDACORP	9.5%	10.4%	9.7%
17	Northeast Utilities	13.9%	10.0%	10.2%
18	NSTAR	11.4%	10.7%	10.7%
19	PG&E Corp.	11.6%	10.7%	10.8%
20	Pinnacle West	10.4%	13.0%	12.2%
21	Portland General	11.9%	11.7%	11.7%
22	Progress Energy	11.6%	12.6%	11.8%
23	Southern Co.	10.3%	11.1%	10.9%
24	Teco Energy, Inc.	15.3%	13.1%	12.6%
25	UIL Holdings Co.	11.0%	12.1%	11.2%
26	Vectren Corp.	10.9%	11.4%	11.0%
27	Westar Energy	10.5%	12.6%	12.1%
28	Wisconsin Energy	12.0%	9.4%	10.0%
29	Xcel Energy Inc.	12.3%	11.6%	11.1%
	GROUP AVERAGE	11.9%	11.4%	11.2%
	GROUP MEDIAN	11.6%	11.4%	11.2%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 28, 2008; (Central), Dec 26, 2008; (West), Feb 6, 2009.
NiSource is excluded from the group because it is not now considered an electric utility by Value Line.
NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Constant Growth DCF Model
Analysts' Growth Rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				Analysts' Estimated Growth				
Company	Recent Price(P0)	Next Year's Div(D1)	Dividend Yield	Value Line	Zacks	Thomson	Average Growth *(Cols 4-6)*	**ROE** K=Div Yld+G *(Cols 3+7)*
1 ALLETE	32.15	1.76	5.47%	NA	6.50%	6.50%	6.50%	12.0%
2 Alliant Energy Co.	29.17	1.50	5.14%	6.00%	5.00%	6.10%	5.70%	10.8%
3 Ameren	32.85	2.54	7.73%	4.50%	5.50%	4.00%	4.67%	12.4%
4 American Elec. Pwr.	31.20	1.66	5.32%	5.00%	5.50%	4.84%	5.11%	10.4%
5 Avista Corp.	18.54	0.78	4.21%	9.00%	8.70%	4.67%	7.46%	11.7%
6 Cent. Vermont P.S.	20.78	0.92	4.43%	7.50%	NA	8.90%	8.20%	12.6%
7 Cleco Corporation	21.95	0.95	4.33%	10.50%	15.00%	13.63%	13.04%	17.4%
8 Con. Edison	39.95	2.36	5.91%	1.00%	3.30%	2.61%	2.30%	8.2%
9 DTE Energy Co.	35.22	2.18	6.19%	5.00%	6.00%	3.50%	4.83%	11.0%
10 Edison Internat.	31.97	1.25	3.91%	6.00%	7.00%	6.83%	6.61%	10.5%
11 Empire District	17.34	1.28	7.38%	10.00%	NA	6.00%	8.00%	15.4%
12 Entergy Corp.	80.78	3.00	3.71%	7.50%	8.50%	9.42%	8.47%	12.2%
13 FPL Group, Inc.	47.87	1.88	3.93%	9.50%	9.20%	9.62%	9.44%	13.4%
14 FirstEnergy	51.87	2.45	4.72%	10.00%	7.70%	9.00%	8.90%	13.6%
15 Hawaiian Electric	23.99	1.24	5.17%	5.00%	4.50%	4.50%	4.67%	9.8%
16 IDACORP	28.83	1.20	4.16%	5.00%	6.00%	5.00%	5.33%	9.5%
17 Northeast Utilities	23.03	0.88	3.82%	12.00%	9.80%	8.32%	10.04%	13.9%
18 NSTAR	34.13	1.53	4.48%	7.50%	7.20%	6.00%	6.90%	11.4%
19 PG&E Corp.	36.95	1.68	4.55%	7.00%	7.10%	7.00%	7.03%	11.6%
20 Pinnacle West	31.08	2.10	6.76%	1.00%	5.50%	4.33%	3.61%	10.4%
21 Portland General	18.30	1.01	5.52%	7.00%	6.30%	5.92%	6.41%	11.9%
22 Progress Energy	38.62	2.48	6.42%	5.00%	4.90%	5.65%	5.18%	11.6%
23 Southern Co.	35.40	1.73	4.89%	5.50%	5.00%	5.59%	5.36%	10.3%
24 Teco Energy, Inc.	11.90	0.82	6.89%	7.50%	10.40%	7.44%	8.45%	15.3%
25 UIL Holdings Co.	29.09	1.73	5.95%	4.00%	6.40%	4.80%	5.07%	11.0%
26 Vectren Corp.	25.82	1.35	5.23%	5.00%	6.40%	5.67%	5.69%	10.9%
27 Westar Energy	19.47	1.24	6.37%	2.00%	6.00%	4.45%	4.15%	10.5%
28 Wisconsin Energy	42.06	1.35	3.21%	8.00%	9.00%	9.49%	8.83%	12.0%
29 Xcel Energy Inc.	18.06	0.97	5.37%	7.50%	6.50%	6.90%	6.97%	12.3%
GROUP AVERAGE	31.32	1.58	5.21%	6.45%	7.00%	6.44%	6.65%	11.9%
GROUP MEDIAN			5.17%					11.6%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 28, 2008; (Central), Dec 26, 2008; (West), Feb 6, 2009.
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NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

Kansas City Power & Light Company
Constant Growth DCF Model
Long-Term GDP Growth

	(9)	(10)	(11)	(12)	(13)
		Next			ROE
	Recent	Year's	Dividend	GDP	K=Div Yld+G
Company	Price(P0)	Div(D1)	Yield	Growth	*(Cols 11+12)*
1 ALLETE	32.15	1.76	5.47%	6.20%	11.7%
2 Alliant Energy Co.	29.17	1.50	5.14%	6.20%	11.3%
3 Ameren	32.85	2.54	7.73%	6.20%	13.9%
4 American Elec. Pwr.	31.20	1.66	5.32%	6.20%	11.5%
5 Avista Corp.	18.54	0.78	4.21%	6.20%	10.4%
6 Cent. Vermont P.S.	20.78	0.92	4.43%	6.20%	10.6%
7 Cleco Corporation	21.95	0.95	4.33%	6.20%	10.5%
8 Con. Edison	39.95	2.36	5.91%	6.20%	12.1%
9 DTE Energy Co.	35.22	2.18	6.19%	6.20%	12.4%
10 Edison Internat.	31.97	1.25	3.91%	6.20%	10.1%
11 Empire District	17.34	1.28	7.38%	6.20%	13.6%
12 Entergy Corp.	80.78	3.00	3.71%	6.20%	9.9%
13 FPL Group, Inc.	47.87	1.88	3.93%	6.20%	10.1%
14 FirstEnergy	51.87	2.45	4.72%	6.20%	10.9%
15 Hawaiian Electric	23.99	1.24	5.17%	6.20%	11.4%
16 IDACORP	28.83	1.20	4.16%	6.20%	10.4%
17 Northeast Utilities	23.03	0.88	3.82%	6.20%	10.0%
18 NSTAR	34.13	1.53	4.48%	6.20%	10.7%
19 PG&E Corp.	36.95	1.68	4.55%	6.20%	10.7%
20 Pinnacle West	31.08	2.10	6.76%	6.20%	13.0%
21 Portland General	18.30	1.01	5.52%	6.20%	11.7%
22 Progress Energy	38.62	2.48	6.42%	6.20%	12.6%
23 Southern Co.	35.40	1.73	4.89%	6.20%	11.1%
24 Teco Energy, Inc.	11.90	0.82	6.89%	6.20%	13.1%
25 UIL Holdings Co.	29.09	1.73	5.95%	6.20%	12.1%
26 Vectren Corp.	25.82	1.35	5.23%	6.20%	11.4%
27 Westar Energy	19.47	1.24	6.37%	6.20%	12.6%
28 Wisconsin Energy	42.06	1.35	3.21%	6.20%	9.4%
29 Xcel Energy Inc.	18.06	0.97	5.37%	6.20%	11.6%
GROUP AVERAGE	31.32	1.58	5.21%	6.20%	11.4%
GROUP MEDIAN			5.17%		11.4%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 28, 2008; (Central), Dec 26, 2008; (West), Feb 6, 2009.
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Kansas City Power & Light Company
Low Near-Term Growth
Two-Stage Growth DCF Model

	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	Next		Annual	CASH FLOWS							ROE=Internal
	Year's	2012	Change	Recent	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5-150	Rate of Return
Company	Div	Div	to 2012	Price	Div	Div	Div	Div	Div	Div Growth	*(Yrs 0-150)*
1 ALLETE	1.76	1.90	0.05	-32.15	1.76	1.81	1.85	1.90	2.02	6.20%	11.2%
2 Alliant Energy Co.	1.50	1.92	0.14	-29.17	1.50	1.64	1.78	1.92	2.04	6.20%	11.7%
3 Ameren	2.54	2.54	0.00	-32.85	2.54	2.54	2.54	2.54	2.70	6.20%	12.8%
4 American Elec. Pwr.	1.66	1.90	0.08	-31.20	1.66	1.74	1.82	1.90	2.02	6.20%	11.3%
5 Avista Corp.	0.78	1.15	0.12	-18.54	0.78	0.90	1.03	1.15	1.22	6.20%	11.3%
6 Cent. Vermont P.S.	0.92	0.92	0.00	-20.78	0.92	0.92	0.92	0.92	0.98	6.20%	9.9%
7 Cleco Corporation	0.95	1.55	0.20	-21.95	0.95	1.15	1.35	1.55	1.65	6.20%	11.9%
8 Con. Edison	2.36	2.42	0.02	-39.95	2.36	2.38	2.40	2.42	2.57	6.20%	11.3%
9 DTE Energy Co.	2.18	2.55	0.12	-35.22	2.18	2.30	2.43	2.55	2.71	6.20%	12.3%
10 Edison Internat.	1.25	1.40	0.05	-31.97	1.25	1.30	1.35	1.40	1.49	6.20%	9.9%
11 Empire District	1.28	1.40	0.04	-17.34	1.28	1.32	1.36	1.40	1.49	6.20%	13.0%
12 Entergy Corp.	3.00	3.30	0.10	-80.78	3.00	3.10	3.20	3.30	3.50	6.20%	9.6%
13 FPL Group, Inc.	1.88	2.20	0.11	-47.87	1.88	1.99	2.09	2.20	2.34	6.20%	10.0%
14 FirstEnergy	2.45	3.05	0.20	-51.87	2.45	2.65	2.85	3.05	3.24	6.20%	11.1%
15 Hawaiian Electric	1.24	1.30	0.02	-23.99	1.24	1.26	1.28	1.30	1.38	6.20%	10.8%
16 IDACORP	1.20	1.20	0.00	-28.83	1.20	1.20	1.20	1.20	1.27	6.20%	9.7%
17 Northeast Utilities	0.88	1.10	0.07	-23.03	0.88	0.95	1.03	1.10	1.17	6.20%	10.2%
18 NSTAR	1.53	1.85	0.11	-34.13	1.53	1.64	1.74	1.85	1.96	6.20%	10.7%
19 PG&E Corp.	1.68	2.04	0.12	-36.95	1.68	1.80	1.92	2.04	2.17	6.20%	10.8%
20 Pinnacle West	2.10	2.20	0.03	-31.08	2.10	2.13	2.17	2.20	2.34	6.20%	12.2%
21 Portland General	1.01	1.20	0.06	-18.30	1.01	1.07	1.14	1.20	1.27	6.20%	11.7%
22 Progress Energy	2.48	2.54	0.02	-38.62	2.48	2.50	2.52	2.54	2.70	6.20%	11.8%
23 Southern Co.	1.73	2.00	0.09	-35.40	1.73	1.82	1.91	2.00	2.12	6.20%	10.9%
24 Teco Energy, Inc.	0.82	0.90	0.03	-11.90	0.82	0.85	0.87	0.90	0.96	6.20%	12.6%
25 UIL Holdings Co.	1.73	1.73	0.00	-29.09	1.73	1.73	1.73	1.73	1.84	6.20%	11.2%
26 Vectren Corp.	1.35	1.47	0.04	-25.82	1.35	1.39	1.43	1.47	1.56	6.20%	11.0%
27 Westar Energy	1.24	1.36	0.04	-19.47	1.24	1.28	1.32	1.36	1.44	6.20%	12.1%
28 Wisconsin Energy	1.35	1.95	0.20	-42.06	1.35	1.55	1.75	1.95	2.07	6.20%	10.0%
29 Xcel Energy Inc.	0.97	1.06	0.03	-18.06	0.97	1.00	1.03	1.06	1.13	6.20%	11.1%
GROUP AVERAGE											11.2%
GROUP MEDIAN											11.2%

Sources: Value Line Investment Survey, Electric Utility (East), Nov 28, 2008; (Central), Dec 26, 2008; (West), Feb 6, 2009.
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NOTE: SEE PAGE 5 OF THIS SCHEDULE FOR FURTHER EXPLANATION OF EACH COLUMN.

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

Column 1: Three-month Average Price per Share (Nov 2008-Jan 2009)

Column 2: Estimated 2009 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: "Est'd 05-07 to 11-13" Earnings Growth
Reported by Value Line

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

Column 6: "Next 5 Years (per annum) Growth Estimate Reported
by Thomson Financial Network (at Yahoo Finance)

Column 7: Average of Columns 4-6

Column 8: Column 3 Plus Column 7

Column 9: See Column 1

Column 10: See Column 2

Column 11: Column 10 Divided by Column 9

Column 12: Average of GDP Growth During the Last 10 year, 20 year,
30 year, 40 year, 50 year, and 60 year growth periods.
See Schedule SCH-10

Column 13: Column 11 Plus Column 12

Column 14: See Column 2

Column 15: Estimated 2012 Dividends per Share from Value Line

Column 16: (Column 15 Minus Column 14) Divided by Three

Column 17: See Column 1

Column 18: See Column 14

Column 19: Column 18 Plus Column 16

Column 20: Column 19 Plus Column 19

Column 21: Column 20 Plus Column 16

Column 22: Column 21 Increased by the Growth
Rate Shown in Column 23

Column 23: See Column 12

Column 24: The Internal Rate of Return of the Cash Flows
in Columns 17-22 along with the Dividends
for the Years 6-150 Implied by the Growth
Rates shown in Column 23

Kansas City Power & Light Company

Risk Premium Analysis

(Based on Projected Interest Rates)

	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%
2007	6.11%	10.36%	4.25%
2008	6.65%	10.46%	3.81%
AVERAGE	9.15%	12.34%	3.19%

INDICATED COST OF EQUITY

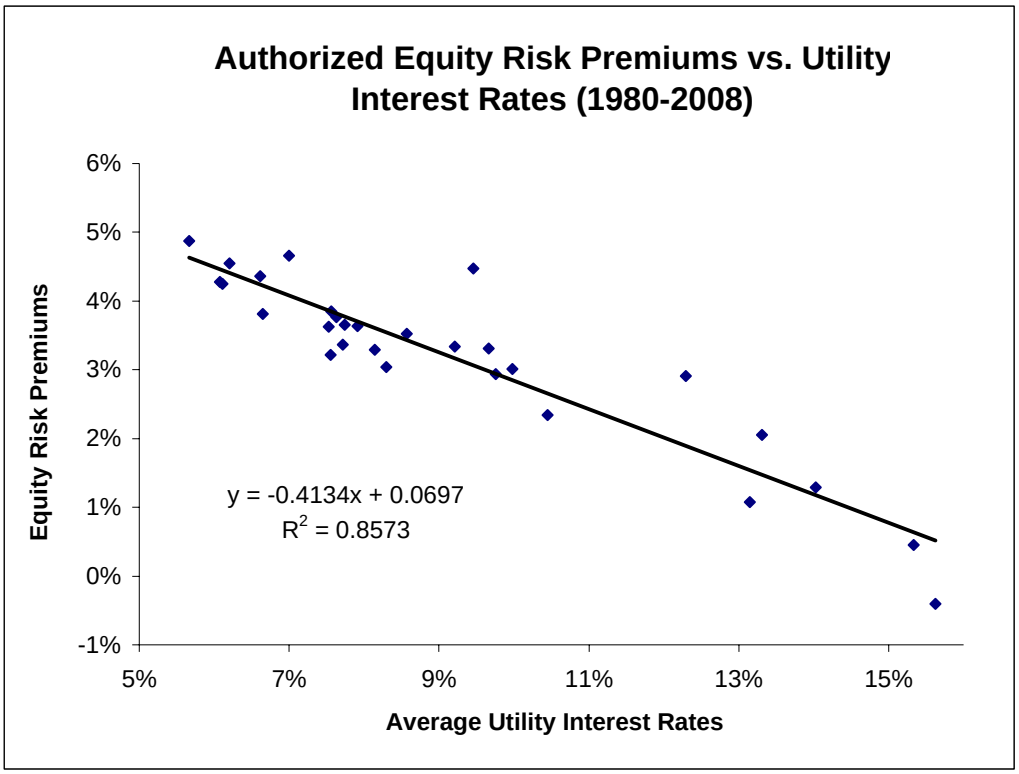
PROJECTED TRIPLE-B UTILITY BOND YIELD*	7.10%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.15%
INTEREST RATE DIFFERENCE	-2.05%
INTEREST RATE CHANGE COEFFICIENT	-41.34%
ADUSTMENT TO AVG RISK PREMIUM	0.85%
BASIC RISK PREMIUM	3.19%
INTEREST RATE ADJUSTMENT	0.85%
EQUITY RISK PREMIUM	4.04%
PROJECTED TRIPLE-B UTILITY BOND YIELD*	7.10%
INDICATED EQUITY RETURN	**11.14%**

(1) Moody's Investors Service

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

*Projected triple-B bond yield is 462 basis points over projected long-term Treasury bond rate of 3.7% from Schedule SCH-7, p. 2. The triple-B spread is for the three months ended Feb 2009 from Exhibit 7, p. 1.

Kansas City Power & Light Company
Risk Premium Analysis



Kansas City Power & Light Company

Risk Premium Analysis

(Based on Current Interest Rates)

	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%
2007	6.11%	10.36%	4.25%
2008	6.65%	10.46%	3.81%
AVERAGE	9.15%	12.34%	3.19%

INDICATED COST OF EQUITY

CURRENT TRIPLE-B UTILITY BOND YIELD*	7.82%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.15%
INTEREST RATE DIFFERENCE	-1.33%
INTEREST RATE CHANGE COEFFICIENT	-41.34%
ADUSTMENT TO AVG RISK PREMIUM	0.55%
BASIC RISK PREMIUM	3.19%
INTEREST RATE ADJUSTMENT	0.55%
EQUITY RISK PREMIUM	3.74%
CURRENT TRIPLE-B UTILITY BOND YIELD*	7.82%
INDICATED EQUITY RETURN	**11.56%**

(1) Moody's Investors Service

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

*Current triple-B utility bond yield is three month average of Moody's Triple-B Public Utility Bond Yields through February 2009 from Schedule SCH-7, p. 1.

Kansas City Power & Light Company
Risk Premium Analysis