Exhibit No.:
Issue: Cost of Capital
Witness: Samuel C. Hadaway
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2007-0291
Date Testimony Prepared: August 30, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
August 2007

REBUTTAL TESTIMONY

OF

SAMUEL C. HADAWAY

Case No. ER-2007-0291

I. Introduction

Q. Please state your name and affiliation.

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

Q. What is the purpose of your rebuttal testimony?

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

II. Overview of Rate of Return Positions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 1:
Authorized Electric Utility Equity Returns

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

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

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

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

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

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

Table 2:
Long-Term Interest Rate Trends

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

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

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

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

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

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

Table 3:
Standard & Poor's Interest Rate Forecast

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

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

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

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

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

III. Technical Rebuttal of Staff Witness Matthew J. Barnes

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Technical Rebuttal of OPC Witness Michael P. Gorman

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 does Mr. Gorman's risk premium analysis indicate when this approach is applied to his data?

A. In pages 4-7 of Schedule SCH-13, 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. Using this analysis, Mr. Gorman's Treasury bond risk premium indicates an ROE of 10.9 percent. For his utility bond risk premium, the indicated ROE is 10.7 percent. These results further confirm that Mr. Gorman's risk premium data support a base ROE in the range of 10.5 percent to 11.0 percent.

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

A. Yes, he has. In his testimony in a Central Power & Light Company case before the Public Utility of Commission of Texas in 1996, (Docket No. 14965) at 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 an ROE considerably higher than the one he recommends.

V. ROE Update

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

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

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

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

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

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

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

Q. Does this conclude your rebuttal 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-2007-0291

AFFIDAVIT OF SAMUEL C. HADAWAY

STATE OF TEXAS)
) **ss**
COUNTY OF TRAVIS)

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

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

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

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

Samuel C. Hadaway
Samuel C. Hadaway

Subscribed and sworn before me this 14th day of August 2007.

Notary Public

My commission expires: 5/17/2007

JASON ASHWORTH
Notary Public
STATE OF TEXAS
My Comm. Exp. 05-17-2010

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

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

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

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

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

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

Economic Indicators

Seasonally Adjusted Annual Rates — Dollar Figures in Billions

Annual			Annual % Change				2006	2007				E2008		
2006	E2007	E2008	2006	E2007	E2008		R4Q	R1Q	A2Q	E3Q	E4Q	1Q	2Q	3Q
						Gross Domestic Product								
$13,195.0	$13,805.0	$14,473.0	6.1	4.6	4.8	GDP (current dollars)	$13,392.0	$13,552.0	$13,756.0	$13,878.0	$14,034.0	$14,204.0	$14,374.0	$14,558.0
6.1	4.6	4.8	-	-	-	Annual rate of increase (%)	3.8	4.9	6.2	3.6	4.6	4.9	4.9	5.2
2.9	2.0	2.7	-	-	-	Annual rate of increase–real GDP (%)	2.1	0.6	3.4	2.8	2.6	2.4	2.7	3.0
3.2	2.6	2.1	-	-	-	Annual rate of increase–GDP deflator (%)	1.7	4.2	2.7	0.8	1.9	2.5	2.1	2.2
						***Components of Real GDP**								
$8,044.0	$8,276.0	$8,506.0	3.1	2.9	2.8	Personal consumption expenditures	$8,141.0	$8,216.0	$8,241.0	$8,295.0	$8,352.0	$8,411.0	$8,472.0	$8,536.0
3.1	2.9	2.8	-	-	-	% change	3.9	3.7	1.3	2.7	2.8	2.9	2.9	3.1
1,180.5	1,234.4	1,266.8	3.8	4.6	2.6	Durable goods	1,197.6	1,223.2	1,228.2	1,238.0	1,248.3	1,248.9	1,256.4	1,274.2
2,337.6	2,393.9	2,465.8	3.7	2.4	3.0	Nondurable goods	2,368.8	2,386.6	2,381.8	2,395.7	2,411.3	2,436.6	2,457.2	2,475.1
4,545.5	4,672.9	4,798.7	2.7	2.8	2.7	Services	4,595.5	4,630.7	4,655.9	4,686.8	4,718.4	4,749.6	4,782.1	4,813.4
1,306.8	1,353.4	1,409.5	6.6	3.6	4.1	Nonresidental fixed investment	1,314.8	1,321.7	1,347.6	1,362.8	1,381.4	1,390.6	1,400.1	1,414.0
6.6	3.6	4.1	-	-	-	% change	(1.4)	2.1	8.1	4.6	5.6	2.7	2.8	4.0
1,050.6	1,061.0	1,120.1	5.9	1.0	5.6	Producers durable equipment	1,044.4	1,045.3	1,051.2	1,064.7	1,083.1	1,099.1	1,109.6	1,125.3
560.0	475.6	434.1	(4.7)	(15.1)	(8.7)	Residental fixed investment	520.1	497.1	485.1	469.6	450.5	433.1	429.5	433.7
(4.7)	(15.1)	(8.7)	-	-	-	% change	(17.3)	(16.6)	(9.3)	(12.2)	(15.3)	(14.6)	(3.3)	3.9
40.3	9.5	29.8	-	-	-	Net change in business inventories	17.4	0.1	3.6	15.4	18.9	28.6	28.6	27.8
1,981.4	2,018.0	2,052.9	1.8	1.9	1.7	Gov't purchases of goods & services	1,997.2	1,994.7	2,015.6	2,026.2	2,035.4	2,043.4	2,049.5	2,056.2
742.3	753.2	768.6	2.2	1.5	2.0	Federal	752.3	740.2	752.3	757.9	762.5	765.7	768.2	769.9
1,239.0	1,264.6	1,284.2	1.6	2.1	1.6	State & local	1,244.9	1,254.2	1,263.1	1,268.2	1,272.8	1,277.6	1,281.3	1,286.2
(624.5)	(580.5)	(549.9)	-	-	-	Net exports	(597.3)	(612.1)	(577.9)	(571.3)	(560.7)	(556.0)	(548.0)	(545.9)
1,304.1	1,393.2	1,519.2	8.4	6.8	9.0	Exports	1,350.9	1,354.7	1,375.9	1,403.8	1,438.2	1,472.2	1,503.8	1,534.4
1,928.6	1,973.6	2,069.1	5.9	2.3	4.8	Imports	1,948.2	1,966.8	1,953.7	1,975.1	1,998.9	2,028.2	2,051.8	2,080.3
						**** Income & Profits**								
$10,983.0	$11,686.0	$12,304.0	6.6	6.4	5.3	Personal income	$11,200.0	$11,484.0	$11,598.0	$11,757.0	$11,906.0	$12,069.0	$12,224.0	$12,376.0
9,629.0	10,192.0	10,740.0	5.9	5.8	5.4	Disposable personal income	9,799.0	10,025.0	10,112.0	10,250.0	10,379.0	10,518.0	10,670.0	10,808.0
0.4	0.9	1.3	-	-	-	Savings rate (%)	0.4	1.1	0.5	0.8	1.1	1.2	1.4	1.3
1,805.8	1,827.3	1,852.1	14.3	1.2	1.4	Corporate profits before taxes	1,789.2	1,815.8	1,881.8	1,814.3	1,797.4	1,815.9	1,841.7	1,873.0
1,351.9	1,375.9	1,398.1	13.9	1.8	1.6	Corporate profits after taxes	1,336.8	1,363.3	1,415.7	1,367.9	1,356.7	1,369.9	1,390.3	1,414.1
81.50	88.70	95.40	16.6	8.8	7.6	‡Earnings per share (S&P 500)	81.50	83.10	86.30	87.40	88.70	91.30	92.20	93.80
						†Prices & Interest Rates								
3.2	2.6	2.1	-	-	-	Consumer price index	(2.1)	3.8	6.0	1.5	0.9	1.9	2.3	2.7
4.7	4.8	4.4	-	-	-	Treasury bills	4.9	5.0	4.8	4.8	4.8	4.6	4.4	4.3
4.8	4.9	5.3	-	-	-	10-yr notes	4.6	4.7	4.9	4.9	5.2	5.3	5.3	5.3
4.9	5.0	5.4	-	-	-	30-yr bonds	4.7	4.8	5.0	5.1	5.3	5.4	5.4	5.4
5.6	5.6	6.1	-	-	-	New issue rate–corporate bonds	5.4	5.4	5.6	5.7	5.9	6.0	6.0	6.0
						Other Key Indicators								
1,810.0	1,400.0	1,400.0	(12.6)	(22.5)	(0.2)	Housing starts (1,000 units SAAR)	1,550.0	1,460.0	1,460.0	1,380.0	1,310.0	1,310.0	1,370.0	1,430.0
16.5	16.2	16.6	(2.6)	(1.6)	2.0	Auto & truck sales (1,000,000 units)	16.3	16.4	16.0	15.9	16.5	16.4	16.5	16.6
4.6	4.6	4.7	-	-	-	Unemployment rate (%)	4.5	4.5	4.5	4.6	4.8	4.8	4.8	4.7
(1.5)	(4.5)	(4.4)	-	-	-	§U.S. dollar	(0.5)	1.6	(11.9)	(10.3)	(2.5)	(3.0)	(2.4)	(2.9)

Note: Annual changes are from prior year and quarterly changes are from prior quarter. Figures may not add to totals because of rounding. A–Advance data. P–Preliminary. E–Estimated. R–Revised. *1996 Chain-weighted dollars. **Current dollars. ‡Trailing 4 quarters. †Average for period. §Quarterly % changes at quarterly rates. This forecast prepared by Standard & Poor's.

Kansas City Power & Light Co.

Barnes DCF Analysis Considering Long-Term GDP Growth

No.	Company	(1) Dividend D_1	(2) Updated Price P_0	(3) Dividend Yield	(4) Barnes Short-Term Growth (EPS)	(5) Long-Term Growth (GDP)	(6) Average Growth	(7) **Updated Cost of Equity**
1	Alliant Energy	1.32	38.93	3.39%	6.07%	6.60%	6.34%	**9.73%**
2	Ameren Corp.	2.54	50.30	5.05%	6.07%	6.60%	6.34%	**11.38%**
3	American Electric Power	1.66	45.50	3.65%	6.07%	6.60%	6.34%	**9.98%**
4	Cleco Corp.	0.90	24.58	3.66%	6.07%	6.60%	6.34%	**10.00%**
5	DPL Inc.	1.06	28.29	3.75%	6.07%	6.60%	6.34%	**10.08%**
6	Empire Dist. Elec.	1.28	22.73	5.63%	6.07%	6.60%	6.34%	**11.97%**
7	Entergy Corp.	2.28	103.77	2.20%	6.07%	6.60%	6.34%	**8.53%**
8	FirstEnergy Corp.	2.09	64.00	3.27%	6.07%	6.60%	6.34%	**9.60%**
9	FPL Group	1.71	59.40	2.88%	6.07%	6.60%	6.34%	**9.21%**
10	Hawaiian Electric	1.24	23.01	5.39%	6.07%	6.60%	6.34%	**11.73%**
11	IDACORP, Inc.	1.20	32.38	3.71%	6.07%	6.60%	6.34%	**10.04%**
12	Pinnacle West Capital	2.18	40.52	5.38%	6.07%	6.60%	6.34%	**11.72%**
13	PNM Resources	0.98	26.49	3.70%	6.07%	6.60%	6.34%	**10.04%**
14	Progress Energy	2.45	46.45	5.28%	6.07%	6.60%	6.34%	**11.61%**
15	Southern Co.	1.63	34.90	4.67%	6.07%	6.60%	6.34%	**11.01%**
16	Westar Energy	1.12	24.76	4.52%	6.07%	6.60%	6.34%	**10.86%**
	Average			4.13%	6.07%	6.60%	6.34%	**10.47%**

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

Notes:

Column 1: See Column 1 of Barnes Schedule 17.

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

Column 3: Column 1 divided by Column 2.

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

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

Column 6: Average of Columns 4 and 5.

Column 7: Sum of Columns 3 and 6.

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

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

Kansas City Power & Light Co.
Updated Barnes CAPM Analysis

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

Notes:

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

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

Column 3: See Column 2 of Barnes Schedule 18.

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

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

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

Notes:

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

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

Kansas City Power & Light Co.

Gorman Constant Growth DCF Analysis Considering Long-Term GDP Growth

No.	Company	(1) Gorman Dividend D_0	(2) Updated Price P_0	(3) Dividend Yield	(4) Gorman Short-Term Growth (EPS)	(5) Long-Term Growth (GDP)	(6) Average Growth	(7) **Updated Cost of Equity**
1	American Electric Power	1.56	45.50	3.63%	5.26%	6.60%	5.93%	**9.56%**
2	Cleco Corp.	0.90	24.58	4.02%	12.87%	6.60%	9.74%	**13.75%**
3	Edison International	1.16	55.24	2.26%	8.46%	6.60%	7.53%	**9.79%**
4	Empire Dist. Elec.	1.28	22.73	6.12%	10.75%	6.60%	8.68%	**14.80%**
5	IDACORP, Inc.	1.20	32.38	3.93%	5.56%	6.60%	6.08%	**10.01%**
6	NiSource Inc.	0.92	20.28	4.77%	3.66%	6.60%	5.13%	**9.90%**
7	OGE Energy	1.36	34.20	4.19%	4.00%	6.60%	5.30%	**9.49%**
8	Pepco Holding	1.04	27.53	4.03%	7.00%	6.60%	6.80%	**10.83%**
9	PG&E Corp.	1.44	45.55	3.39%	7.76%	6.60%	7.18%	**10.57%**
10	Pinnacle West Capital	2.10	40.52	5.56%	7.78%	6.60%	7.19%	**12.75%**
11	PNM Resources	0.88	26.49	3.60%	10.29%	6.60%	8.45%	**12.05%**
12	Progress Energy	2.44	46.45	5.55%	4.78%	6.60%	5.69%	**11.24%**
13	SCANA Corp.	1.76	38.36	4.84%	4.33%	6.60%	5.47%	**10.30%**
14	Southern Co.	1.61	34.90	4.87%	4.52%	6.60%	5.56%	**10.43%**
15	Vectren Corp.	1.26	26.95	4.93%	4.22%	6.60%	5.41%	**10.34%**
16	Wisconsin Energy	1.00	44.48	2.41%	7.91%	6.60%	7.26%	**9.67%**
17	Xcel Energy, Inc.	0.89	20.91	4.50%	4.83%	6.60%	5.72%	**10.21%**
	Average			4.27%	6.70%	6.60%	6.65%	**10.92%**

Notes:

Column 1: See Gorman Schedule MPG-5.

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

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

Column 4: See Gorman Schedule MPG-5,

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

Column 6: Average of Columns 4 and 5.

Column 7: Sum of Columns 3 and 6.

Kansas City Power & Light Co.

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

No.	Company	(1) Gorman Dividend D_0	(2) Updated Price P_0	(3) Gorman First Stage Growth (EPS)	(4) Second Stage Growth (GDP)	(5) **Updated Cost of Equity**
1	American Electric Power	1.56	45.50	5.26%	6.60%	**10.01%**
2	Cleco Corp.	0.90	24.58	12.87%	6.60%	**11.67%**
3	Edison International	1.16	55.24	8.46%	6.60%	**8.94%**
4	Empire Dist. Elec.	1.28	22.73	10.75%	6.60%	**13.71%**
5	IDACORP, Inc.	1.20	32.38	5.56%	6.60%	**10.35%**
6	NiSource Inc.	0.92	20.28	3.66%	6.60%	**10.84%**
7	OGE Energy	1.36	34.20	4.00%	6.60%	**10.36%**
8	Pepco Holding	1.04	27.53	7.00%	6.60%	**10.68%**
9	PG&E Corp.	1.44	45.55	7.76%	6.60%	**10.12%**
10	Pinnacle West Capital	2.10	40.52	7.78%	6.60%	**12.40%**
11	PNM Resources	0.88	26.49	10.29%	6.60%	**10.74%**
12	Progress Energy	2.44	46.45	4.78%	6.60%	**11.77%**
13	SCANA Corp.	1.76	38.36	4.33%	6.60%	**11.02%**
14	Southern Co.	1.61	34.90	4.52%	6.60%	**11.08%**
15	Vectren Corp.	1.26	26.95	4.22%	6.60%	**11.08%**
16	Wisconsin Energy	1.00	44.48	7.91%	6.60%	**9.06%**
17	Xcel Energy, Inc.	0.89	20.91	4.83%	6.60%	**10.79%**
	Average			6.70%	6.60%	**10.86%**

Notes:

Column 1: See Gorman Schedule MPG-7.

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

Column 3: See Gorman Schedule MPG-7.

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

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

Kansas City Power & Light Company

Update of Gorman Risk Premium Analysis - Treasury Bond

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

INDICATED COST OF EQUITY	
GORMAN TREASURY BOND YIELD	5.40%
MOODY'S AVG ANNUAL YIELD DURING STUDY	6.60%
INTEREST RATE DIFFERENCE	-1.20%
INTEREST RATE CHANGE COEFFICIENT	-39.54%
ADUSTMENT TO AVG RISK PREMIUM	0.47%
BASIC RISK PREMIUM	5.05%
INTEREST RATE ADJUSTMENT	0.47%
EQUITY RISK PREMIUM	5.52%
GORMAN TREASURY BOND YIELD	5.40%
INDICATED EQUITY RETURN	**10.92%**

Notes:

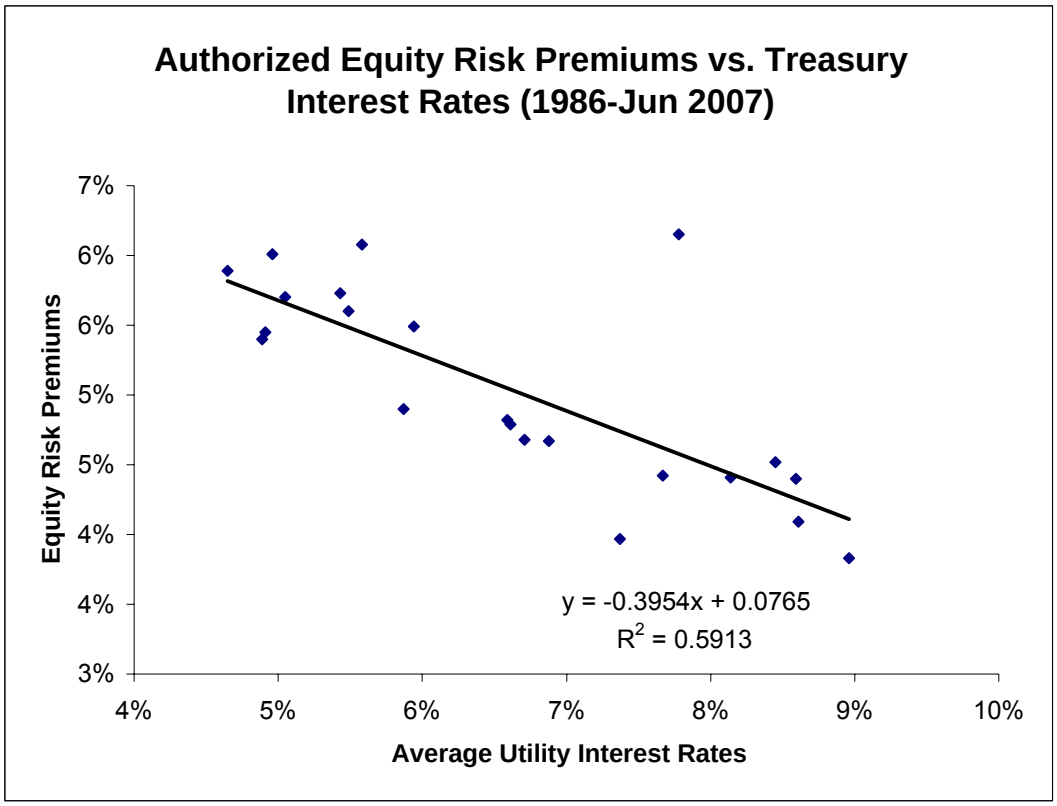
Columns 1-3: Gorman Schedule MPG-9.

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

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

Kansas City Power & Light Company

Update of Gorman Risk Premium Analysis - Treasury Bond



Kansas City Power & Light Company

Update of Gorman Risk Premium Analysis - Utility Bond

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

INDICATED COST OF EQUITY	
GORMAN "Baa" UTILITY BOND YIELD	6.38%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.98%
INTEREST RATE DIFFERENCE	-1.60%
INTEREST RATE CHANGE COEFFICIENT	-37.94%
ADUSTMENT TO AVG RISK PREMIUM	0.61%
BASIC RISK PREMIUM	3.66%
INTEREST RATE ADJUSTMENT	0.61%
EQUITY RISK PREMIUM	4.27%
GORMAN "Baa" UTILITY BOND YIELD	6.38%
INDICATED EQUITY RETURN	**10.65%**

Source:

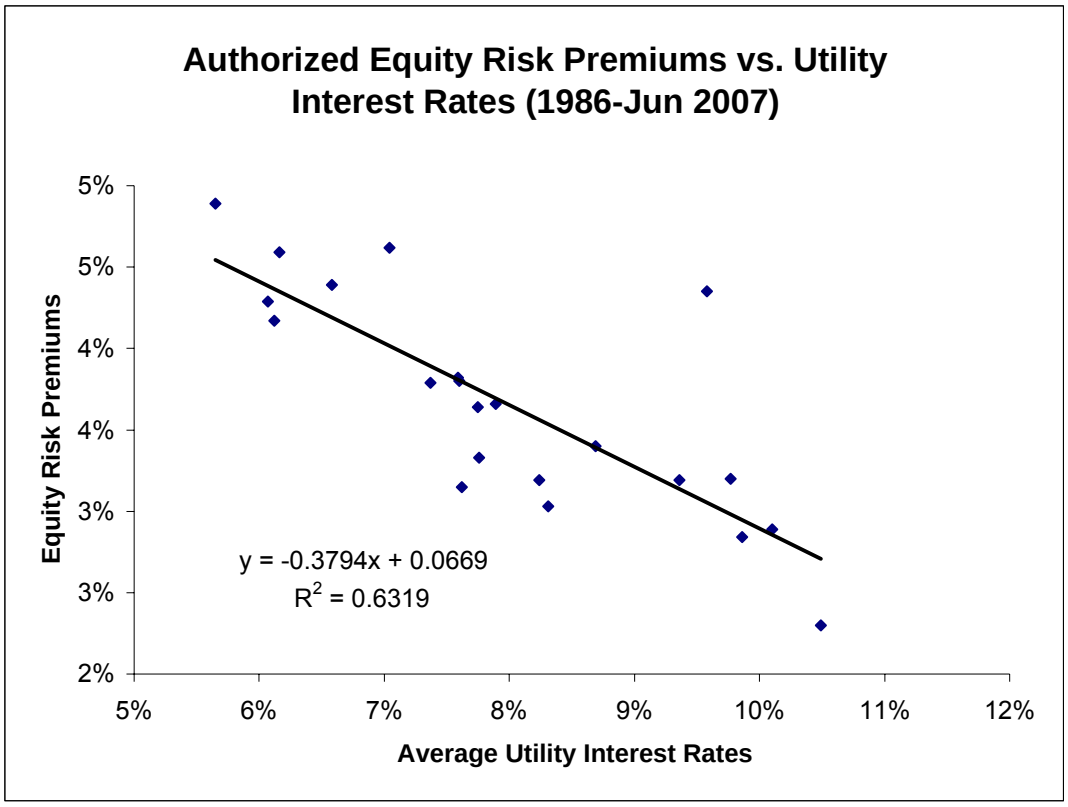
Columns 1-3: Gorman Schedule MPG-10.

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

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

Kansas City Power & Light Company

Update of Gorman Risk Premium Analysis - Utility Bond



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

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

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

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

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

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

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

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

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

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

Sources: Value Line Investment Survey, Electric Utility (East), Jun 1, 2007; (Central), Jun 29, 2007; (West), Aug 10, 2007.
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Kansas City Power & Light Company
Discounted Cash Flow Analysis
Low Near-Term Growth
Two-Stage Growth DCF Model

	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)
				CASH FLOWS							
Company	Next Year's Div	2011 Div	Annual Change to 2011	Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div	Year 5-150 Div Growth	ROE=Internal Rate of Return *(Yrs 0-150)*
1 Alliant Energy Co.	1.37	1.49	0.04	38.93	1.37	1.41	1.45	1.49	1.59	6.60%	9.7%
2 Ameren	2.54	2.54	0.00	50.30	2.54	2.54	2.54	2.54	2.71	6.60%	10.8%
3 American Elec. Pwr.	1.72	2.20	0.16	45.50	1.72	1.88	2.04	2.20	2.35	6.60%	10.6%
4 CH Energy Group	2.16	2.26	0.03	45.91	2.16	2.19	2.23	2.26	2.41	6.60%	10.7%
5 Cent. Vermont P.S.	0.92	0.92	0.00	36.60	0.92	0.92	0.92	0.92	0.98	6.60%	8.6%
6 Cleco Corporation	0.90	1.20	0.10	24.58	0.90	1.00	1.10	1.20	1.28	6.60%	10.6%
7 Con. Edison	2.34	2.40	0.02	45.90	2.34	2.36	2.38	2.40	2.56	6.60%	11.0%
8 DTE Energy Co.	2.20	2.40	0.07	49.03	2.20	2.27	2.33	2.40	2.56	6.60%	10.7%
9 Empire District	1.28	1.40	0.04	22.73	1.28	1.32	1.36	1.40	1.49	6.60%	11.7%
10 Energy East Corp.	1.26	1.45	0.06	25.44	1.26	1.32	1.39	1.45	1.55	6.60%	11.3%
11 Hawaiian Electric	1.24	1.24	0.00	23.01	1.24	1.24	1.24	1.24	1.32	6.60%	11.1%
12 IDACORP	1.20	1.20	0.00	32.38	1.20	1.20	1.20	1.20	1.28	6.60%	9.6%
13 MGE Energy, Inc.	1.43	1.47	0.01	32.34	1.43	1.44	1.46	1.47	1.57	6.60%	10.4%
14 NiSource Inc.	0.92	1.00	0.03	20.28	0.92	0.95	0.97	1.00	1.07	6.60%	10.7%
15 Northeast Utilities	0.83	0.98	0.05	28.40	0.83	0.88	0.93	0.98	1.04	6.60%	9.4%
16 NSTAR	1.43	1.75	0.11	32.63	1.43	1.54	1.64	1.75	1.87	6.60%	11.0%
17 Pinnacle West	2.21	2.31	0.03	40.52	2.21	2.24	2.28	2.31	2.46	6.60%	11.4%
18 PPL Corporation	1.30	2.00	0.23	47.42	1.30	1.53	1.77	2.00	2.13	6.60%	10.0%
19 Progress Energy	2.46	2.52	0.02	46.45	2.46	2.48	2.50	2.52	2.69	6.60%	11.1%
20 Puget Energy, Inc.	1.00	1.20	0.07	24.15	1.00	1.07	1.13	1.20	1.28	6.60%	10.7%
21 SCANA Corp.	1.82	2.00	0.06	38.36	1.82	1.88	1.94	2.00	2.13	6.60%	10.9%
22 Southern Co.	1.66	1.85	0.06	34.90	1.66	1.72	1.79	1.85	1.97	6.60%	11.0%
23 Vectren Corp.	1.31	1.43	0.04	26.95	1.31	1.35	1.39	1.43	1.52	6.60%	11.0%
24 Xcel Energy Inc.	0.95	1.10	0.05	20.91	0.95	1.00	1.05	1.10	1.17	6.60%	10.9%
GROUP AVERAGE											10.6%
GROUP MEDIAN											10.8%

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

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

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

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

Column 2: Estimated 2008 Dividends per Share from Value Line

Column 3: Column 2 Divided by Column 1

Column 4: Estimated 2011 Dividends per Share from Value Line

Column 5: Estimated 2011 Earnings per Share from Value Line

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

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

Column 8: Column 5 Divided by Column 7

Column 9: Column 6 Multiplied by Column 8

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

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

Column 12: Average of Columns 9-11

Column 13: Column 3 Plus Column 12

Column 14: See Column 1

Column 15: See Column 2

Column 16: Column 15 Divided by Column 14

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

Column 18: Column 16 Plus Column 17

Column 19: See Column 2

Column 20: See Column 4

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

Column 22: See Column 1

Column 23: See Column 19

Column 24: Column 23 Plus Column 21

Column 25: Column 24 Plus Column 21

Column 26: Column 25 Plus Column 21

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

Column 28: See Column 17

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

Kansas City Power & Light Company

Risk Premium Analysis

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

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
MOODY'S AVG ANNUAL YIELD DURING STUDY	9.35%
INTEREST RATE DIFFERENCE	-2.65%
INTEREST RATE CHANGE COEFFICIENT	-42.18%
ADUSTMENT TO AVG RISK PREMIUM	1.12%
BASIC RISK PREMIUM	3.13%
INTEREST RATE ADJUSTMENT	1.12%
EQUITY RISK PREMIUM	4.25%
PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.70%
INDICATED EQUITY RETURN	**10.95%**

Sources:

(1) Moody's Investors Service

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

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

Kansas City Power & Light Company
Risk Premium Analysis