Exhibit No.:	
Issue:	Overview and Policy
Witness:	Chris B. Giles
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2007-____
Date Testimony Prepared:	January 31, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-____

DIRECT TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2007

"[redacted]**" Designates "Highly Confidential" Information.**
Such Information Should be Treated Confidentially
Pursuant to 4 CSR 240-2.135.

DIRECT TESTIMONY

OF

CHRIS B. GILES

CASE NO. ER-2007-____

Q: Please state your name and business address.

A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri 64106-2124.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as Vice President, Regulatory Affairs.

Q: What are your responsibilities?

A: My responsibilities include all aspects of regulatory activities including cost of service, rate design, revenue requirements, and tariff administration.

Q: Please describe your education, experience and employment history.

A: I graduated from the University of Missouri at Kansas City in 1974 with a Bachelor of Arts degree in Economics and in 1981 with a Master of Business Administration degree with concentrations in accounting and quantitative analysis. I was first employed at KCPL in 1975 as an Economic Research Analyst in the Rates and Regulation Department. I held positions as supervisor and manager of various rate functions until 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the rate area as Director, Regulatory Affairs. In March of 2005, I was promoted to Vice-President, Regulatory Affairs.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC") or before any other utility regulatory agency?

A: I have previously testified before both the MPSC and the Kansas Corporation Commission ("KCC") on numerous issues regarding utility rates and regulation.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide a summary and overview of this case. I will address the progress of KCPL's Regulatory Plan ("Regulatory Plan"), which the MPSC approved in Case No. EO-2005-0329, explain the status of the investments associated with the Regulatory Plan and describe the major drivers of and how the proposed rate increase was determined.

Q: Please describe the results of the last rate case and the Regulatory Plan?

A: The Company filed its first rate case in nearly 20 years on February 1, 2006. The Company requested an increase of $57 million (11.5%). The Report and Order issued by the Commission on December 21, 2006 awarded KCPL an increase in Missouri revenues in the amount of $50.6 million (10.46%), effective January 1, 2007. The increase included an annual amortization amount of $21.7 million to maintain credit ratios.

Q: Did KCPL reflect the impact of the Regulatory Plan in this 2006 rate case?

A: Yes, KCPL included in the case the investment to build 100 MW of wind generation, which was completed in September 2006, as well as the investments in customer affordability, energy efficiency, and demand response programs, and system reliability focused transmission and distribution projects. These investments are consistent with and represent continued implementation of the Company's Comprehensive Energy Plan ("CEP") as set forth in the Regulatory Plan.

Q: **Please describe this rate case filing and how it reflects the continued implementation of the CEP and Regulatory Plan?**

A: The Regulatory Plan contemplated as many as four rate cases; however, only two are mandatory, the 2006 Rate Case (ER-2006-0314), and a case to be filed in 2009. The other two rate cases are optional. This case is the second rate case ("2007 Rate Case") and includes rate schedules that are expected to become effective on January 1, 2008. The Company is requesting an increase of $45.4 million (8.3%) including $9.3 million related to additional amortization. This 2007 Rate Case includes the selective catalytic reduction ("SCR") equipment at LaCygne Unit 1, and the additions to transmission and distribution infrastructure as set out in the Regulatory Plan. The SCR is expected to be in service prior to the September 30, 2007 true-up date of this proceeding. The 2007 Rate Case includes an additional amortization amount of $9.3 million on a Missouri jurisdictional basis, as described in the testimony of KCPL witness Michael Cline. The 2007 Rate Case also includes an amortization related to the Demand Response, Energy Efficiency and Affordability Programs as described in the testimony of KCPL witness Susan Nathan.

Q: **If KCPL chooses to file a third rate case, prior to the required 2009 case, when would that happen?**

A: At the time the Regulatory Plan was approved, the parties believed the third rate case would be filed on February 1, 2008. KCPL currently believes it may be necessary to adjust that date, with the agreement of the Regulatory Plan parties. If KCPL chooses to file the third rate case, that case will be timed such that the environmental equipment at

Iatan 1 will be in-service prior to the true-up date for the case. At this time, KCPL expects that rate increase request would be filed in April or May of 2008.

Q: When will the fourth rate case be filed?

A: It is anticipated that rate schedules with an effective date of September 1, 2010, will be filed with the MPSC on or about October 1, 2009, or eight (8) months prior to the commercial in-service operation date of Iatan Unit 2.

Q: Please describe the progress of the Regulatory Plan investments in power supply infrastructure.

A: KCPL has completed 100 MW of wind generation at a site near Spearville, Kansas. The SCR at LaCygne Unit 1 generating plant is currently under construction and is scheduled to be in operation prior to the summer of 2007. The Iatan Unit 2 project is underway. A control budget and schedule has been established. Contracting, procurement, and construction strategies are in place along with a cost control system to track and monitor schedule and costs. Partnership agreements have been executed. Ownership shares, based upon a total of 850 MW, are as follows: KCPL - 465 MW, Empire - 102 MW, Aquila - 153 MW, MJMEUC - 100 MW, and Kansas Electric Power Cooperative - 30 MW. As part of the Regulatory Plan, the Company submits to the signatories of the Stipulation and Agreement in the Regulatory Plan docket a quarterly report outlining the overall progress of the project. Periodically, the Company meets with the parties to discuss progress. Contracting, procurement, and construction strategies are in place along with a cost control system to track and monitor schedule and costs.

Q: Please describe the status of the transmission and distribution infrastructure investments.

A: Since approval of the Regulatory Plan, KCPL's transmission and distribution engineers have conducted a pilot program to assess the overhead distribution system and developed a plan of work. Numerous other projects are well under way as described more fully in the direct testimony of KCPL witnesses William Herdegen and Richard Spring.

Q: Please describe the status of customer programs.

A. The Regulatory Plan established an advisory group, Customer Programs Advisory Group ("CPAG"), consisting of representatives of signatories to the Regulatory Plan. CPAG had two key objectives: perform pre-implementation evaluation of energy efficiency programs, and review program design, implementation and evaluation plans for all programs. It is not a governmental body and makes no recommendations on government policy. CPAG meets on a regular basis and, as a result, tariffs have been filed and approved by the MPSC for several programs. KCPL witness Susan K. Nathan more fully describes the progress and success of the plan in her direct testimony.

Q: How was the rate case test year data and resultant rate increase amount determined?

A: Pursuant to the Regulatory Plan, this second rate case test year is based on an historical test year ending December 31, 2006, with a combination of actual and budgeted data updated through June 2007, and trued-up through September 2007. The data were stated to a Missouri jurisdictional basis, annualized, and normalized, as appropriate. The rate case data are then adjusted to projected month-end September 2007, with these adjustments allocated between FERC, Missouri and Kansas jurisdictions. The production allocation was made on the basis of four coincident monthly peaks ("4 CP"). In the last case, the Company presented its case using a twelve monthly coincident peak method ("12 CP"). As a result of the Order of the Commission, the last case decision was based on a 4 CP method, which was supported by Staff and other parties of the case. This filing is now consistent with the Commission's decision in the case just concluded (ER-2006-0314). The Company also used an energy allocation factor for determining the jurisdictional split for Off-system Sales Margins. In the 2006 Rate Case, the Company supported a methodology called the Unused Energy Allocator. In the 2006 Rate Case, the Commission directed the Company to use an Energy Allocator for the jurisdictional allocation of Off-system Sales Margin. KCPL has not necessarily changed its position regarding allocation factors but has chosen to file this case consistent with the Commission's most recent Order. The cost of service and revenue requirement determination is contained in Schedule JPW-1 and is supported by the direct testimony of KCPL witness John P. Weisensee.

Q: What is the amount of rate increase requested in this case?

A: The amount of rate increase is approximately 8.3% or $45.4 million dollars based on test year revenue of approximately $547 million.

Q: Does this amount include amortization expense to meet credit ratios?

A: Yes, KCPL's requested rate increase includes an additional amortization of $9,284,389 above the amount received in the 2006 Rate Case as described in detail in the direct testimony of KCPL witness Michael Cline. This total amortization amount will result in an offset to rate base under the Regulatory Plan and will lower rates in future rate proceedings of KCPL.

Q: What is the total cumulative amount of amortization KCPL proposes to include in rates in this case?

A: As indicated, the additional amortization of $9.3 million requested in this case is in addition to the $21.7 million ordered in the 2006 rate case. This would result in an annual amortization level of approximately $31 million.

Q: What is the return on equity KCPL is requesting in this case?

A: KCPL is requesting a minimum return on equity of 11.25% based upon a 53.43% equity capital structure of KCPL's parent holding company Great Plains Energy, Inc. ("GPE").

Q: What is the basis of an 11.25% return on equity?

A: The rate of return recommendation of 11.25% accounts for the baseline cost of equity capital and recognizes investor risks associated with construction. An authorized rate of return of 11.25% on common equity is appropriate, when combined with the same method of treatment of Off-system Sales Margins as ordered in the 2006 Rate Case. KCPL witness Samuel Hadaway presents in his direct testimony his cost of capital study results and recommendations in support of an 11.25% rate of return. Dr. Hadaway has utilized the same approach as in the last case which was based on a traditional approach to estimate the underlying cost of equity capital for a group of electric utility companies. However, the utility companies used for comparison by Dr. Hadaway have, in total, significantly smaller construction activity than KCPL. Consequently, the traditional approach and sample does not fully account for KCPL's higher investment risks, as currently perceived by investors, in the cost of capital estimate. Dr. Hadaway indicates that the risk premium associated with KCPL's high level of construction increases the cost of capital to the Company by about 50 basis points.

Q: Does an 11.25% return on equity adequately address the substantial risk of KCPL's off-system sales?

A: No, it does not. The risk of the off-system sales market consists of several components, including market price, volumetric risk associated with generation variable cost, generation unit outages, coal supply availability, weather, and uncertainty of retail sales growth. A detailed risk analysis of the off-system sales market has been prepared by the Northbridge Group, Inc. ("Northbridge") and is contained in the direct testimony of KCPL witness Michael Schnitzer of Northbridge. The risk of this market is too large for either the Company or its customers to bear entirely. The Commission agreed with this position in the 2006 Rate Case and included in revenue requirement an amount of off-system sales margins at the 25th percentile of the expected value of Off-system Sales Margins for 2007. If the Company's Off-system Sales Margins exceed the 25th percentile, then the Company will book any additional margins as a regulatory liability. By its decision the Commission clearly understood and recognized the risks associated with these Off-system Sales Markets. Consistent with the Commission's Order, the Company has included in revenue requirement in this case a level of Off-system Sales Margins for the year 2008, the year rates will be in effect, at the 25th percentile level. Significant changes have occurred in the Off-system Sales Market since the Company filed the 2006 rate case. Based on these changes in the market, the Commission's decision in the 2006 case regarding Off-system Sales Margins was not only appropriate, but confirms that absent that decision the Company's cash flow and earnings requirements in 2007 would not be achievable.

Q. Please describe the changes in the market during the 2006 rate case process?

A. When KCPL filed its original application, the expected 50th percentile level of Off-system Sales Margin was **[redacted]**. The Company included in its revenue requirement an amount equal to the 25th percentile, **[redacted]**. At that time, natural gas prices and the wholesale energy market were at a relatively high level. Natural gas prices were around $10 per mcf, considerably higher than the $2-$5 range during years prior to this case. In the 2006 case I testified that the Commission should look forward and take into account the risk of the Off-system Sales Market in determining the amount of Off-system Margins to include in revenue requirement. Historical data should not be used as indicative of the potential margins in this volatile market. By the time of the True-up, September 2006, natural gas prices had sharply declined. This resulted in a much lower expectation of Off-system Sales Margins. In fact, prices declined to the extent the expected 50th percentile point on the curve was approximately $11 million lower than originally filed in the case. The 25th percentile was approximately $7 million lower than originally included in the 2006 Rate Case.

Q. What level of Off-System Sales Margins did the Commission determine appropriate to include in revenue requirement in the 2006 case?

A. The Commission's Order established Off-system Sales Margin at the 25th percentile of projected 2007 margins (**[redacted]** total Company) (the first year new rates would be in effect) as of the September 2006, True-up. If the Company achieves margins in excess of that amount, it is to be booked as a regulatory liability to be returned to customers. If the Company does not achieve off-system sales margins equal to the 25th percentile level, then the Company will not have been able to earn its authorized rate of

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return and earnings in 2007 will be reduced by the amount not achieved in margins up to the 25th percentile.

Q. What is the current expectation for Off-system Sales Margins for 2007?

A. Prices in the market have continued to decline. The Company's current 50th percentile projection (**[redacted]** total Company) for 2007 is about equal to the 25th percentile projection (**[redacted]** total Company) of one year ago.

Q: Based on current market estimates what would have been the impact on the Company in 2007 had the Commission included Off-system Sales in revenue requirement at the 50th percentile or based on an historical average as the Commission's Staff proposed?

A: The 50th percentile at the time of the true-up was **[redacted]** on a total Company basis. The Commission Staff's recommendation was **[redacted]** based on 2005 actual. Given current market prices and revised estimates for 2007 KCPL would be short cash and earnings related revenue on a total Company basis of $13 to $15 million.

Q: What level of Off-system Sales Margin is included in the Company's revenue requirement in the current 2007 case?

A: Based on the analysis of Michael Schnitzer of Northbridge, the 25th percentile expectation for 2008 Off-system Sales Margins is **[redacted]** total Company. This is the amount KCPL included in the revenue requirement in this case. This amount will be updated in June 2007 and again in September 2007 for the true-up of this case.

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Q: Does this mean that KCPL expects the Off-system Sales Margin to be less in 2008 than 2007?

A: Yes, the difference between the 25th percentile in 2007 and 25th percentile in 2008 is a decline of expected margin of **[redacted]** on a total Company basis. Michael Schnitzer explains the facts contributing to this reduction in his testimony.

Q: Did the Commission's final order in the last case achieve a symmetrical sharing of risk between the Company and customers of the Off-system Sales Market?

A: No. Initially the Commission's Order established a regulatory asset to book margins achieved below the 25th percentile and a regulatory liability to book margins above the 25th percentile. In this scenario the Company bears no risk of the Off-system Sales Market from an earnings standpoint. The Company would still bear the risk of cash flow should the margins fall below the 25th percentile. Subsequent to various rehearing requests the Commission issued a revised order that eliminated the regulatory asset accounting should margins fall below the 25th percentile. The Company now bears the earnings related risk and the cash flow risk should margins fall below the 25th percentile.

Q: What was the Commission's basis to revise the order and place the risk below the 25th percentile with the Company?

A: The Commission stated in its revised order that the Company would have no incentive to achieve margins up to the 25th percentile if they were to essentially achieve the same result, at least from an earnings perspective, by not making any sales. The Company would still have a cash flow shortage in this scenario, although the Commission did not specifically address cash flow in its revised order.

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Q: Do you agree with the Commission's rationale to eliminate the regulatory asset since the Company would have no incentive to make any Off-system Sales with the regulatory asset?

A: I agree from an earnings perspective the Company would have no incentive to make sales up to the 25th percentile given regulatory asset accounting for any margins below the 25th percentile. However, the Company would still need to make these sales to achieve its cash flow requirements. It should also be recognized that the Company has no incentive from an earnings perspective to make any sales above the 25th percentile. The issue of incentives can be viewed in the same manner as risk. One cannot share risk without some potential upside coincident with potential downside of this market. I proposed such a sharing of risk in the 2006 case.

For instance, a symmetrical sharing of risk would be to eliminate the regulatory liability accounting, along with the regulatory asset accounting. By doing so, the Company would have incentive to maximize its Off-system Sales. I anticipate based on the response of the signatories of the Regulatory Plan in the 2006 case that any potential upside to the Company of this market will be viewed as a violation of the Regulatory Plan Stipulation and Agreement. However, in order to appropriately share risk, one may conclude a need exists to create incentive to maximize sales margins. Including Off-system Margins at the 25th percentile for 2008 as it did in the 2006 case for 2007 helps the Company achieve its cash flow and provides some earnings protection given the volatile and recently declining Off-system Sales Market. However, one could also argue an incentive should be established for the Company to continue to make sales above the 25th percentile. KCPL would support an incentive that shared the margins between the

Company and customer should margins exceed the 25th percentile. This would provide the desired incentive. However, the level of sharing one believes is necessary to incent would be debatable.

Q: Is it appropriate to use historical data to estimate Off-system Sales Margin when determining a test-year revenue requirement?

A: No, it is not. The only reasonable and responsible method to determine the appropriate amount of off-system sales margin to include in test year revenue is to project the amount of off-system sales margin expected during the first year that the increased rates would be in effect, calculate the risk of those off-system sales and share that risk between retail customers and the Company. This is the method described above. This method provides the best balance of interests among customers, investors, and creditors, particularly in view of the scale of KCPL's construction program through the 2010 timeframe.

Q: Has KCPL implemented its SO_2 allowance plan?

A: Yes. KCPL witness Wm. Edward Blunk describes in his direct testimony the plan, its implementation and the plan recently submitted to the MPSC Staff and Office of Public Counsel.

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 Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2007-____

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of thirteen (13) pages, 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.

Chris B. Giles
Chris B. Giles

Subscribed and sworn before me this 31st day of January 2007.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2007

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007