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

Before the Public Service Commission
of the State of Missouri

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

Direct Testimony and Schedules of

Michael Gorman

On behalf of

The Office of Public Counsel

Project 8829
July 24, 2007

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF MICHAEL GORMAN

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

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

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

2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules consisting of pages 1 through 58.

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

Michael Gorman
Consultant

Subscribed and sworn to me this 23rd day of July 2007.

Maria E. Decker
Notary Public

My commission expires May 5, 2009.

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

Before the Public Service Commission
of the State of Missouri

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

Direct Testimony of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q WHAT IS YOUR OCCUPATION?

A I am an energy advisor and a consultant in the field of public utility regulation and a managing principal in the firm of Brubaker & Associates, Inc. (BAI).

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A These are set forth in Appendix A.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Office of Public Counsel.

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A I will recommend a fair return on common equity and overall rate of return for Kansas City Power & Light Company ("KCPL" or "Company").

Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

A I recommend the Missouri Public Service Commission ("MPSC" or the "Commission") award KCPL a return on common equity of 10.1%.

My recommended return on equity for KCPL is based on a constant growth Discounted Cash Flow ("DCF"), a two-stage growth DCF model, Risk Premium ("RP") model and Capital Asset Pricing Model ("CAPM") analyses. These analyses estimate a fair return on equity based on observable market information for a group of publicly traded electric utility companies that proxy KCPL's going-forward investment risk.

Finally, I recommend an overall rate of return for KCPL of 8.21%. My recommended overall rate of return is based on KCPL's proposed capital structure, my recommended return on equity, and the Company's projected embedded cost of debt.

ELECTRIC UTILITY INDUSTRY MARKET PERSPECTIVE

Q PLEASE DESCRIBE THE MARKET'S PERCEPTION OF THE ELECTRIC UTILITY INDUSTRY OVER THE LAST SEVERAL YEARS.

A Standard & Poor's ("S&P") I believe captures the sentiment of the investment market toward the electric utility industry experienced over the last several years. In 2001, S&P stated it recorded 81 downgrades to utility credit ratings, with only 29 upgrades. S&P stated in 2002 that the credit rating activity in the electric utility industry was negative due to: (1) weakening financial profiles, (2) loss of investor confidence which

affected the industry's liquidity and financial flexibility, (3) heightened business risk derived from more investments outside the traditional regulated utility business, (4) corporate restructuring and mergers and acquisitions, and (5) certain regulatory difficulties.

S&P attributed most of the 2002 liquidity and credit erosion in the industry to heavy debt funded investments in higher risk non-regulated activities, and the loss of management credibility due to accounting and trading irregularities.[1]

Importantly, this negative perception of the energy industry over the last several years has been improved considerably because the industry has reverted to a "back to basics" business model. As part of the back to basics business model, utilities have been shedding non-regulated activities and using the asset sale proceeds to retire debt. Also, utilities have adopted corporate governance policies that have helped regain the confidence of the market.

In 2005, S&P revised its industry outlook by stating that the industry's leading indicators of credit rating tend to show that there are nearly twice as many stable outlooks as negative outlooks. S&P credits improved credit quality and liquidity enhancement for improving credit rating metrics resulting primarily from a reduction of high cost debt and elimination of higher risk non-utility investments, and the industry's shift to a back to basics business model, which concentrates on core competencies, debt reduction and risk management (Standard & Poor's: Industry Report Card: U.S. Electric/Water/Gas, January 4, 2005).

In 2006, S&P confirmed the stable credit quality of the industry, which is expected to continue in the future despite increasing capital spending (Standard & Poor's: Industry Report Card, January 12, 2007).

[1] S&P Utilities & Perspectives, Global Utilities Rating Service, October 14, 2002.

KCPL RISK FACTORS

Q PLEASE PROVIDE AN OVERVIEW OF KCPL'S INVESTMENT RISK.

A KCPL has an investment bond rating of "BBB" and business profile score of '6' from S&P. For integrated utility companies, S&P's business profile scores typically fall within the range of '4' to '6'[2]. KCPL's investment grade bond rating and business profile score are generally comparable to the risk of a typical integrated electric utility company.

KCPL's credit risk and business profile score are affected by the greater risk of its parent company, Great Plains Energy Company, and its affiliate, Strategic Energy. KCPL's parent company, Great Plains Energy, has a business profile score of '7'. KCPL's affiliation with its parent and other subsidiaries negatively impacts its credit quality because S&P determines KCPL's credit rating on a consolidated basis with its parent and affiliated companies. S&P stated as follows:

> The ratings on diversified energy company Great Plains Energy Inc. reflect a consolidated business risk profile of '7' (based on Standard & Poor's Ratings Services' 10-point scale, where '1' is excellent and '10' is vulnerable) and a financial risk profile that is characterized by strong cash flow metrics and moderate debt leverage.
>
> As of March 31, 2006, Kansas City, Mo. based Great Plains Energy had approximately $1.2 billion in total debt, including $164 million in mandatory convertible securities outstanding.
>
> Great Plains Energy is involved in vertically integrated electric operations through its regulated subsidiary, KCPL, and in competitive power supply marketing coordination through its unregulated subsidiary, Strategic Energy. Although, both subsidiaries are considered to be core businesses, KCPL remains the primary business line from an earnings and cash flow perspective, representing more than 80% of Great Plains Energy's consolidated cash flow in 2005. KCPL serves about 500,000 retail customers, primarily in the greater Kansas City metropolitan area, while Strategic Energy serves about 8,900 commercial and industrial customers in nine states.

[2]Standard & Poor's: New Business Profile Score Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised, June 2, 2004, Chart 4.

> KCPL's satisfactory business profile ('6') is supported by an economically healthy service territory centered on a single metropolitan area with little industrial concentration, solid nuclear operations, very low fuel costs, and competitive electric rates. These attributes are partially offset by nuclear risks associated with the 47%-owned Wolf Creek station; a somewhat challenging, albeit improving, regulatory environment; and high capital requirements associated with the construction of the 850-MW latan 2 coal plant (of which KCPL's share will be 465 MW), a 100.5-MW wind project; and installation of plant equipment to comply with increasingly stringent emissions standards. (Standard & Poor's RatingsDirect: KCPL, August 1, 2006).

PROJECTED INTEREST RATES AND CAPITAL MARKET COSTS

Q SHOULD THE COMMISSION PLACE HEAVY RELIANCE ON PROJECTED INTEREST RATES AND FUTURE CAPITAL MARKET COSTS RELATIVE TO TODAY'S OBSERVABLE CAPITAL MARKET COSTS?

A No. While projected interest rates should be given some consideration, the determination of KCPL's cost of capital today should be based primarily on observable and verifiable actual current market costs. This is appropriate because projected changes to interest rates are highly uncertain and their accuracy is at best problematic. Indeed, this is clearly evident by a review of projected changes to interest rates made over the last five years, in comparison to how accurate these projections turned out to be. This analysis clearly illustrates that observable interest rates today are as accurate as are economists' consensus projections of future interest rates.

An analysis supporting this conclusion is illustrated on my Schedule MPG-1. On this Schedule, under Columns 1 and 2, I show the actual market yield at the time a projection is made for Treasury bond yields two years in the future. In Column 1, I show the actual Treasury yield and, in Column 2, I show the projected yield two years out.

As shown in Columns 1 and 2, over the last five years, Treasury yields were projected to increase relative to the actual Treasury yields at the time of the projection.

In Column 4, I show what the Treasury yield actually turned out to be two years after the forecast. Under Column 5, I show the actual yield change at the time of the projections relative to the projected yield change.

As shown on this Schedule, over the last five years, economists have been consistently projecting increases to interest rates. However, as demonstrated under Column 5, those yield projections have turned out to be overstated in virtually every case. Indeed, actual Treasury yields have decreased or remained flat over the last five years, rather than increase as the economists' projections indicated.

This review of the experience with projected interest rates clearly illustrates that interest rate projection accuracy is highly problematic. Indeed, current observable interest rates are just as likely a reasonable projection of future interest rates as are economists' projections. Accordingly, while I will use projected interest rates to provide some sense of the market's expectations of future capital market costs in my models, I will not use them exclusively. Rather, my analyses will be based on the combination of current observable interest rates and projected interest rates. Thus, my analyses will capture a return on equity range reflecting a broad range of potential actual capital market costs during the period rates determined in this proceeding will be in effect.

Q ARE THERE OTHER REASONS NOT TO RELY EXCLUSIVELY ON UNCERTAIN PROJECTED INCREASES TO INTEREST RATES?

A Yes. The ratemaking process itself provides utility protection against the increasing cost of capital. Indeed, if KCPL's rate of return is set based on today's market cost of capital, and capital costs increase in the future, then KCPL is free to file for a rate change to reflect higher capital costs in the future when or if costs change. Hence, the regulatory mechanism itself provides utilities a hedge against increasing capital costs. Depriving ratepayers of today's low cost capital market environment is prejudicial and unreasonably tilts the regulatory balance in favor of investors.

KCPL'S PROPOSED CAPITAL STRUCTURE

Q WHAT CAPITAL STRUCTURE IS THE COMPANY REQUESTING TO USE TO DEVELOP ITS OVERALL RATE OF RETURN FOR ELECTRIC OPERATIONS IN THIS PROCEEDING?

A KCPL's proposed capital structure, as supported by Dr. Hadaway, is shown below in Table 1.

TABLE 1

KCPL's Requested Capital Structure

Description	Percent of Total Capital
Debt	45.24%
Preferred Stock	1.33%
Common Equity	53.43%
Total Regulatory Capital Structure	100.00%

Source: Hadaway Direct at 7.

Q ARE YOU PROPOSING ANY ADJUSTMENTS TO DR. HADAWAY'S RECOMMENDED CAPITAL STRUCTURE TO SET KCPL'S OVERALL RATE OF RETURN IN THIS PROCEEDING?

A No. I will not propose any adjustments to this capital structure for the following reasons:

1. Great Plains Energy's capital structure is reasonably comparable to KCPL's stand-alone capital structure.

2. Based on the financial ratio analysis discussed later in this testimony, this capital structure reflects a reasonable balance of debt and equity that supports KCPL's bond rating given its business risk profile assessment by Standard & Poors.

Q WHAT OVERALL RATE OF RETURN DO YOU RECOMMEND FOR KCPL IN THIS PROCEEDING?

A As shown on Schedule MPG-2, I recommend the Commission set KCPL's overall rate of return at 8.21%.

RETURN ON COMMON EQUITY

Q PLEASE DESCRIBE THE FRAMEWORK FOR DETERMINING A REGULATED COMPANY'S COST OF COMMON EQUITY.

A In general, determining a fair cost of common equity for a regulated utility has been framed by two decisions of the U.S. Supreme Court, in Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n of West Virginia, 26 U.S. 679 (1923) and Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944).

These decisions identify the general standards to be considered in establishing the cost of common equity for a public utility. Those general standards are that the authorized return should: (1) be sufficient to maintain financial integrity;

(2) attract capital under reasonable terms; and (3) be commensurate with returns investors could earn by investing in other enterprises of comparable risk.

Q PLEASE DESCRIBE WHAT IS MEANT BY "UTILITY'S COST OF COMMON EQUITY."

A The utility's cost of common equity is the return investors expect, or require, in order to make an investment. Investors expect to achieve their return requirement from receiving dividends and stock price appreciation.

Q PLEASE DESCRIBE THE METHODS YOU HAVE USED TO ESTIMATE THE COST OF COMMON EQUITY FOR KCPL.

A I have used several models based on financial theory to estimate KCPL's cost of common equity. These models are: (1) a constant growth Discounted Cash Flow (DCF) model, (2) a two-stage growth DCF model, (3) a Risk Premium (RP) model, and (4) a Capital Asset Pricing Model (CAPM). I have applied these models to two groups of publicly traded utilities that I have determined represent the investment risk of KCPL.

Q PLEASE DESCRIBE THE PROXY GROUPS YOU USED TO ESTIMATE KCPL'S RETURN ON EQUITY IN THIS PROCEEDING?

A I relied on two proxy groups. First, I independently selected regulated utility companies that I find to be risk comparable to KCPL. Second, I relied on the risk proxy group used by KCPL cost of capital witness, Dr. Samuel Hadaway. These two proxy groups are referred to as (1) the Gorman proxy group, and (2) the Hadaway proxy group.

Q HOW DID YOU DEVELOP YOUR RISK PROXY UTILITY GROUP?

A I identified companies that had comparable risk to KCPL's utility operations. I started with all the electric utility companies followed by the Value Line Investment Survey. I then removed companies that do not meet the following criteria:

1. S&P's bond rating in the "BBB" and "A" categories.
2. Moody's bond rating in the "Baa" and "A" categories.
3. Consensus analyst growth rates estimates available from Zacks, Reuters and SNL Financial.
4. Had not suspended dividends over the last two years.
5. Common equity ratios to total capital between 40% and 60%.
6. S&P's business profile scores in the range of 4 to 6.
7. No significant merger and acquisition activities.
8. Not exposed to corporate or market restructuring.

As noted above, my selection criteria resulted in a proxy group that reasonably reflects KCPL's total investment risk. Hence, my proxy group represents an average operating business risk for integrated electric utility companies.

Q HOW DOES YOUR PROXY GROUP RISK COMPARE TO KCPL?

A My proposed proxy group is shown on my Schedule MPG-3, page 1. My proxy group has an average bond rating from S&P and Moody's of "BBB+" and "Baa1," respectively. My proxy group average bond ratings are reasonably comparable to KCPL's credit ratings from S&P and Moody's of "BBB" and "A3," respectively.

My proxy group has an average common equity ratio of 49% from Value Line and 46% from AUS. In comparison, KCPL's requested common equity ratio is 53%. As such, my comparable group has higher financial risk than KCPL. Finally, my

proxy group has a Standard & Poor's business profile score of '5', which indicates lower business risk than KCPL which has a S&P business profile score of '6'. Hence, my proxy group has somewhat lower business risk but greater financial risk compared to KCPL. Based on this assessment, I believe my proxy group has reasonably comparable investment risk as KCPL.

Q DID YOU HAVE ANY ISSUES CONCERNING DR. HADAWAY'S PROXY GROUP FOR USE IN YOUR RETURN ON EQUITY METHODOLOGIES?

A Yes. Two companies included in his proxy group are currently involved in acquisitions and/or merger activities. When utility companies are involved in acquisition/merger activity, their stock prices reflect the valuation of the acquisition, rather than the stand-alone long-term valuation of the underlying enterprise. The difference in valuations is caused by control premium pricing, short-term valuation effects related to the acquisition/merger synergies, and potentially non-regulated valuation factors such as access to greater number of ratepayers, the value of larger enterprise and other factors, which are unrelated to the provision of regulated utility service. For this reason, I am relying on Dr. Hadaway's proxy group, but I excluded Green Mountain Power Company and Duquesne Light Holding from this proxy group because of their acquisition/merger activity.

Q EXCLUDING THESE COMPANIES, DOES THE HADAWAY PROXY GROUP REASONABLY REPRESENT THE INVESTMENT RISK OF KCPL?

A Yes. As shown in the attached Schedule MPG-3, Page 2, the group average S&P and Moody's bond rating of "BBB+" and "A3," respectively, which is reasonably comparable to KCPL's bond rating of "BBB," and "A3." Similarly, KCPL has lower

financial risk as indicated by a 53% common equity ratio relative to the Hadaway proxy group average of 50% from Value Line. However, KCPL has somewhat greater operating risk as indicated by an S&P business profile score of '6', relative to the Hadaway proxy group average of '5'. Overall, the total investment risk of the Hadaway proxy group reasonably approximates the investment risk of KCPL.

DISCOUNTED CASH FLOW MODEL

Q PLEASE DESCRIBE THE DCF MODEL.

A The DCF model posits that a stock price is valued by summing the present value of expected future cash flows discounted at the investor's required rate of return (ROR) or cost of capital. This model is expressed mathematically as follows:

$$Po = \frac{D1}{(1+K)^1} + \frac{D2}{(1+K)^2} \ldots . \frac{D\infty}{(1+K)\infty} \quad \text{where} \qquad \text{(Equation 1)}$$

Po= Current stock price
D = Dividends in periods 1 - ∞
K = Investor's required return

This model can be rearranged in order to estimate the discount rate or investor required return, "K." If it is reasonable to assume that earnings and dividends will grow at a constant rate, then Equation 1 can be rearranged as follows:

$$K = D1/Po + G \qquad \text{(Equation 2)}$$

K = Investor's required return
D1 = Dividend in first year
Po = Current stock price
G = Expected constant dividend growth rate

Equation 2 is referred to as the annual "constant growth" DCF model.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CONSTANT GROWTH DCF MODEL.

A As shown under Equation 2 above, the DCF model requires a current stock price, expected dividend, and expected growth rate in dividends.

Q WHAT STOCK PRICE AND DIVIDEND HAVE YOU RELIED ON IN YOUR CONSTANT GROWTH DCF MODEL?

A I relied on the average of the weekly high and low stock prices over a 13-week period ended July 6, 2007. An average stock price is less susceptible to market price variations than is a spot price. Therefore, an average stock price is less susceptible to aberrant market price movements, which may not be reflective of the stock's long-term value.

A 13-week average stock price is short enough to contain data that reasonably reflects current market expectations, but is not too short a period to be susceptible to market price variations that may not be reflective of the security's long-term value. Therefore, in my judgment, a 13-week average stock price is a reasonable balance between the need to reflect current market expectations and to capture sufficient data to smooth out aberrant market movements.

I used the most recently paid quarterly dividend, as reported in the Value Line Investment Survey. This dividend was annualized (multiplied by 4) and adjusted for next year's growth to produce the D1 factor for use in Equation 2 above.

Q WHAT DIVIDEND GROWTH RATES HAVE YOU USED IN YOUR CONSTANT GROWTH DCF MODEL?

A There are several methods one can use in order to estimate the expected growth in dividends. However, for purposes of determining the market required return on common equity, one must attempt to estimate investors' consensus about what the dividend or earnings growth rate will be, and not what an individual investor or analyst may use to form individual investment decisions.

Security analysts' growth estimates have been shown to be more accurate predictors of future returns than growth rates derived from historical data[3] because they are more reliable estimates, and assuming the market generally makes rational investment decisions, analysts' growth projections are the most likely growth estimates considered by the market that influence observable stock prices.

For my constant growth DCF analysis, I have relied on a consensus, or mean, of professional security analysts' earnings growth estimates as a proxy for the investor consensus dividend growth rate expectations. I used the average of three sources of ratepayer growth rate estimates: Zack's, Reuters, and SNL Financial. All consensus analyst projections used were available on July 12, 2007, as reported on-line.

Each consensus growth rate projection is based on a survey of security analysts. The consensus estimate is a simple arithmetic average or mean of surveyed analysts' earnings growth forecasts. A simple average of the growth forecast gives equal weight to all surveyed analysts' projections. It is problematic as to whether any particular analyst's forecast is most representative of general market expectations. Therefore, a simple average, or arithmetic mean, analyst forecast is a good proxy for market consensus expectations. The growth rates I used in my DCF analysis are shown on Schedule MPG-4.

Q WHAT ARE THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL?

A As shown on my Schedule MPG-5, page 1, the constant growth DCF return for my comparable group is 10.7%. As shown on page 2 of this schedule, using Dr.

[3] *See e.g.*, David Gordon, Myron Gordon, and Lawrence Gould, "Choice Among Methods of Estimating Share Yield," The Journal of Portfolio Management, Spring 1989.

Hadaway's comparable group, my constant growth DCF model produces a return on equity of 10.6%.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE RESULTS OF YOUR CONSTANT GROWTH DCF ANALYSIS?

A Yes. The average three to five-year growth rates for my comparable group and Dr. Hadaway's comparable group are 6.70% and 6.31%, respectively. These growth rates are too high to be rational estimates of long-term sustainable growth. As a result, I will not place significant reliance on the results of my constant growth DCF returns.

Q WHY DO YOU BELIEVE THE PROXY GROUPS' THREE TO FIVE-YEAR GROWTH RATES ARE NOT RATIONAL ESTIMATES OF LONG-TERM SUSTAINABLE GROWTH?

A The proxy groups' three to five-year growth rates exceed the growth rate of the overall U.S. economy. Based on consensus economic projections, as published by Blue Chip Economic Indicators, the five and ten-year GDP growth is estimated at a nominal rate of 5.1%.[4] A company cannot grow, indefinitely, at a faster rate than the market in which it sells its products. The U.S. economy, or GDP, growth projection represents a ceiling, or high end, sustainable growth rate for a utility over an indefinite period of time.

Utilities cannot sustain a growth rate that exceeds the growth rate of the overall economy, because utilities' earnings/dividend growth is created by increased utility investment, which in turn is driven by service area economic growth. In other

[4] Blue Chip Economic Indicators, March 10, 2007 at 15.

words, utilities invest in plant to meet sales demand growth, and sales growth in turn is tied to economic growth in their service areas. Hence, nominal GDP growth is a proxy for sales growth, utility rate base growth, and earnings growth. Therefore, GDP growth is the highest sustainable long-term growth rate of a utility.

Moreover, the proxy groups' projected growth rates of 6.3% and 6.7% are considerably higher than the historical growth rates the proxy groups have achieved over the last five to ten years, and that is projected over the next three to five years. As shown on Schedule MPG-6, Page 1, the historical growth of my proxy group's dividend is substantially lower than the nominal GDP growth, and actually less than the projected inflation growth. Importantly, I used a growth rate that exceeds the projected growth of inflation but less than the projected growth of nominal GDP. This is conservative by historical standards, and reflects rational expectations.

Further, the current and projected payout ratios of my group are 65% and 61%, respectively. The current and projected payout ratios for Dr. Hadaway's comparable group are 74% and 65%, respectively. This indicates the utilities are retaining a large percentage of their earnings, which will help support future growth through earnings and dividends.

Finally, the current and projected dividend-to-book ratios of my comparable utility group are 6.3% and 6.2%, respectively. The current and projected dividend-to-book ratios of Dr. Hadaway's comparable group are 6.9% and 6.7%, respectively. This indicates that the dividend is affordable in today's low-cost capital market environment, and utilities could support that dividend at an authorized return on equity well under 10% and still retain adequate earnings to fund future growth.

Q WHY DO YOU BELIEVE GROWTH RATES FOR ELECTRIC UTILITY COMPANIES CAN BE PROJECTED TO BE SO HIGH OVER THE NEXT THREE TO FIVE YEARS?

A Electric utility companies are in the midst of major construction programs, which are significantly increasing their outstanding capital and net plant investment. In fact, in the fourth quarter 2006, the Edison Electric Institute (EEI), a utility company trade organization, published a financial update for electric utilities. A portion of the highlights identified by EEI is as follows:

> ■ Shareholder-owned electric utilities brought 5,857 MW of new capacity online in 2006, 42% less than in 2005. Natural gas generation has dropped from 98% of new plant construction in 2002 to 64% in 2006. In contrast, wind has increased from 1% to 32% over the same time period.
>
> ■ With reserve margins shrinking in several key regional electricity markets and nationwide power demand growing steadily, the industry is now planning a new round of plant construction. Announced new capacity additions totaled 33,998 MW in 2006, surpassing the total for each of the last four years, and over twice that of 2005.
>
> ■ EEI survey results indicate that the industry is planning to invest $31.5 billion in the transmission system from 2006-2009, a 58% increase over the amount invested from 2002-2005. Transmission investment in 2005 totaled $5.8 billion, an 18% increase over the $4.9 billion invested in 2004. (EEI, Construction, Q4 2006 Financial Update).

In the second quarter of 2007, the EEI confirmed the large capital expenditure programs undertaken by U.S. utilities.

U.S. electricity demand is growing slowly but steadily and the utility industry is in the early stages of a sizeable long-term capital investment cycle that includes rising spending on emissions control equipment, transmission and distribution upgrades and, over the longer term, a new round of baseload generation. Much of this will likely be built in rate base.

EEI's recent construction survey shows that industry-wide capital spending is

set to rise from $48.4 billion in 2005 to $73.1 billion in 2007, a 51.1% increase. And Wall Street analysts forecast strong investment by the industry beyond the end of the decade. The prospect of carbon regulation adds to the potential longevity of the current build cycle, should carbon capture and sequestration become the most economically viable way of complying with future carbon limits.

Thus, the projected increase in utility earnings and dividend paying ability is not a sustainable trend, but rather is the result of an abnormally high period of industry construction expenditures. Once generation reserve margins are increased to or above target levels, transmission capacity investments are made to alleviate transmission constraints and environmental upgrades are complete, it is reasonable to expect that capital expenditures by utilities will decline to a more normal and sustainable growth level. This will cause utility earnings to also drop to a sustainable growth level.

The assessment by EEI supports the use of a multi-stage growth DCF model in this case, because three to five-year earnings growth projections will be unsustainably high after the current abnormally high construction expenditure period comes to an end.

Q HAS GREAT PLAINS ENERGY ADVISED ITS INVESTORS THAT ITS EARNINGS GROWTH WILL BE ROBUST OVER THE NEXT THREE TO FIVE YEARS CAUSED LARGELY BY ITS LARGE CAPITAL IMPROVEMENT PROGRAM?

A Yes. In an investor presentation made on March 22, 2007, Great Plains told its investors that it expects its rate base to grow by 60% through 2010, which will equate to annual earnings growth estimates in the range of 8% to 11% over the period 2007 through 2010. As such, Great Plains' presentation to shareholders is similar to other

utilities, which were also in the midst of large capital expenditure programs that will grow rate base and grow earnings at an abnormally large growth rate over the next few years. As such, other construction activity in the utility industry today combined with the favorable regulatory treatment typically awarded to utility construction programs produce utility earnings growth outlooks over the next three to five years that are robust and abnormally high. After these large construction programs are completed, rate base growth will decline to more normal levels, which will cause earnings growth to decline to a normal long-term sustainable growth level.

Q SINCE YOU HAVE CONCLUDED THAT THE GROWTH RATES USED IN YOUR CONSTANT GROWTH DCF MODEL ARE NOT REASONABLE ESTIMATES OF LONG-TERM SUSTAINABLE GROWTH, DO YOU BELIEVE THAT THE RESULTS OF YOUR CONSTANT GROWTH DCF MODEL FOR YOUR PROXY GROUP AND DR. HADAWAY'S PROXY GROUP ARE REASONABLE?

A No, the results of my constant growth DCF model are unreasonably high because it reflects a growth rate that is not sustainable over an indefinite period of time. However, the growth rate is based on consensus analysts' growth rate projections, so it is a reasonable reflection of rational investment expectations over the next three to five years. The limitation on the constant growth DCF model is that it cannot reflect a rational expectation that a period of abnormally high/low short-term growth can be followed by a change in growth to a rate that is more reflective of long-term sustainable growth. Hence, I will perform a two-stage DCF analysis to reflect this outlook of changing growth expectations.

Two-Stage DCF Model

Q WHY DO YOU PROPOSE TO USE A TWO-STAGE DCF MODEL TO TEST THE RESULTS OF YOUR CONSTANT GROWTH DCF STUDY?

A I propose to use a two-stage DCF model because the growth rates used in my constant growth model do not reflect reasonable estimates of sustainable long-term growth. While consensus analysts' growth rate estimates are likely reflective of investors' expectations over the next three to five years, rational investors would not expect those growth rates to remain in effect indefinitely. As noted above, utilities cannot grow faster than the economies in which they sell their services. Historically, utility sales have grown at a rate that trails the growth in the overall U.S. economy.

As such, a two-stage DCF model can capture the value of this extraordinary growth over the next five years, followed by a period of sustainable long-term growth thereafter.

Q PLEASE DESCRIBE YOUR TWO-STAGE DCF MODEL.

A The two-stage DCF growth model reflects the possibility of non-constant growth to the company over time. The two-stage model reflects two growth periods: (1) a short-term growth period, which consists of the first five years; and (2) a long-term growth period, which consists of each year starting in year six through perpetuity. For the short-term growth period, I relied on the consensus analysts' growth projections described above in relationship to my constant growth DCF model. For the long-term growth period, I assumed each company's growth would increase toward the maximum sustainable growth rate for a utility company as proxied by the consensus analysts' projected growth for the U.S. GDP.

Q WHAT STOCK PRICE AND DIVIDEND DID YOU USE IN YOUR MULTI-STAGE DCF ANALYSIS?

A I relied on the same 13-week stock price, the most recent quarterly dividend payment, and consensus analysts' growth rate projections discussed above in my constant growth DCF model. For the long-term sustainable growth rate starting in year six, I used the consensus economists' five to ten-year projected nominal GDP growth rate of 5.1%.

Q WHAT ARE THE RESULTS OF YOUR TWO-STAGE GROWTH DCF MODEL?

A As shown on my Schedule MPG-7, Page 1, the DCF return on equity for my proxy group is 9.3%. As shown on Page 2 of this schedule, using Dr. Hadaway's proxy group the DCF return is 9.6%.

RISK PREMIUM MODEL

Q PLEASE DESCRIBE YOUR BOND YIELD PLUS RISK PREMIUM MODEL.

A This model is based on the principle that investors require a higher ROR to assume greater risk. Common equity investments have greater risk than bonds because bonds have more security of payment in bankruptcy proceedings than common equity and the coupon payments on bonds represent contractual obligations. In contrast, companies are not required to pay dividends on common equity, or to guarantee returns on common equity investments. Therefore, common equity securities are considered to be more risky than bond securities.

This risk premium model is based on two estimates of an equity risk premium. First, I estimated the difference between the required return on utility common equity investments and Treasury bonds. The difference between the required return on

common equity and the bond yield is the risk premium. I estimated the risk premium on an annual basis for each year over the period 1986 through June 2007. The common equity required returns were based on regulatory commission-authorized returns for electric utility companies. Authorized returns are typically based on expert witnesses' estimates of the contemporary investor required return.

The second equity risk premium method is based on the difference between regulatory commission authorized returns on common equity and contemporary A-rated utility bond yields. This time period was selected because over the period 1986 through June 2007, public utility bond yields have consistently traded at a premium to book value. This is illustrated on my Schedule MPG-8, where the market to book ratio since 1986 for the electric utility industry was consistently above 1.0. Therefore, over this time period, regulatory authorized returns were sufficient to support market prices that at least exceeded book value. This is an indication that regulatory authorized returns on common equity supported a utility's ability to issue additional common stock, without diluting existing shares. This is an indication that utilities were able to access equity markets without a detrimental impact on current shareholders.

Based on this analysis, as shown on Schedule MPG-9, the average indicated equity risk premium of authorized electric utility common equity returns over U.S. Treasury bond yields has been 5.05%. Of the 22 observations, 18 indicated risk premiums fall in the range of 4.4% to 5.9%. Since the risk premium can vary depending upon market conditions and changing investor risk perceptions, I believe using an estimated range of risk premiums provides the best method to measure the current return on common equity using this methodology.

As shown on Schedule MPG-10, the average indicated authorized electric utility common equity returns over contemporary Moody's utility bond yields was

3.66% over the period 1986 through June 2007. The equity risk premium estimates based on this analysis primarily fall in the range of 3.0% to 4.4% over this time period.

Q BASED ON HISTORICAL DATA, WHAT RISK PREMIUM HAVE YOU USED TO ESTIMATE KCPL'S COST OF EQUITY IN THIS PROCEEDING?

A The equity risk premium should reflect the relative market perception of risk in the utility industry today. I have gauged investor perceptions in utility risk today on Schedule MPG-11. On that schedule, I show the yield spread between utility bonds and Treasury bonds over the last 27 years. As shown on this schedule, the 2007 utility bond yield spreads over treasury bonds for "A" rated and "Baa" rated utility bonds are 1.14% and 1.23%, respectively. These utility bond yield spreads over Treasury bond yields are among the lowest yield spreads in the last 27 years, and are below the 27-year average "A" and "Baa" yield spreads of 1.57% and 1.92%, respectively. Hence, this comparison of utility bond yield spreads indicates the market perception of utility risk to be below the average industry risk over this historical time period.

Recognizing a robust nature and the current market's low-risk valuation of utility investments, I believe it is appropriate to use an average market equity risk premium to estimate the current market-required return on equity. Hence, I relied on a Treasury bond risk premium of 5.2% (midpoint of the 4.4% to 5.9% range), and an equity risk premium over utility bond yields of 3.7% (midpoint of the 3.0% to 4.4% range), as described above.

Q HOW DID YOU ESTIMATE KCPL'S COST OF COMMON EQUITY WITH THIS MODEL?

A I added a projected long-term Treasury bond yield to my estimated equity risk premium over Treasury yields. Blue Chip Financial Forecasts projects the 30-year Treasury bond yields to be 5.4%, and a 10-year Treasury bond to be 5.3% (Blue Chip Financial Forecast, July 1, 2007 at 2). Using the projected 30-year bond yield of 5.4%, and a Treasury bond risk premium of 4.4% to 5.9%, produces an estimated common equity return in the range of 9.8% to 11.3%, with a mid-point estimate at 10.5%.

I next added my equity risk premium over utility bond yields to a current 13-week average yield on "Baa" rated utility bonds for the period ending July 6, 2007 of 6.38%. This current "Baa" utility bond yield is developed on Schedule MPG-12. Adding the utility equity risk premium of 3.0% to 4.4% to a "Baa" rated bond yield of 6.38%, produces a cost of equity in the range of 9.4% to 10.8%, with a mid-point of 10.1%.

My risk premium analyses produce a return estimate in the range of 10.1% to 10.5%, with a mid-point estimate of 10.3%.

CAPITAL ASSET PRICING MODEL

Q PLEASE DESCRIBE THE CAPM.

A The CAPM method of analysis is based upon the theory that the market required ROR for a security is equal to the risk-free ROR, plus a risk premium associated with the specific security. This relationship between risk and return can be expressed mathematically as follows:

Ri = Rf + Bi x (Rm - Rf) where:

Ri = Required return for stock i
Rf = Risk-free rate
Rm = Expected return for the market portfolio
Bi = Beta - Measure of the risk for stock

The stock specific risk term in the above equation is beta. Beta represents the investment risk that cannot be diversified away when the security is held in a diversified portfolio. When stocks are held in a diversified portfolio, firm-specific risks can be eliminated by balancing the portfolio with securities that react in the opposite direction to firm-specific risk factors (e.g., business cycle, competition, product mix and production limitations).

The risks that cannot be eliminated when held in diversified portfolio are nondiversifiable risks. Nondiversifiable risks are related to the market in general and are referred to as systematic risks. Risks that can be eliminated by diversification are regarded as nonsystematic risks. In a broad sense, systematic risks are market risks, and nonsystematic risks are business risks. The CAPM theory suggests that the market will not compensate investors for assuming risks that can be diversified away. Therefore, the only risk that investors will be compensated for are systematic or nondiversifiable risks. The beta is a measure of the systematic or nondiversifiable risks.

Q PLEASE DESCRIBE THE INPUTS TO YOUR CAPM.

A The CAPM requires an estimate of the market risk-free rate, the company's beta, and the market risk premium.

Q WHAT DID YOU USE AS AN ESTIMATE OF THE MARKET RISK-FREE RATE?

A The Blue Chip Financial Forecasts' projected 30-year Treasury bond yield is 5.4%. The current 30-year bond yield is 5.0% (Blue Chip Financial Forecast, July 1, 2007 at 2).

Q WHY DID YOU USE LONG-TERM TREASURY BOND YIELDS AS AN ESTIMATE OF THE RISK-FREE RATE?

A Treasury securities are backed by the full faith and credit of the United States government. Therefore, long-term Treasury bonds are considered to have negligible credit risk. Also, long-term Treasury bonds have an investment horizon similar to that of common stock. As a result, investor-anticipated long-run inflation expectations are reflected in both common stock required returns and long-term bond yields. Therefore, the nominal risk-free rate (or expected inflation rate and real risk-free rate) included in a long-term bond yield is a reasonable estimate of the nominal risk-free rate included in common stock returns.

Treasury bond yields, however, do include risk premiums related to unanticipated future inflation and interest rates. Therefore, a Treasury bond yield is not a risk-free rate. Risk premiums related to unanticipated inflation and interest rates are systematic or market risks. Consequently, for companies with betas less than 1.0, using the Treasury bond yield as a proxy for the risk-free rate in the CAPM analysis can produce an overstated estimate of the CAPM return.

Q WHAT BETA DID YOU USE IN YOUR ANALYSIS?

A My proxy group median Value Line beta estimate is 0.95, as shown on my Schedule MPG-13, page 1. As shown on my Schedule MPG-13, page 2, Dr. Hadaway's proxy

group median Value Line beta is 0.88. Based on this data, I will use a beta of 0.90 for my CAPM analysis.

Q DO YOU RECOMMEND A CAREFUL CONSIDERATION OF A UTILITY BETA FOR USE IN A CAPM STUDY?

A Yes. Utility betas have been increasing over the last five years, as shown on Schedule MPG-13, largely because electric utility stocks have outperformed the overall market. While this increasing beta gives the impression of increasing risk, that interpretation is incorrect.

Indeed, electric utility risk factors have been decreasing as these companies revert to a back-to-basics investment strategy that lowers their operating risks, and they have been divesting non-regulated businesses to reduce debt and strengthen balance sheets, which is lowering risk. Value Line notes this in a recent review of the electric utility industry. Value Line states as follows:

> **Better Finances**
> This decade, utilities have distanced themselves from risky unregulated business forays, including commodities trading, foreign energy operations, water services and aircraft leasing. Currently, *Dominion Resources* plans to sell its oil and gas production business, *Duke* is spinning its mid-stream gas operations to shareholders, *Northeast Utilities* is divesting its merchant power generation business, and *Progress Energy* is shedding power plant and natural gas assets. Such actions have improved earnings performance and strengthened capital ratios. Companies are targeting a nearly equal weighting of debt and equity on their balance sheets, a goal that should be met by 2009-2011.
>
> Revenue-backed and tax-exempt bonds will provide economical funding for planned capital improvements. This will further support overall finances. (The Value Line Investment Survey, Electric Utility (East) Industry, December 1, 2006, p. 157).

Further, Value Line notes an increase in the common equity ratio and fixed charge coverage ratio over the last three to five years. These Value Line parameters indicate lower financial risk and stronger earnings and cash flow coverages of financial obligations. This reduces utilities' risk and limits the variability to market factors that can inhibit the utilities' ability to meet investors' earnings and cash flow expectations.

These risk reductions have resulted in robust stock return performance for electric utility stocks, as shown on my Schedule MPG-14. As illustrated on this schedule, electric utility stocks have outperformed the market over the last five years. This utility stock performance has contributed to an increase in betas and given the impression that electric utility stock variability is comparable to the overall market, but other risk factors clearly show that that is a false indication.

Reliance on the group median beta, which is a beta that is stronger than the beta has been over the last five years, is more reflective of the majority of the individual company betas included in my proxy group.

Q HOW DID YOU DERIVE YOUR MARKET PREMIUM ESTIMATE?

A I derived two market premium estimates, a forward-looking estimate and one based on a long-term historical average.

The forward-looking estimate was derived by estimating the expected return on the market (S&P 500) and subtracting the risk-free rate from this estimate. I estimated the expected return on the S&P 500 by adding an expected inflation rate to the long-term historical arithmetic average real return on the market. The real return on the market represents the achieved return above the rate of inflation.

The Ibbotson and Associates' Stocks, Bonds, Bills and Inflation 2007 Year Book publication estimates the historical arithmetic average real market return over the period 1926-2006 as 9.1%. A current consensus analyst inflation projection, as measured by the Consumer Price Index, is 2.2% (Blue Chip Financial Forecasts, July 1, 2007 at 2). Using these estimates, the expected market return is 11.5%.[5] The market premium then is the difference between the 11.5% expected market return, and my 5.4% risk-free rate estimate, or 6.1%.

The historical estimate of the market risk premium was also estimated by Ibbotson and Associates in the Stock, Bonds, Bills and Inflation, 2007 Year Book. Over the period 1926 through 2006, Ibbotson's study estimated that the arithmetic average of the achieved total return on the S&P 500 was 12.3%, and the total return on long-term Treasury bonds was 5.8%. The indicated equity risk premium is 6.5% (12.3% - 5.8% = 6.5%).

Q WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

A As shown on Schedule MPG-15, pages 1 and 2, based on the 6.3% average of the prospective market risk premium of 6.1% and historical risk premium of 6.5%, a beta of 0.90 and a risk-free rate of 5.4% produces a CAPM return of 11.1%.

RETURN ON EQUITY SUMMARY

Q BASED ON THE RESULTS OF YOUR RATE OF RETURN ON COMMON EQUITY ANALYSES DESCRIBED ABOVE, WHAT RETURN ON COMMON EQUITY DO YOU RECOMMEND FOR KCPL?

A Based on my analyses, I estimate KCPL's current market cost of equity to be 10.1%.

[5] { [(1 + 0.091) * (1 + 0.022)] – 1] } * 100.

TABLE 2

Return on Common Equity Summary

Description	Gorman's Proxy Group	Hadaway's Proxy Group
Constant Growth DCF	10.7%	10.6%
Two-Stage DCF	9.3%	9.6%
Risk Premium	10.3%	10.3%
CAPM	11.1%	11.1%

My recommended return on equity of 10.1% is at the mid-point of my estimated return on equity range for KCPL of 9.5% to 10.7%. The high end of my estimated range is based on my CAPM, risk premium and constant growth DCF analyses. The low end of my estimated range is based on my two-stage DCF analyses. The midpoint of that estimated range is 10.1%.

REGULATORY PLAN FINANCIAL RATIOS

Q WILL YOU COMMENT ON THE CREDIT RATING FINANCIAL RATIOS OFFERED BY KCPL WITNESS, MR. MICHAEL CLINE, IN SUPPORT OF THE REGULATORY PLAN STIPULATION TO SUPPORT KCPL'S COMPREHENSIVE ENERGY PLAN?

A Yes. As set forth below, I demonstrate what the impact on the financial ratios would be based on my proposed return on equity for KCPL. However, I do take issue with the accuracy of how Mr. Cline calculated these ratios. Specifically, Mr. Cline's ratios include debt interest expense attributable to $83 million of "additional net assets on KCPL's balance sheet." Calculation of the ratios under the regulatory plan are specifically supposed to be tied to Missouri jurisdictional operations. Hence, to the

extent these assets are in any way related to non-jurisdictional KCPL assets, they should not be included in the ratio analysis.

Also, Mr. Cline's ratios do not reflect an imputed amortization expense associated with his imputation of an off-balance sheet (OBS) debt equivalent for operating leases. It is not consistent with Standard & Poor's methodology for imputing operating lease OBS debt and interest to exclude an imputed amortization.

Hence, Mr. Cline's credit rating financial ratio calculation should be adjusted to reflect an imputed amortization associated with off-balance sheet operating lease debt equivalence. I will further comment on how these ratios should be constructed in my rebuttal testimony.

Q WHAT IS THE IMPACT ON MR. CLINE'S STANDARD & POORS' FINANCIAL RATIOS IF A RETURN ON EQUITY OF 10.1% IS APPROVED IN THIS PROCEEDING RATHER THAN THE 11.25% RETURN ON EQUITY PROPOSED BY KCPL?

A Putting aside certain issues with Mr. Cline's calculation, in the Table 3 below, I will show the impact on these financial ratios by reducing the return on equity from 11.25% proposed by KCPL down to my 10.1% recommendation.

TABLE 3

Regulatory Plan

Description	At Current Regulatory Plan Amortization: KCPL Ratios (11.25%, ROE)	Gorman's Ratios (10.1%, ROE)	Regulatory Plan Benchmark	Additional Amortization Required (Millions): KCPL	Gorman
FFO/Interest Coverage	5.02x	4.83x	3.8x		
FFO/Total Debt	24.2%	23.1%	25.0%	$9.3	$22.6
Total Debt Ratio	48.6%	48.6%	51.0%		

As shown above in Table 3, reducing the return on equity from 11.25% down to 10.1%, results in two of the three financial ratios remaining in compliance with the regulatory plan. Specifically, the funds from operation (FFO) interest ratio is above 3.8 times, and the total debt ratio is still lower than 51%.

Under either my recommendation of a reasonable return on equity or that of KCPL, the FFO to total debt ratio is lower than the 25% minimum rate prescribed in the Regulatory Plan. At a return on equity of 10.1% the FFO to total debt ratio would be 23.1%. At KCPL's proposed ROE of 11.25% the FFO to total debt ratio would be 24.2%, which is also below the Regulatory Plan benchmark of 25.0%.

Hence, in order to increase the FFO to total debt ratio to 25%, an additional amortization expense of $9.3 million would be necessary with a return on equity of 11.25%, and an additional amortization of $22.6 million would be required for a return on equity of 10.1%.

However, as noted above, both of these regulatory amortizations would be reduced with a correction to the financial ratios I believe is necessary and will discuss in more detail in my rebuttal testimony.

Q IS THERE A DIFFERENCE IN REVENUE REQUIREMENT NEEDED TO MAINTAIN THESE FINANCIAL RATIOS IN THE COMPANY'S PROPOSAL?

A Putting aside the corrections that may be necessary to these ratios, there may be little difference in the test year revenue requirements needed to support these ratios if the return on equity is reduced. However, there is a material difference in the cost to ratepayers under the Regulatory Plan.

Q PLEASE EXPLAIN.

A If the authorized return on equity is fair compensation, then ratepayers will pay a greater amortization expense to support these financial ratios during the period of the Regulatory Plan, but will pay less in the future when the amortization is used to reduce revenue requirements.

On the other hand, if the financial ratios within the regulatory plan are increased by awarding KCPL an excessive return on equity as proposed by the Company, ratepayers will pay more today to support higher financial ratios but will not pay less later when the regulatory amortization accruals are used to reduce rates. Future rate base will also be greater if excessive returns are currently authorized to meet the financial ratios, thus future rates will be higher. Rates will be higher in the future because rate base will not be reduced by the accumulated regulatory amortizations and there will be no flow back of the amortizations into rates. Hence,

the authorization of an excessive return on equity results in ratepayers paying more today, and more later.

As a result, there is a quid pro quo to ratepayers if the increase in these financial ratios results from increased amortization expense in the Regulatory Plan, rather than from an excessive return on equity.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

Appendix A

Qualifications of Michael Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and a managing principal with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from Southern Illinois University, and in 1986, I received a Masters Degree in Business Administration with a concentration in Finance from the University of Illinois at Springfield. I have also completed several graduate level economics courses.

In August of 1983, I accepted an analyst position with the Illinois Commerce Commission (ICC). In this position, I performed a variety of analyses for both formal and informal investigations before the ICC, including: marginal cost of energy, central dispatch, avoided cost of energy, annual system production costs, and working capital. In October of 1986, I was promoted to the position of Senior Analyst. In this position, I assumed the additional responsibilities of technical leader on projects, and my areas of responsibility were expanded to include utility financial modeling and financial analyses.

In 1987, I was promoted to Director of the Financial Analysis Department. In this position, I was responsible for all financial analyses conducted by the staff. Among other things, I conducted analyses and sponsored testimony before the ICC on rate of return, financial integrity, financial modeling and related issues. I also supervised the development of all Staff analyses and testimony on these same issues. In addition, I supervised the Staff's review and recommendations to the Commission concerning utility plans to issue debt and equity securities.

In August of 1989, I accepted a position with Merrill-Lynch as a financial consultant. After receiving all required securities licenses, I worked with individual investors and small businesses in evaluating and selecting investments suitable to their requirements.

In September of 1990, I accepted a position with Drazen-Brubaker & Associates, Inc. In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and Staff. Since 1990, I have performed various analyses and sponsored testimony on cost of capital, cost/benefits of utility mergers and acquisitions, utility reorganizations, level of operating expenses and rate base, cost of service studies, and analyses relating industrial jobs and economic development. I also participated in a study used to revise the financial policy for the municipal utility in Kansas City, Kansas.

At BAI, I also have extensive experience working with large energy users to distribute and critically evaluate responses to requests for proposals (RFPs) for electric, steam, and gas energy supply from competitive energy suppliers. These analyses include the evaluation of gas supply and delivery charges, cogeneration and/or combined cycle unit feasibility studies, and the evaluation of third-party asset/supply management agreements. I have also analyzed commodity pricing

indices and forward pricing methods for third party supply agreements. Continuing, I have also conducted regional electric market price forecasts.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Corpus Christi, Texas; and Plano, Texas.

Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?

A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of service and other issues before the regulatory commissions in Arizona, California, Delaware, Georgia, Illinois, Indiana, Iowa, Louisiana, Michigan, Missouri, New Mexico, New Jersey, Oklahoma, Oregon, Tennessee, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate setting position reports to the regulatory board of the municipal utility in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial ratepayers; and negotiated rate disputes for industrial ratepayers of the Municipal Electric Authority of Georgia in the LaGrange, Georgia district.

Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR ORGANIZATIONS TO WHICH YOU BELONG.

A I earned the designation of Chartered Financial Analyst (CFA) from the Charter Financial Analyst Institute. The CFA charter was awarded after successfully completing three examinations which covered the subject areas of financial accounting, economics, fixed income and equity valuation and professional and ethical conduct. I am a member of CFA's Financial Analyst Society.

Kansas City Power & Light Company

Accuracy of Interest Rate Forecasts

(Long-Term Treasury Bond Yields - Projected Vs. Actual)

Line	Date	Publication Data			Actual Yield in Projected Quarter (4)	Projected Yield Higher (Lower) Than Actual Yield* (5)	Actual Yields Differential** (6)
		Actual Yield (1)	Projected Yield (2)	For Quarter (3)			
1	Dec-00	5.8%	5.8%	1Q, 02	5.6%	0.2%	0.2%
2	Mar-01	5.7%	5.6%	2Q, 02	5.8%	-0.2%	-0.1%
3	Jun-01	5.4%	5.8%	3Q, 02	5.2%	0.6%	0.2%
4	Sep-01	5.7%	5.9%	4Q, 02	5.1%	0.8%	0.6%
5	Dec-01	5.5%	5.7%	1Q, 03	4.9%	0.8%	0.6%
6	Mar-02	5.3%	5.9%	2Q, 03	4.7%	1.2%	0.6%
7	Jun-02	5.6%	6.2%	3Q, 03	5.2%	1.0%	0.4%
8	Sep-02	5.8%	5.9%	4Q, 03	5.2%	0.7%	0.6%
9	Dec-02	5.2%	5.7%	1Q, 04	4.9%	0.8%	0.3%
10	Mar-03	5.1%	5.7%	2Q, 04	5.4%	0.3%	-0.3%
11	Jun-03	5.0%	5.4%	3Q, 04	5.1%	0.3%	-0.1%
12	Sep-03	4.7%	5.8%	4Q, 04	4.9%	0.9%	-0.2%
13	Dec-03	5.2%	5.9%	1Q, 05	4.8%	1.1%	0.4%
14	Mar-04	5.2%	5.9%	2Q, 05	4.6%	1.3%	0.6%
15	Jun-04	4.9%	6.2%	3Q, 05	4.5%	1.7%	0.4%
16	Sep-04	5.4%	6.0%	4Q, 05	4.8%	1.2%	0.6%
17	Dec-04	5.1%	5.8%	1Q, 06	4.6%	1.2%	0.4%
18	Mar-05	4.9%	5.6%	2Q, 06	5.1%	0.5%	-0.3%
19	Jun-05	4.8%	5.5%	3Q, 06	5.0%	0.5%	-0.2%
20	Sep-05	4.6%	5.2%	4Q, 06	4.7%	0.5%	-0.2%
21	Dec-05	4.5%	5.3%	1Q, 07	4.8%	0.5%	-0.3%
22	Jan-06	4.8%	5.3%	2Q, 07			
23	Feb-06	4.8%	5.1%	2Q, 07			
24	Mar-06	4.8%	5.1%	2Q, 07			
25	Apr-06	N/A	5.1%	3Q, 07			
26	May-06	4.6%	5.2%	3Q, 07			
27	Jun-06	4.6%	5.3%	3Q, 07			
28	Jul-06	5.1%	5.3%	4Q, 07			
29	Aug-06	5.1%	5.3%	4Q, 07			
30	Sep-06	5.1%	5.2%	4Q, 07			
31	Oct-06	5.0%	5.1%	1Q, 08			
32	Nov-06	5.0%	5.1%	1Q, 08			
33	Dec-06	5.0%	5.0%	1Q, 08			
34	Jan-07	4.7%	5.1%	2Q, 08			
35	Feb-07	4.7%	5.1%	2Q, 08			
36	Mar-07	4.7%	5.1%	2Q, 08			
37	Apr-07	4.8%	5.0%	3Q, 08			
38	May-07	4.8%	5.1%	3Q, 08			
39	Jun-07	4.8%	5.1%	3Q, 08			
40	Jul-07	5.0%	5.4%	4Q, 08			

Source:
Blue Chip Financial Forecasts, Various Dates.
* Col. 2 - Col. 4.
** Col. 1 - Col. 4.

Kansas City Power & Light Company

Proposed Rate of Return

Line	Description	Amount (1)	Weight (2)	Cost (3)	Weighted Cost (4)
1	Long-Term Debt	$ 1,329,620,571	45.24%	6.09%	2.76%
2	Preferred Stock	$ 39,000,000	1.33%	4.29%	0.06%
3	Common Equity	$ 1,570,096,000	53.43%	**10.10%**	5.40%
4	**Total**	**$ 2,938,716,571**	**100.0%**		**8.21%**

Source:
Schedule SCH-2.

Kansas City Power & Light Company

Gorman Proxy Group

Line	Electric Utility	Bond Ratings S&P[1] (1)	Bond Ratings Moody's[1] (2)	Business Profile Rating[3] (3)	2006 Common Equity Ratios AUS[1] (5)	2006 Common Equity Ratios Value Line[2] (4)
1	Amer. Elec. Power	BBB	Baa1	5	43%	43%
2	Cleco Corp	BBB+	Baa1	6	57%	58%
3	Edison Int'l	BBB+	Baa1	6	42%	44%
4	Empire Dist. Elec.	BBB+	Baa1	6	44%	50%
5	IDACORP, Inc.	A-	A3	5	49%	55%
6	NiSource Inc.	BBB	Baa2	4	47%	49%
7	OGE Energy	BBB+	Baa2	6	54%	54%
8	Pepco Holdings	BBB+	Baa1	5	43%	45%
9	PG&E Corp.	BBB	Baa1	5	43%	53%
10	Pinnacle West Capital	BBB-	Baa2	6	51%	52%
11	PNM Resources	BBB	Baa2	6	40%	49%
12	Progress Energy	BBB	A3	5	47%	48%
13	SCANA Corp.	A-	A1	4	44%	47%
14	Southern Co.	A	A2	4	42%	46%
15	Vectren Corp.	A	A3	4	44%	49%
16	Wisconsin Energy	A-	A1	5	41%	48%
17	Xcel Energy Inc.	BBB+	A3	5	44%	47%
18	Average	**BBB+**	**Baa1**	**5**	**46%**	**49%**
19	Kansas City Power & Light	BBB	A3	6	53%[4]	

Sources:

[1] AUS Utility Reports; June 2007.

[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.

[3] U.S. Utilities and Power Ranking List, May 4, 2007.

[4] Hadaway Direct at 7.

Kansas City Power & Light Company

Hadaway Proxy Group

Line	Electric Utility[4,5]	Bond Ratings S&P[1] (1)	Bond Ratings Moody's[1] (2)	Business Profile Rating[3] (3)	2006 Common Equity Ratios AUS[1] (4)	2006 Common Equity Ratios Value Line[2] (5)
1	Alliant Energy	A-	A2	5	59%	63%
2	Ameren Corp.	BBB	Baa1	7	50%	55%
3	American Electric Power	BBB	Baa1	5	43%	43%
4	CH Energy	A	A2	3	55%	59%
5	Cent. Vermount P.S.	BBB	Ba2	N/A	58%	57%
6	Cleco Corp.	BBB+	Baa1	6	57%	58%
7	Consolidated Edison	A	A1	2	47%	49%
8	DTE Enrgy	BBB+	A3	6	39%	44%
9	Empire District	BBB+	Baa1	6	44%	50%
10	Energy East Corp.	BBB+	A3	3	44%	43%
11	Hawaiian Electric	BBB	Baa2	6	27%	49%
12	IDACORP	A-	A3	5	49%	55%
13	MGE Energy	AA-	Aa3	4	55%	61%
14	NiSource Inc.	BBB	Baa2	4	47%	49%
15	Northeast Utilities	BBB	Baa1	7	39%	40%
16	NSTAR	A+	A1	1	36%	40%
17	Pinnacle West Capital	BBB-	Baa2	6	51%	52%
18	PPL Corporation	A-	A3	7	39%	42%
19	Progress Energy	BBB	A3	5	47%	48%
20	Puget Energy, Inc.	BBB	Baa2	4	39%	44%
21	SCANA Corp.	A-	A1	4	44%	47%
22	Southern Co.	A	A2	4	42%	46%
23	Vectren Corp.	A	A3	4	44%	49%
24	Xcel Energy, Inc.	BBB+	A3	5	44%	47%
25	**Average**	**BBB+**	**A3**	**5**	**46%**	**50%**
26	Kansas City Power & Light	BBB	A3	6	53%[4]	

Sources:

[1] AUS Utility Reports; June 2007.

[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.

[3] U.S. Utilities and Power Ranking List, May 4, 2007.

[4] Hadaway Direct at 7.

[5] Duquesne Light was acquired by Macquire Consortium. The acquisition was announced on 7/5/06 and completed on 5/31/07.

[6] Green Mountain was acquired by Gas Metro LP. The acquisition was announced on 6/21/06 and completed on 4/12/07.

Kansas City Power & Light Company

Growth Rate Estimates
Gorman Proxy Group

Line	Electric Utility	Zacks Estimated Growth %[1] (1)	Zacks Number of Estimates[1] (2)	Reuters Estimated Growth %[2] (3)	Reuters Number of Estimates[2] (4)	SNL Estimated Growth %[2] (5)	SNL Number of Estimates[2] (6)	AVG of Growth Rates (7)
1	American Electric Power	4.71%	7	5.06%	8	6.00%	5	5.26%
2	Cleco Corp.	12.00%	1	12.00%	1	14.60%	2	12.87%
3	Edison Int'l	9.25%	4	8.14%	7	8.00%	5	8.46%
4	Empire District	N/A	N/A	3.00%	1	18.50%	2	10.75%
5	IDACORP.	6.00%	2	5.67%	3	5.00%	3	5.56%
6	NiSource Inc.	3.40%	5	3.57%	7	4.00%	7	3.66%
7	OGE Energy	4.50%	2	3.50%	2	4.00%	1	4.00%
8	Pepco Holding	6.67%	3	7.33%	6	7.00%	4	7.00%
9	PG&E Corp	7.60%	5	7.67%	3	8.00%	7	7.76%
10	Pinnacle West Capital	6.67%	3	7.67%	3	9.00%	2	7.78%
11	PNM Resources	8.75%	4	10.13%	6	12.00%	3	10.29%
12	Progress Energy	4.40%	5	4.93%	7	5.00%	5	4.78%
13	SCANA Corp.	4.67%	3	4.32%	4	4.00%	3	4.33%
14	Southern Co.	4.00%	6	4.57%	7	5.00%	7	4.52%
15	Vectren Corp.	4.33%	3	4.33%	3	4.00%	1	4.22%
16	Wisconsin Energy	9.20%	5	8.94%	7	5.60%	5	7.91%
17	Xcel Energy, Inc.	4.50%	6	5.00%	7	5.00%	3	4.83%
18	**Average**	**6.29%**	**4**	**6.23%**	**5**	**7.34%**	**4**	**6.70%**

Sources:

[1] www.zacksadvisor.com, Detailed Research on July 12, 2007.

[2] www.investor.reuters.com, Earnings Estimates on July 12, 2007.

[3] http://www.snl.com, Longterm Growth Rate Estimates on July 12, 2007.

Kansas City Power & Light Company

Growth Rate Estimates
Hadway Proxy Group

Line	Electric Utility	Zacks Estimated Growth %[1] (1)	Zacks Number of Estimates[1] (2)	Reuters Estimated Growth %[2] (3)	Reuters Number of Estimates[2] (4)	SNL Estimated Growth %[2] (5)	SNL Number of Estimates[2] (6)	AVG of Growth Rates (7)
1	Alliant Energy	6.00%	2	5.33%	3	4.60%	1	5.31%
2	Ameren Corp.	6.67%	6	7.50%	7	5.00%	3	6.39%
3	American Electric Power	4.71%	7	5.06%	8	6.00%	5	5.26%
4	CH Energy	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	Cent. Vermount P.S.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	Cleco Corp.	12.00%	1	12.00%	1	14.60%	2	12.87%
7	Consolidated Edison	3.50%	6	3.94%	9	3.00%	5	3.48%
8	DTE Enrgy	5.67%	3	6.00%	5	3.00%	2	4.89%
9	Empire District	N/A	N/A	3.00%	1	18.50%	2	10.75%
10	Energy East Corp.	3.50%	2	4.00%	1	4.00%	1	3.83%
11	Hawaiian Electric	4.88%	4	4.70%	5	6.00%	3	5.19%
12	IDACORP.	6.00%	2	5.67%	3	5.00%	3	5.56%
13	MGE Energy	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14	NiSource Inc.	3.40%	5	3.57%	7	4.00%	7	3.66%
15	Northeast Utilities	13.00%	2	9.40%	5	N/A	N/A	11.20%
16	NSTAR	6.25%	4	5.75%	4	6.00%	4	6.00%
17	Pinnacle West Capital	6.67%	3	7.67%	3	9.00%	2	7.78%
18	PPL Corporation	13.00%	4	11.86%	7	13.00%	3	12.62%
19	Progress Energy	4.40%	5	4.93%	7	5.00%	5	4.78%
20	Puget Energy, Inc.	5.50%	2	4.40%	5	5.50%	4	5.13%
21	SCANA Corp.	4.67%	3	4.32%	4	4.00%	3	4.33%
22	Southern Co.	4.00%	6	4.57%	7	5.00%	7	4.52%
23	Vectren Corp.	4.33%	3	4.33%	3	4.00%	1	4.22%
24	Xcel Energy, Inc.	4.50%	6	5.00%	7	5.00%	3	4.83%
25	**Average**	**6.13%**	**4**	**5.86%**	**5**	**6.51%**	**3**	**6.31%**

Sources:

[1] www.zacksadvisor.com, Detailed Research on July 12, 2007.

[2] www.investor.reuters.com, Earnings Estimates on July 12, 2007.

[3] http://www.snl.com, Longterm Growth Rate Estimates on July 12, 2007.

Kansas City Power & Light Company

Constant Growth DCF Model
Gorman Proxy Group

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	AVG (%) Growth (2)	Annual Dividend[2] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	American Electric Power	$47.80	5.26%	$1.56	3.44%	8.69%
2	Cleco Corp.	$26.81	12.87%	$0.90	3.79%	16.66%
3	Edison Int'l	$55.15	8.46%	$1.16	2.28%	10.74%
4	Empire District	$23.99	10.75%	$1.28	5.91%	16.66%
5	IDACORP	$33.01	5.56%	$1.20	3.84%	9.39%
6	NiSource Inc.	$23.22	3.66%	$0.92	4.11%	7.76%
7	OGE Energy	$37.17	4.00%	$1.36	3.81%	7.81%
8	Pepco Holding	$29.18	7.00%	$1.04	3.81%	10.81%
9	PG&E Corp	$48.15	7.76%	$1.44	3.22%	10.98%
10	Pinnacle West Capital	$46.11	7.78%	$2.10	4.91%	12.69%
11	PNM Resources	$30.39	10.29%	$0.88	3.19%	13.49%
12	Progress Energy	$49.53	4.78%	$2.44	5.16%	9.94%
13	SCANA Corp.	$42.15	4.33%	$1.76	4.36%	8.69%
14	Southern Co.	$36.29	4.52%	$1.61	4.64%	9.17%
15	Vectren Corp.	$28.50	4.22%	$1.26	4.61%	8.83%
16	Wisconsin Energy	$47.48	7.91%	$1.00	2.27%	10.19%
17	Xcel Energy, Inc.	$22.95	4.83%	$0.89	4.08%	8.91%
18	**Average**	**$36.93**	**6.70%**	**$1.34**	**3.97%**	**10.7%**

Sources:
[1] http://moneycentral.msn.com, downloaded on June 12, 2007.
[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.

Kansas City Power & Light Company

Constant Growth DCF Model
Hadaway Proxy Group

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	AVG (%) Growth (2)	Annual Dividend[2] (3)	Adjusted Yield (4)	Constant Growth DCF (5)
1	Alliant Energy	$42.58	5.31%	$1.27	3.15%	8.46%
2	Ameren Corp.	$51.45	6.39%	$2.54	5.25%	11.64%
3	American Electric Power	$47.80	5.26%	$1.56	3.44%	8.69%
4	CH Energy	$46.99	N/A	$0.92	N/A	N/A
5	Cent. Vermount P.S.	$34.50	N/A	$0.92	N/A	N/A
6	Cleco Corp.	$26.81	12.87%	$0.90	3.79%	16.66%
7	Consolidated Edison	$49.15	3.48%	$2.32	4.88%	8.36%
8	DTE Enrgy	$50.67	4.89%	$2.12	4.39%	9.28%
9	Empire District	$23.99	10.75%	$1.28	5.91%	16.66%
10	Energy East Corp.	$24.36	3.83%	$1.20	5.12%	8.95%
11	Hawaiian Electric	$24.83	5.19%	$1.24	5.25%	10.45%
12	IDACORP	$33.01	5.56%	$1.20	3.84%	9.39%
13	MGE Energy	$34.48	N/A	$1.39	N/A	N/A
14	NiSource Inc.	$23.22	3.66%	$0.92	4.11%	7.76%
15	Northeast Utilities	$30.82	11.20%	$0.80	2.89%	14.09%
16	NSTAR	$34.91	6.00%	$1.30	3.95%	9.95%
17	Pinnacle West Capital	$46.11	7.78%	$2.10	4.91%	12.69%
18	PPL Corporation	$45.29	12.62%	$1.22	3.03%	15.65%
19	Progress Energy	$49.53	4.78%	$2.44	5.16%	9.94%
20	Puget Energy, Inc.	$25.37	5.13%	$1.00	4.14%	9.28%
21	SCANA Corp.	$42.15	4.33%	$1.76	4.36%	8.69%
22	Southern Co.	$36.29	4.52%	$1.61	4.64%	9.17%
23	Vectren Corp.	$28.50	4.22%	$1.26	4.61%	8.83%
24	Xcel Energy, Inc.	$22.95	4.83%	$0.89	4.08%	8.91%
25	**Average**	**$ 36.49**	**6.31%**	**$ 1.42**	**4.33%**	**10.6%**

Sources:
[1] http://moneycentral.msn.com, downloaded on June 12, 2007.
[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.

Kansas City Power & Light Company

GDP and Dividend Growth Rates
Gorman Proxy Group

Line	Electric Utility	Dividend Growth: Past 5 Years[1] (1)	Dividend Growth: Past 10 Years[1] (2)	Dividend Growth: 3-5 Years Projection[1] (3)	Inflation (CPI)*: Past 5 Years[2] (4)	Inflation (CPI)*: Past 10 Years[2] (5)	Inflation (CPI)*: 3-5 Years Projection[2] (6)	Nominal GDP*: Past 5 Years[1] (7)	Nominal GDP*: Past 10 Years[1] (8)
1	American Electric Power	-9.5%	-5.0%	7.5%					
2	Cleco Corp.	1.0%	2.0%	5.0%					
3	Edison Int'l	8.5%	-0.5%	7.5%					
4	Empire District	N/A	N/A	1.5%					
5	IDACORP	-8.5%	-4.5%	N/A					
6	NiSource Inc.	-1.5%	1.5%	1.5%					
7	OGE Energy	N/A	N/A	2.5%					
8	Pepco Holding	N/A	N/A	3.0%					
9	PG&E Corp	-1.5%	-9.0%	NMF					
10	Pinnacle West Capital	6.0%	7.5%	4.0%					
11	PNM Resources	7.5%	N/A	8.0%					
12	Progress Energy	2.5%	3.0%	1.0%					
13	SCANA Corp.	5.0%	1.0%	4.0%					
14	Southern Co.	2.0%	2.0%	4.0%					
15	Vectren Corp.	4.0%	N/A	3.0%					
16	Wisconsin Energy	-6.5%	-5.0%	7.0%					
17	Xcel Energy, Inc.	-10.5%	-4.5%	5.0%					
18	**Average**	**-0.1%**	**-1.0%**	**4.3%**	**2.6%**	**2.5%**	**2.5%**	**5.5%**	**5.4%**

Sources:
[1] The Value Line Investment Survey; May 11, June 1, June 29, 2007.
[2] Value Line Investment Survey, June 29, 2007.

Kansas City Power & Light Company

GDP and Dividend Growth Rates
Hadaway Proxy Group

Line	Electric Utility	Dividend Growth			Inflation (CPI)*			Nominal GDP*	
		Past 5 Years[1]	Past 10 Years[1]	3-5 Years Projection[1]	Past 5 Years[2]	Past 10 Years[2]	3-5 Years Projection[2]	Past 5 Years[1]	Past 10 Years[1]
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Alliant Energy	-11.5%	-6.0%	5.5%					
2	Ameren Corp.	N/A	0.5%	N/A					
3	American Electric Power	-9.5%	-5.0%	7.5%					
4	CH Energy	N/A	0.5%	1.0%					
5	Cent. Vermount P.S.	1.0%	-1.0%	N/A					
6	Cleco Corp.	1.0%	2.0%	5.0%					
7	Consolidated Edison	1.0%	1.0%	1.0%					
8	DTE Enrgy	N/A	N/A	2.5%					
9	Empire District	N/A	N/A	1.5%					
10	Energy East Corp.	5.0%	3.5%	4.5%					
11	Hawaiian Electric	N/A	0.5%	N/A					
12	IDACORP	-8.5%	-4.5%	N/A					
13	MGE Energy	1.0%	1.0%	0.5%					
14	NiSource Inc.	-1.5%	1.5%	1.5%					
15	Northeast Utilities	16.5%	-8.5%	6.5%					
16	NSTAR	3.0%	2.5%	7.0%					
17	Pinnacle West Capital	6.0%	7.5%	4.0%					
18	PPL Corporation	13.0%	1.5%	13.0%					
19	Progress Energy	2.5%	3.0%	1.0%					
20	Puget Energy, Inc.	-11.5%	-6.0%	3.0%					
21	SCANA Corp.	5.0%	1.0%	4.0%					
22	Southern Co.	2.0%	2.0%	4.0%					
23	Vectren Corp.	4.0%	N/A	3.0%					
24	Xcel Energy, Inc.	-10.5%	-4.5%	5.0%					
25	**Average**	**0.4%**	**-0.4%**	**4.1%**	**2.6%**	**2.5%**	**2.5%**	**5.5%**	**5.4%**

Sources:
[1] The Value Line Investment Survey; May 11, June 1, June 29, 2007.
[2] Value Line Investment Survey, June 29, 2007.

Kansas City Power & Light Company

Two-Stage Growth DCF Model
Gorman Proxy Group

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	American Electric Power	$47.80	$1.56	5.26%	5.10%	8.55%
2	Cleco Corp.	$26.81	$0.90	12.87%	5.10%	10.00%
3	Edison Int'l	$55.15	$1.16	8.46%	5.10%	7.65%
4	Empire District	$23.99	$1.28	10.75%	5.10%	12.18%
5	IDACORP	$33.01	$1.20	5.56%	5.10%	9.00%
6	NiSource Inc.	$23.22	$0.92	3.66%	5.10%	9.00%
7	OGE Energy	$37.17	$1.36	4.00%	5.10%	8.76%
8	Pepco Holding	$29.18	$1.04	7.00%	5.10%	9.17%
9	PG&E Corp	$48.15	$1.44	7.76%	5.10%	8.63%
10	Pinnacle West Capital	$46.11	$2.10	7.78%	5.10%	10.47%
11	PNM Resources	$30.39	$0.88	10.29%	5.10%	8.91%
12	Progress Energy	$49.53	$2.44	4.78%	5.10%	10.21%
13	SCANA Corp.	$42.15	$1.76	4.33%	5.10%	9.34%
14	Southern Co.	$36.29	$1.61	4.52%	5.10%	9.65%
15	Vectren Corp.	$28.50	$1.26	4.22%	5.10%	9.57%
16	Wisconsin Energy	$47.48	$1.00	7.91%	5.10%	7.59%
17	Xcel Energy, Inc.	$22.95	$0.89	4.83%	5.10%	9.14%
18	**Average**	**$36.93**	**$1.34**	**6.70%**	**5.10%**	**9.3%**

Sources:
[1] http://moneycentral.msn.com, downloaded on June 12, 2007.
[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.
[3] Blue Chip Economic Indicators, March 10, 2007.

Kansas City Power & Light Company

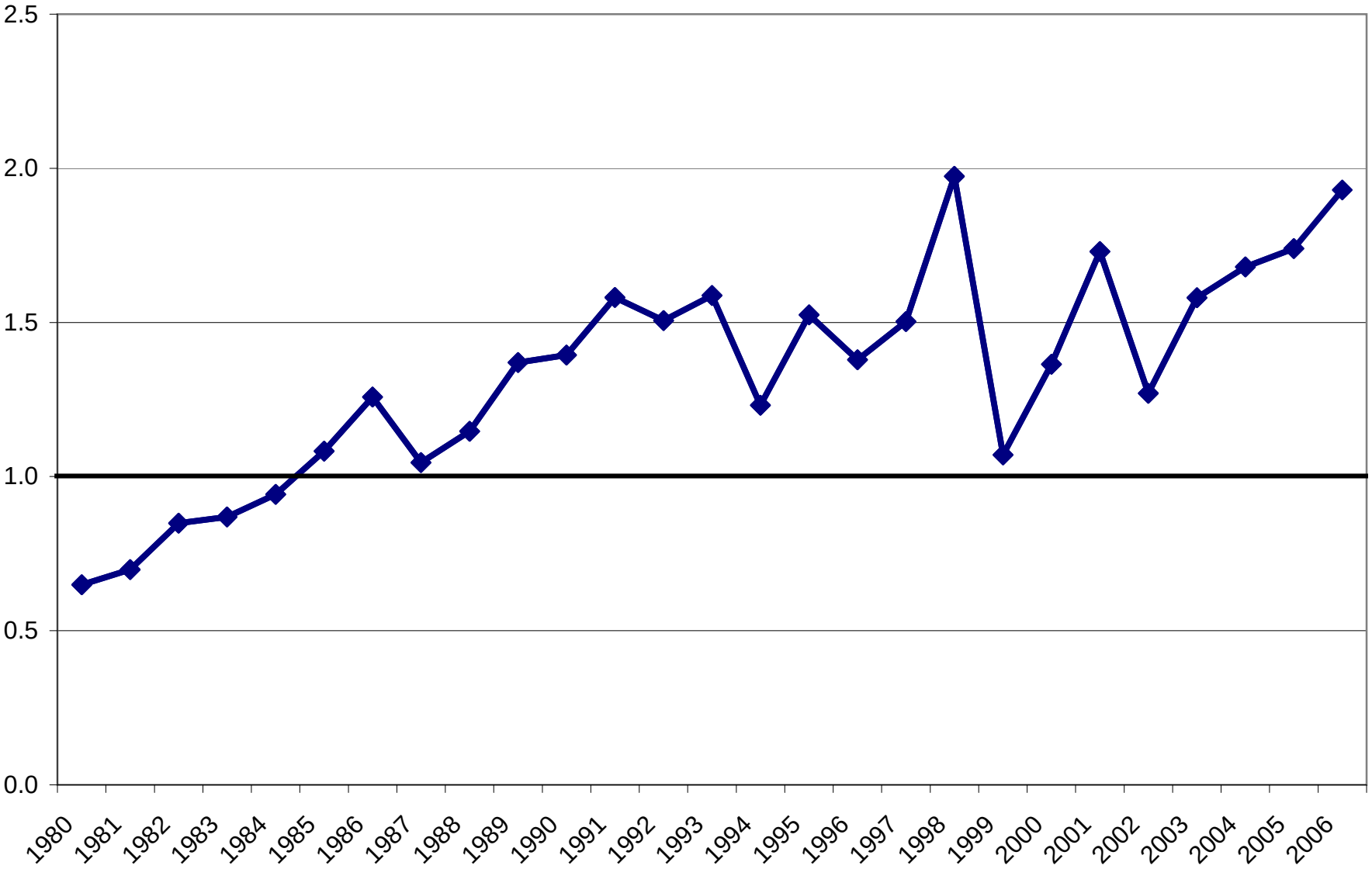
Two-Stage Growth DCF Model
Hadaway Proxy Group

Line	Electric Utility	13-Week AVG Stock Price[1] (1)	Annual Dividend[2] (2)	First Stage Growth (3)	Second Stage Growth[3] (4)	Two-Stage Growth DCF (5)
1	Alliant Energy	$42.58	$1.27	5.31%	5.10%	8.26%
2	Ameren Corp.	$51.45	$2.54	6.39%	5.10%	10.58%
3	American Electric Power	$47.80	$1.56	5.26%	5.10%	8.55%
4	CH Energy	$46.99	$0.92	N/A	5.10%	N/A
5	Cent. Vermount P.S.	$34.50	$0.92	N/A	5.10%	N/A
6	Cleco Corp.	$26.81	$0.90	12.87%	5.10%	10.00%
7	Consolidated Edison	$49.15	$2.32	3.48%	5.10%	9.72%
8	DTE Enrgy	$50.67	$2.12	4.89%	5.10%	9.46%
9	Empire District	$23.99	$1.28	10.75%	5.10%	12.18%
10	Energy East Corp.	$24.36	$1.20	3.83%	5.10%	10.00%
11	Hawaiian Electric	$24.83	$1.24	5.19%	5.10%	10.37%
12	IDACORP	$33.01	$1.20	5.56%	5.10%	9.00%
13	MGE Energy	$34.48	$1.39	N/A	5.10%	N/A
14	NiSource Inc.	$23.22	$0.92	3.66%	5.10%	9.00%
15	Northeast Utilities	$30.82	$0.80	11.20%	5.10%	8.65%
16	NSTAR	$34.91	$1.30	6.00%	5.10%	9.17%
17	Pinnacle West Capital	$46.11	$2.10	7.78%	5.10%	10.47%
18	PPL Corporation	$45.29	$1.22	12.62%	5.10%	9.01%
19	Progress Energy	$49.53	$2.44	4.78%	5.10%	10.21%
20	Puget Energy, Inc.	$25.37	$1.00	5.13%	5.10%	9.25%
21	SCANA Corp.	$42.15	$1.76	4.33%	5.10%	9.34%
22	Southern Co.	$36.29	$1.61	4.52%	5.10%	9.65%
23	Vectren Corp.	$28.50	$1.26	4.22%	5.10%	9.57%
24	Xcel Energy, Inc.	$22.95	$0.89	4.83%	5.10%	9.14%
25	**Average**	**$36.49**	**$1.42**	**6.31%**	**5.10%**	**9.6%**

Sources:
[1] http://moneycentral.msn.com, downloaded on June 12, 2007.
[2] The Value Line Investment Survey; May 11, June 1, June 29, 2007.
[3] Blue Chip Economic Indicators, March 10, 2007.

Kansas City Power and Light Company

Electric Common Stock Market/Book Ratio



Sources:
2001-2006: AUS Utility Reports.
1980 - 2000: Mergent Public Utility Manual, 2003; at a15, and a17.

Schedule MPG-8

Kansas City Power & Light Company

Equity Risk Premium - Treasury Bond

Line	Date	Treasury Bond Yield[1] (1)	Authorized Electric Returns[2] (2)	Indicated Risk Premium (3)
1	1986	7.78%	13.93%	6.15%
2	1987	8.59%	12.99%	4.40%
3	1988	8.96%	12.79%	3.83%
4	1989	8.45%	12.97%	4.52%
5	1990	8.61%	12.70%	4.09%
6	1991	8.14%	12.55%	4.41%
7	1992	7.67%	12.09%	4.42%
8	1993	6.59%	11.41%	4.82%
9	1994	7.37%	11.34%	3.97%
10	1995	6.88%	11.55%	4.67%
11	1996	6.71%	11.39%	4.68%
12	1997	6.61%	11.40%	4.79%
13	1998	5.58%	11.66%	6.08%
14	1999	5.87%	10.77%	4.90%
15	2000	5.94%	11.43%	5.49%
16	2001	5.49%	11.09%	5.60%
17	2002	5.43%	11.16%	5.73%
18	2003	4.96%	10.97%	6.01%
19	2004	5.05%	10.75%	5.70%
20	2005	4.65%	10.54%	5.89%
21	2006	4.91%	10.36%	5.45%
22	2007[3]	4.89%	10.29%	5.40%
23	**Average**	**6.60%**	**11.64%**	**5.05%**

Sources:

[1] Economic Report of the President 2007: Table 73 at 316. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

[2] Regulatory Research Associates, Inc., Regulatory Focus, Jan. 85 - Dec. 06.

[3] The data for 2007 includes the period January - June 2007.

Kansas City Power & Light Company

Equity Risk Premium - Utility Bond

Line	Date	Average "A" Rating Utility Bond Yield[1] (1)	Authorized Electric Returns[2] (2)	Indicated Risk Premium (3)
1	1986	9.58%	13.93%	4.35%
2	1987	10.10%	12.99%	2.89%
3	1988	10.49%	12.79%	2.30%
4	1989	9.77%	12.97%	3.20%
5	1990	9.86%	12.70%	2.84%
6	1991	9.36%	12.55%	3.19%
7	1992	8.69%	12.09%	3.40%
8	1993	7.59%	11.41%	3.82%
9	1994	8.31%	11.34%	3.03%
10	1995	7.89%	11.55%	3.66%
11	1996	7.75%	11.39%	3.64%
12	1997	7.60%	11.40%	3.80%
13	1998	7.04%	11.66%	4.62%
14	1999	7.62%	10.77%	3.15%
15	2000	8.24%	11.43%	3.19%
16	2001	7.76%	11.09%	3.33%
17	2002	7.37%	11.16%	3.79%
18	2003	6.58%	10.97%	4.39%
19	2004	6.16%	10.75%	4.59%
20	2005	5.65%	10.54%	4.89%
21	2006	6.07%	10.36%	4.29%
22	2007[3]	6.12%	10.29%	4.17%
23	**Average**	**8.17%**	**11.64%**	**3.66%**

Sources:

[1] Mergent Public Utility Manual, Mergent Weekly News Reports, 2003. The utility yields for the period 2001-2006 were obtained from the Mergent Bond Record.

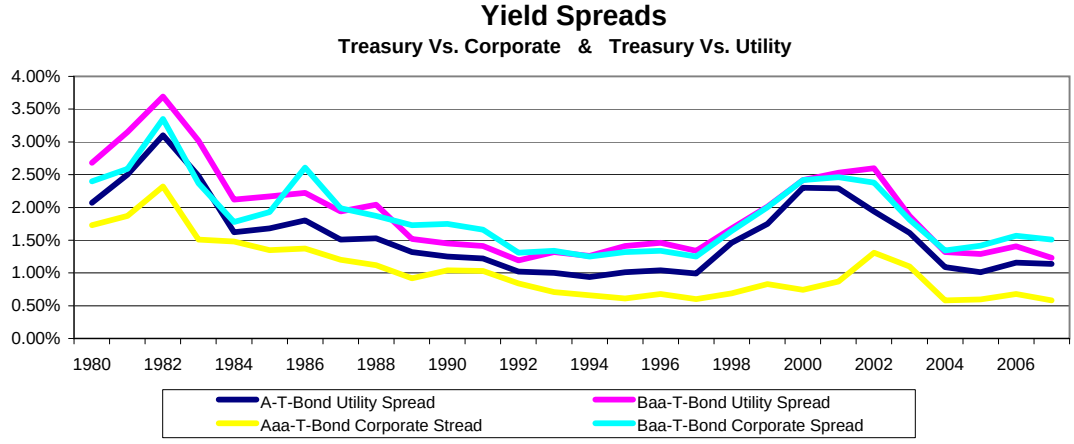
[2] Regulatory Research Associates, Inc., Regulatory Focus, Jan. 85 - Dec. 06.

[3] The data for 2007 includes the period January - June 2007.

Kansas City Power & Light Company

Annual Average Yields

Line	Year	T-Bond Yield[1]	Public Utility Bond Yields A[2]	Public Utility Bond Yields Baa[2]	A-T-Bond Spread	Baa-T-Bond Spread	Corporate Bond Yields Aaa[1]	Corporate Bond Yields Baa[1]	Aaa-T-Bond Spread	Baa-T-Bond Spread
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	1980	11.27%	13.34%	13.95%	2.07%	2.68%	11.94%	13.67%	1.73%	2.40%
2	1981	13.45%	15.95%	16.60%	2.50%	3.15%	14.17%	16.04%	1.87%	2.59%
3	1982	12.76%	15.86%	16.45%	3.10%	3.69%	13.79%	16.11%	2.32%	3.35%
4	1983	11.18%	13.66%	14.20%	2.48%	3.02%	12.04%	13.55%	1.51%	2.37%
5	1984	12.41%	14.03%	14.53%	1.62%	2.12%	12.71%	14.19%	1.48%	1.78%
6	1985	10.79%	12.47%	12.96%	1.68%	2.17%	11.37%	12.72%	1.35%	1.93%
7	1986	7.78%	9.58%	10.00%	1.80%	2.22%	9.02%	10.39%	1.37%	2.61%
8	1987	8.59%	10.10%	10.53%	1.51%	1.94%	9.38%	10.58%	1.20%	1.99%
9	1988	8.96%	10.49%	11.00%	1.53%	2.04%	9.71%	10.83%	1.12%	1.87%
10	1989	8.45%	9.77%	9.97%	1.32%	1.52%	9.26%	10.18%	0.92%	1.73%
11	1990	8.61%	9.86%	10.06%	1.25%	1.45%	9.32%	10.36%	1.04%	1.75%
12	1991	8.14%	9.36%	9.55%	1.22%	1.41%	8.77%	9.80%	1.03%	1.66%
13	1992	7.67%	8.69%	8.86%	1.02%	1.19%	8.14%	8.98%	0.84%	1.31%
14	1993	6.59%	7.59%	7.91%	1.00%	1.32%	7.22%	7.93%	0.71%	1.34%
15	1994	7.37%	8.31%	8.63%	0.94%	1.26%	7.96%	8.62%	0.66%	1.25%
16	1995	6.88%	7.89%	8.29%	1.01%	1.41%	7.59%	8.20%	0.61%	1.32%
17	1996	6.71%	7.75%	8.17%	1.04%	1.46%	7.37%	8.05%	0.68%	1.34%
18	1997	6.61%	7.60%	7.95%	0.99%	1.34%	7.26%	7.86%	0.60%	1.25%
19	1998	5.58%	7.04%	7.26%	1.46%	1.68%	6.53%	7.22%	0.69%	1.64%
20	1999	5.87%	7.62%	7.88%	1.75%	2.01%	7.04%	7.87%	0.83%	2.00%
21	2000	5.94%	8.24%	8.36%	2.30%	2.42%	7.62%	8.36%	0.74%	2.42%
22	2001	5.49%	7.78%	8.02%	2.29%	2.53%	7.08%	7.95%	0.87%	2.46%
23	2002	5.42%	7.36%	8.02%	1.94%	2.60%	6.49%	7.80%	1.31%	2.38%
24	2003	4.96%	6.57%	6.83%	1.61%	1.87%	5.67%	6.77%	1.10%	1.81%
25	2004	5.05%	6.14%	6.37%	1.09%	1.32%	5.63%	6.39%	0.58%	1.34%
26	2005	4.65%	5.66%	5.93%	1.01%	1.29%	5.24%	6.06%	0.59%	1.41%
27	2006	4.91%	6.07%	6.32%	1.16%	1.41%	5.59%	6.48%	0.68%	1.57%
28	2007[3]	4.89%	6.03%	6.12%	1.14%	1.23%	5.47%	6.40%	0.58%	1.51%
28	**Average**	**7.75%**	**9.31%**	**9.67%**	**1.57%**	**1.92%**	**8.55%**	**9.62%**	**1.04%**	**1.87%**



Notes:

[1] Economic Report of the President 2007: Table 73 at 316. The yields from 2002 to 2005 represent the 20-Year Treasury yields obtained from the Federal Reserve Bank.

[2] Mergent Public Utility Manual 2003. Moodys Daily News Reports.

[3] The data for 2007 includes the period January - June 2007.

Kansas City Power & Light Company

Series "A" and "Baa" Utility Bond Yields

Line	Date	"A" Rating Utility Bond Yield (1)	"Baa" Rating Utility Bond Yield (2)
1	07/06/07	6.32%	6.56%
2	06/29/07	6.24%	6.46%
3	06/22/07	6.36%	6.59%
4	06/14/07	6.39%	6.65%
5	06/08/07	6.33%	6.59%
6	06/01/07	6.15%	6.40%
7	05/25/07	6.09%	6.33%
8	05/18/07	6.04%	6.29%
9	05/11/07	5.91%	6.15%
10	05/04/07	5.88%	6.13%
11	04/27/07	5.97%	6.22%
12	04/20/07	5.94%	6.21%
13	04/12/07	6.02%	6.30%
14	**Average**	**6.13%**	**6.38%**

Source:
www.moodys.com, Bond Yields and Key Indicators.

Kansas City Power & Light Company

Comparable Group Beta
Gorman Proxy Group

Line	Electric Utility	Historical Beta 2002 (1)	2003 (2)	2004 (3)	2005 (4)	2006 (5)	5-Yr. AVG (6)	Current Beta (7)
1	American Electric Power	0.75	0.95	1.15	1.20	1.25	1.06	1.35
2	Cleco Corp.	0.65	0.90	1.05	1.15	1.25	1.00	1.30
3	Edision Int'l	0.80	0.90	1.05	1.05	1.15	0.99	1.10
4	Empire District	0.50	0.60	0.65	0.70	0.80	0.65	0.85
5	IDACORP	0.60	0.75	0.85	0.95	1.00	0.83	1.05
6	NiSource Inc.	0.50	0.65	0.75	0.80	0.90	0.72	0.95
7	OGE Energy	0.55	0.60	0.70	0.75	0.75	0.67	0.80
8	Pepco Holdings	N/A	N/A	0.90	0.90	0.85	0.88	0.90
9	PG&E	0.80	0.90	1.05	1.10	1.15	1.00	1.20
10	Pinnacle West Capital	0.55	0.70	0.85	0.90	1.00	0.80	1.00
11	PNM Resources	0.60	0.70	0.85	0.90	1.00	0.81	0.95
12	Progress Energy	N/A	0.85	0.85	0.85	0.85	0.85	0.95
13	SCANA Corp.	0.55	0.60	0.70	0.75	0.80	0.68	0.85
14	Southern Co.	N/A	0.65	0.65	0.65	0.65	0.65	0.70
15	Vectren Corp.	0.70	0.75	0.75	0.80	0.85	0.77	0.95
16	Wisconsin Energy	0.55	0.60	0.70	0.70	0.80	0.67	0.80
17	Xcel Energy, Inc.	0.60	0.70	0.80	0.80	0.90	0.76	0.90
18	**Average**	**0.62**	**0.74**	**0.84**	**0.88**	**0.94**	**0.81**	**0.98**
19	**Median**	**0.60**	**0.70**	**0.85**	**0.85**	**0.90**	**0.80**	**0.95**

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

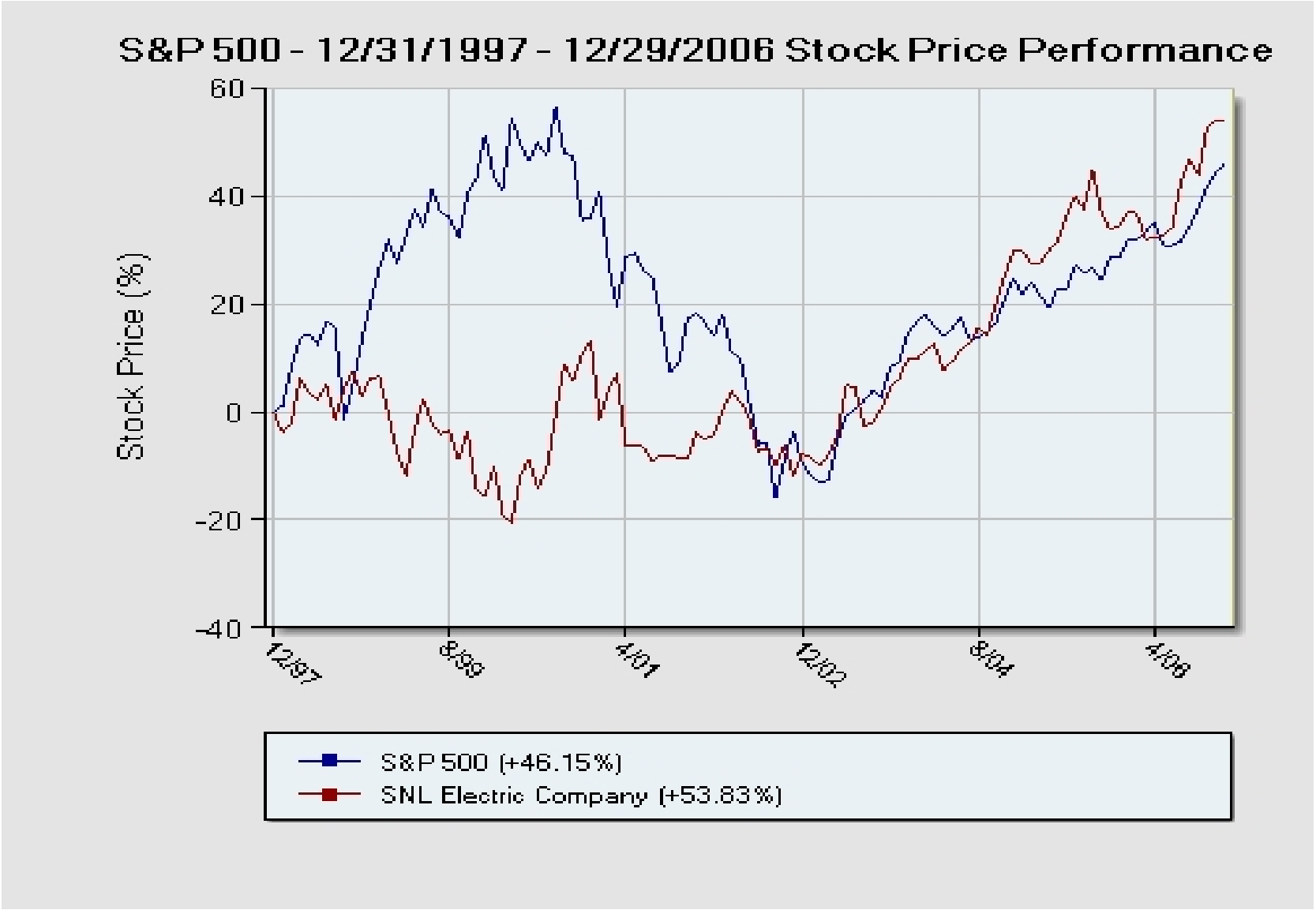
Kansas City Power & Light Company

Comparable Group Beta
Hadway Proxy Group

Line	Electric Utility	Historical 2002 (1)	2003 (2)	2004 (3)	2005 (4)	2006 (5)	5-Yr. AVG (6)	Current Beta (7)
1	Alliant Energy	0.65	0.70	0.80	0.85	0.90	0.78	0.95
2	Ameren Corp.	0.60	0.65	0.75	0.75	0.75	0.70	0.75
3	American Electric Power	0.75	0.95	1.15	1.20	1.25	1.06	1.35
4	CH Energy	0.65	0.70	0.80	0.80	0.85	0.76	0.85
5	Cent. Vermount P.S.	0.50	0.45	0.50	0.50	0.70	0.53	0.70
6	Cleco Corp.	0.65	0.90	1.05	1.15	1.25	1.00	1.30
7	Consolidated Edison	0.55	0.55	0.65	0.60	0.75	0.62	0.75
8	DTE Enrgy	0.60	0.60	0.65	0.70	0.75	0.66	0.75
9	Empire District	0.50	0.60	0.65	0.70	0.80	0.65	0.85
10	Energy East Corp.	0.65	0.70	0.80	0.80	0.90	0.77	0.95
11	Hawaiian Electric	0.55	0.55	0.65	0.70	0.70	0.63	0.75
12	IDACORP	0.60	0.75	0.85	0.95	1.00	0.83	1.05
13	MGE Energy	0.50	0.55	0.60	0.65	0.75	0.61	0.80
14	NiSource Inc.	0.50	0.65	0.75	0.80	0.90	0.72	0.95
15	Northeast Utilities	0.60	0.65	0.75	0.80	0.85	0.73	0.90
16	NSTAR	0.60	0.65	0.70	0.70	0.80	0.69	0.80
17	Pinnacle West Capital	0.55	0.70	0.85	0.90	1.00	0.80	1.00
18	PPL Corporation	0.75	0.85	0.95	0.95	1.00	0.90	0.95
19	Progress Energy	N/A	0.85	0.85	0.85	0.85	0.85	0.95
20	Puget Energy, Inc.	0.60	0.65	0.75	0.80	0.80	0.72	0.85
21	SCANA Corp.	0.55	0.60	0.70	0.75	0.80	0.68	0.85
22	Southern Co.	N/A	0.65	0.65	0.65	0.65	0.65	0.70
23	Vectren Corp.	0.70	0.75	0.75	0.80	0.85	0.77	0.95
24	Xcel Energy, Inc.	0.60	0.70	0.80	0.80	0.90	0.76	0.90
25	**Average**	**0.60**	**0.68**	**0.77**	**0.80**	**0.86**	**0.74**	**0.90**
26	**Median**	**0.60**	**0.65**	**0.75**	**0.80**	**0.85**	**0.73**	**0.88**

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

Kansas City Power and Light Company



Kansas City Power & Light Company

CAPM Return Estimate

Line	Description	Historical Premium (1)
1	Risk Free Rate[1]	5.4%
2	Risk Premium[2]	6.5%
3	Beta[3]	0.90
4	CAPM	11.3%

Line	Description	Prospective Premium (1)
5	Risk Free Rate[1]	5.4%
6	Risk Premium[2]	6.1%
7	Beta[3]	0.90
8	CAPM	10.9%
9	**CAPM Average**	**11.1%**

Sources:

[1] Blue Chip Financial Forecasts; July 1, 2007 at 2.

[2] SBBI; 2007 at pp. 31 & 120.

[3] The Value Line Investment Survey; May 11, June 1, June 29, 2007.