

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION
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6 TRANSCRIPT OF PROCEEDINGS
7 Hearing
8 October 26, 2006
9 Jefferson City, Missouri
10 Volume 13
11
12 In the Matter of the Application)
13 of Kansas City Power & Light)
14 Company for Approval to Make)
15 Certain Changes in its Charges for) Case No. ER-2006-0314
16 Electric Service to Begin the)
17 Implementation of Its Regulatory)
18 Plan)
19
20 RONALD D. PRIDGIN, Presiding,
21 REGULATORY LAW JUDGE.
22 CONNIE MURRAY,
23 COMMISSIONERS.
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26 REPORTED BY:
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1 JUDGE PRIDGIN: We're back on the record.
2 This is Thursday, October 26th and I believe our only witness
3 scheduled is Mr. Camfield for Kansas City Power & Light; is
4 that correct?

5 MR. ZOBRIST: That's correct, Judge.

6 JUDGE PRIDGIN: Is there anything counsel
7 needs to bring to my attention before Mr. Camfield takes to
8 the stand?

9 MR. ZOBRIST: I just have some housekeeping
10 details. We have some testimony KCPL would like to offer from
11 witnesses for whom cross-examination has been waived. And
12 they are Exhibits 26 and 27, the Rebuttal and Surrebuttal of
13 Robert W. Hriszko, that's H-r-i-s-z-k-o. And I can go
14 through -- it's a small group. Should I just go through it?

15 Philip Burright, Exhibits 42 and 43 -- I
16 believe that's just 43, pardon me, that's right, which is
17 Direct Testimony; Exhibit 44, Christine Davidson, Direct
18 Testimony; and Exhibit 45, John R. Grimwade, Direct Testimony.
19 And I would offer those at this time.

20 MR. THOMPSON: No objection.

21 MR. MILLS: No objection.

22 JUDGE PRIDGIN: All right. Hearing no
23 objections, those exhibits are admitted and those will be
24 Exhibits No. 26, 27, 43, 44 and 45; is that correct?

25 MR. ZOBRIST: That's correct.

1 JUDGE PRIDGIN: All right. Thank you. Those
2 are all admitted.

3 (Exhibit Nos. 26, 27, 43, 44 and 45 were
4 received into evidence.)

5 MR. THOMPSON: Judge, in the same vein, if I
6 may, I overlooked offering Ms. Bernsen's testimony during her
7 cross-examination yesterday. If I could offer it at this
8 time, Exhibit 105, Rebuttal Testimony of Deborah Ann Bernsen.

9 JUDGE PRIDGIN: Any objections?

10 MR. MILLS: No objection.

11 MR. ZOBRIST: No objection.

12 JUDGE PRIDGIN: All right Exhibit No. 105, the
13 Rebuttal Testimony of Deborah Ann Bernsen is admitted.

14 (Exhibit No. 105 was received into evidence.)

15 MR. THOMPSON: Thank you.

16 MR. ZOBRIST: Just one additional matter,
17 Judge, in the testimony of Mr. Giles, he spoke about the basis
18 point adjustment that his Rebuttal Testimony linked to an
19 increase in off-system sales. That number was highly
20 confidential, but the company has -- would like to declassify
21 that at this time. And I presume I don't need a motion so
22 I'll just state it. The number is 9.57 basis points and that
23 number is no longer considered highly confidential by the
24 company.

25 JUDGE PRIDGIN: Mr. Zobrist, thank you.

1 Anything further, Mr. Zobrist.

2 MR. ZOBRIST: Nothing, Judge.

3 JUDGE PRIDGIN: Mr. Dottheim?

4 MR. DOTTHEIM: Yes, Judge. Earlier this week
5 Commissioner Murray, when Mr. Traxler was on the stand, had a
6 question for Mr. Traxler regarding his Direct Testimony,
7 Exhibit 134, page 18 regarding the discount rate that he had
8 used for the off-balance sheet obligations relating to the
9 additional amortizations as it applied to KCPL's operating
10 leases and purchased power capacity contract obligations.

11 Mr. Traxler used a 6.1 percent discount rate
12 rather than a 10 percent discount rate and I believe
13 Commissioner Murray asked him about the dollar value
14 difference and Mr. Traxler said he would provide that number.

15 I have that number. Mr. Traxler's available
16 to explain. I also have two pages, one page with a
17 quantification of the additional amortizations at the
18 10 percent discount rate, which the additional amortizations
19 is \$82 million and at the 6.1 percent discount rate, the
20 additional amortizations quantification is at \$86 million. If
21 the Bench would like to have those marked as exhibits.

22 Mr. Traxler I believe was planning on going
23 back to Kansas City today rather than holding over until
24 tomorrow. And -- here is Commissioner Murray.

25 JUDGE PRIDGIN: Mr. Dottheim's talking about

1 you.

2 MR. THOMPSON: But in the nicest way.

3 JUDGE PRIDGIN: But in a kind way.

4 COMMISSIONER MURRAY: I'm glad I came in then.

5 MR. DOTTHEIM: Commissioner Murray, earlier
6 this week you had a question for Mr. Traxler regarding a
7 discount rate that he had used on the balance sheet
8 obligations relating to the additional amortizations. Your
9 question related to Exhibit No. 134, his Direct Testimony at
10 page 18.

11 Mr. Traxler used a 6.1 percent discount rate
12 instead of a 10 percent discount rate and you had asked him
13 for the quantification, I believe, of the difference. And he
14 has quantified that difference and is he -- as I think he
15 indicated, he would visit with Mr. Trippensee of the Office of
16 Public Counsel, which he has.

17 Mr. Traxler is here to address that matter.
18 He could take the stand. He's also produced two sheets which
19 show the quantification, one at the 10 percent discount rate,
20 the other at the 6.1 percent discount rate.

21 JUDGE PRIDGIN: Mr. Dottheim, I think maybe
22 the cleanest way to take care of this is to have you mark that
23 as an exhibit and offer it if it's something you want the
24 Commission to consider and see or if any of the counsel or
25 Bench has any questions for Mr. Traxler on that.

1 MR. DOTTHEIM: Certainly. I have the two
2 different pages. Maybe I should have stapled them together,
3 but I have two separate pages, one with the 6.1 percent
4 discount rate, the other at the 10 percent discount rate. Why
5 don't I have marked as I believe Exhibit 151 --

6 JUDGE PRIDGIN: That's what I show.

7 MR. DOTTHEIM: -- the 6.1 percent discount
8 rate calculation and as Exhibit 152 the 10 percent discount
9 rate calculation. And first I'll have marked the 6.1 percent
10 discount rate calculation and distribute that.

11 (Exhibit No. 151 was marked for
12 identification.)

13 MR. DOTTHEIM: Also, if Commissioner Murray
14 doesn't have her copy of Mr. Traxler's Direct Testimony, I do
15 have it and could provide it if she'd like to take a look at
16 that page that she previously had referred to.

17 And at this time I'd like to have marked as
18 Exhibit 152 the page that shows the calculation of the
19 10 percent discount rate, the additional amortization.

20 (Exhibit No. 152 was marked for
21 identification.)

22 JUDGE PRIDGIN: Mr. Dottheim, thank you. Go
23 ahead.

24 MR. DOTTHEIM: And, in particular, I'd direct
25 the Bench to line 19. And on Exhibit 151, the 6.1 percent

1 discount rate, it shows the additional amortization at
2 \$86.2 million and Exhibit 152, the 10 percent discount rate,
3 the additional amortization is shown as \$82.2 million. And
4 Mr. Traxler is here if Commissioner Murray would have any
5 questions.

6 JUDGE PRIDGIN: First, let me see if any
7 counsel wishes any cross-examination of Mr. Traxler on this
8 information

9 MR. MILLS: I do.

10 JUDGE PRIDGIN: Mr. Mills. Okay. Is
11 Mr. Traxler available?

12 MR. DOTTHEIM: Yes, he is.

13 JUDGE PRIDGIN: If you'd come forward, please.
14 Any other counsel wish to cross on?

15 And then after this kind of detour, I would
16 like to get to Mr. Camfield.

17 MR. ZOBRIST: KCPL does not.

18 JUDGE PRIDGIN: Thank you. Mr. Traxler,
19 you're still under oath. And have a seat whenever you're
20 ready.

21 And, Mr. Mills, when you're ready, sir.

22 STEVE M. TRAXLER testified as follows:

23 CROSS-EXAMINATION BY MR. MILLS:

24 Q. Mr. Traxler, the Exhibits 151 and 152, the
25 only differences between the two are the discount rate that

1 you apply in the sections headed Adjustments Made by Rating
2 Agencies for Off-Balance Sheet Obligations; is that correct?

3 A. That's correct.

4 Q. Is the calculation to apply a risk factor to
5 the off-balance sheet obligations shown on either 151 or 152?

6 A. I don't believe that shows on this document.
7 Let me check that real quick.

8 No, I don't think it does. The risk factor
9 assumed in these calculations was 30 percent, which was the
10 Staff's filed position. Now, in the true-up we plan to change
11 that to 50 percent, again based on a change by S&P -- I mean
12 on a correction by S&P. Not a change, but a correction.

13 Q. And how do you distinguish between that being
14 a change and a correction?

15 A. The 30 percent risk factor that I used in
16 Direct Testimony was based on an August 1st research report
17 from Standard and Poor's. I contacted the analyst at Standard
18 and Poor's prior to taking the witness stand on this issue.
19 And she indicated that -- sent another report and indicated
20 that the original August 1st report was incorrect, that, in
21 fact, the risk factor for purchased power contracts which
22 exceed three years is 50 percent and not 30.

23 Q. Okay. So you're basing the fact that it's a
24 correction rather than a change on your conversation with one
25 analyst at Standard and Poor's?

1 A. Well, with the -- with the analyst responsible
2 for Kansas City Power & Light Company, yes. And they sent a
3 revised report to support that.

4 Q. And both reports have been made a part of the
5 record in this case already?

6 A. I believe that's correct.

7 Q. I don't remember the exhibit numbers off the
8 top of my head, but they're in there.

9 MR. DOTTHEIM: Excuse me. Those -- excuse me
10 for interrupting. Those I believe are Exhibits 146 and 147.

11 BY MR. MILLS:

12 Q. Okay. Now, where in this calculation does the
13 risk factor adjustment take place?

14 A. Risk factor only affects one line and that's
15 line No. 41, Purchase Power Debt Equivalent.

16 Q. So before you put line 41 on this sheet,
17 you've already made a risk factor adjustment; is that correct?

18 A. You have to assume some risk factor to make
19 the calculation. That was based on 30 percent.

20 Q. Okay. If you were to use, on either 151 or
21 152, then the 10 percent risk factor adjustment that
22 Mr. Trippensee proposes, what would that do to the bottom line
23 on the overall amount of amortization required?

24 A. It's going to lower it.

25 Q. By?

1 A. I couldn't tell you without making the
2 calculation.

3 Q. You've worked with this amortization model
4 quite a bit over the last couple of months, have you not?

5 A. More than I'd like to say.

6 Q. Would you agree that it's likely that that
7 10 -- the 10 percent versus 30 percent or 50 percent would be
8 worth several million dollars in the overall amortization
9 calculation?

10 A. I believe in talking with Russ Trippensee
11 yesterday, I think it's in a ballpark in terms of what it's
12 worth. I think he made those calculations.

13 MR. MILLS: Okay. That's all the questions I
14 have. Thank you.

15 JUDGE PRIDGIN: Mr. Mills, thank you.

16 Any further cross from counsel? Commissioner
17 Murray?

18 QUESTIONS BY COMMISSIONER MURRAY:

19 Q. Thank you, Mr. Traxler, for providing me
20 additional information. And a couple of questions.

21 The primary difference that Mr. Dottheim
22 referenced I believe was on line 19 on the amortization
23 amount, is that correct, between your 6.1 discount rate and
24 the 10 percent discount rate? I realize there are
25 different -- this provides different numbers and different

1 categories here, but --

2 A. The line 19 provides the total result, the
3 amortization. And it's a difference between those two that
4 quantifies the impact of the change in the discount rate.

5 Q. Okay. So that's approximately \$4 million?

6 A. Yes, it is.

7 Q. And your calculation puts an additional
8 approximately \$4 million into the amortization amount; is that
9 correct?

10 A. Yes. It represents a -- a change by Standard
11 and Poor's to increase the amount of cash required to cover
12 the -- to cover the credit metrics, but that's what's required
13 to -- and we're recommending that that change be reflected.

14 Q. Okay. But without that change, what would
15 your 6.1 percent -- how would that differ from the 10 percent
16 without that change that S&P just made that you're talking
17 about?

18 A. Are we talking about just the change in the
19 discount rate?

20 Q. Yes.

21 A. That's a \$4 million impact.

22 Q. Okay.

23 A. They require \$4 million more in cash now
24 because of the change in their discount rate to cover the
25 credit metrics. Kansas City Power & Light Company has to show

1 an additional \$4 million in cash available to cover the credit
2 metrics now because of this change by Standard and Poor's.

3 Q. Okay. And explain for me again what is the
4 change by Standard and Poor's?

5 A. Well, there's been two changes since I filed
6 my Direct Testimony, one change and one correction. The
7 initial calculation provided by Kansas City Power & Light
8 Company in response to a data request prior to their direct
9 filing showed a 10 percent discount rate. We received a -- a
10 research report from Standard and Poor's which said --
11 indicated 6.1 percent. And so I relied on the 6.1 percent
12 before filing my Direct Testimony.

13 The -- the correction that occurred -- the
14 same research report of August 1st indicated that they used a
15 risk factor of 30 percent for Kansas City Power & Light's
16 purchased power contracts, capacity contracts. And we just --
17 as I said, we just -- I just became aware that that was
18 incorrect when I contacted Standard and Poor's to verify some
19 information. And they indicated that the 30 percent was --
20 was not correct and that, in fact, the risk factor for the
21 purchased power contract is actually 50 percent.

22 Q. Okay. What does that risk factor represent?

23 A. The higher the risk factor, the -- the higher
24 the balance of purchased power contract that they consider
25 debt related. And so it increases the amount of cash required

1 to meet the credit metrics. So, again, that change from
2 30 percent to 50 percent will also increase the amortization
3 to provide the initial cash that Standard and Poor's is now
4 expecting to meet those metrics.

5 Q. Okay. And since you are back on the stand, I
6 want to ask you a question related to this amortization. And
7 I was looking back at the Stipulation and Agreement language
8 from EO-2005 -- and somehow I have a copy that doesn't have
9 the remainder of the number on it.

10 A. 0329?

11 Q. That sounds right.

12 A. On page 32 of that Stip and Agreement there is
13 a statement that, Any such accumulated amortization balance
14 booked pursuant to this agreement will be used as an offset to
15 rate-base in future rate proceedings of KCP&L.

16 Can you tell me what accumulated amortization
17 balance means?

18 A. Yes. The -- let's go back to the \$86 million
19 recommendation. That is a -- an annual amount that's been
20 reflected in rates. So in the next rate case, the time period
21 for -- for determining how much money the Commiss-- the
22 ratepayers have actually paid -- provided in rates for the
23 amortization starts with the effective date of rates in this
24 case and will go until the true-up and/or update period for
25 the rates in the next case.

1 So it's an \$86 million amount on an annual
2 basis. If that time frame exceeds 12 months, which it will,
3 it will be something in excess of \$86 million. It just
4 represents the accumulated amount that ratepayers have paid
5 through rates.

6 Q. Okay. But I was -- and that's what I was
7 thinking it meant, that whatever is the full amount of the
8 amortization, what goes into the amortization will be fully
9 amortized during that period of time; that is, what is going
10 to provide the cash flow and it is going -- that that total
11 amount is what is being considered or would be put into
12 rate-base at the time of the next rate case --

13 A. Well, it's -- 86 milli--

14 Q. -- removed from rate-base?

15 A. \$86 million is one year. So let's assume it's
16 18 months between the effective rates in the second rate case,
17 it would actually be 86 million and a half -- it's treated
18 just like booked depreciation.

19 Q. But for the one year it is the amount that's
20 represented?

21 A. That's correct. That's correct.

22 COMMISSIONER MURRAY: Okay. Thank you.
23 That's all I have.

24 JUDGE PRIDGIN: Thank you. I have no
25 questions.

1 Any further recross? Mr. Mills?

2 RECROSS-EXAMINATION BY MR. MILLS:

3 Q. Just briefly. And really more sort of
4 background on the whole off-balance sheet obligation. What's
5 the purpose of that obligation? What are these obligations
6 that are being addressed in this whole calculation?

7 A. It's a -- the best way to characterize it,
8 it's conservative approach by Standard and Poor's to consider
9 things that are treated for financial reporting as expenses
10 and to instead treat those as a debt component. It produces a
11 more conservative requirement for cash flow.

12 In other words, it takes a purchased power
13 capacity contract and an operating lease, which are both
14 treated as expenses for -- for financial reporting, and treats
15 those as a fixed obligation and -- and assume additional debt
16 coverage for those amounts.

17 Q. So it's essentially an effort to recognize
18 that a purchased power contract, even though it's accounted
19 for as an expense, really has a lot of characteristics like
20 owning a power plant, is that correct, in it attempts to
21 characterize -- it attempts to quantify debt characterization?

22 A. It recognizes the fact that the company has an
23 obligation under that contract which exceeds one year.

24 Q. Okay. And in order to come up with a debt
25 equivalent value, you need to make two separate adjustments.

1 Correct? The first one is to present value of that contract
2 over the term of its life and that's the calculation for its
3 use, the 6.1 or the 10 percent we're talking about today?

4 A. That's correct.

5 Q. Okay. And then the second calculation is the
6 risk factor adjustment over which there's a disagreement
7 between Staff and Public Counsel?

8 A. That's correct.

9 Q. And both of those are designed to fit into the
10 whole process you talked about about recognizing the purchased
11 power contracts expenses as something more -- for rating
12 agency purposes, is something other than just a pure, normal
13 expense?

14 A. It's treated as debt as opposed to expense --

15 Q. Right.

16 A. -- for their purposes, yes

17 MR. MILLS: That's all I had. Thank you.

18 JUDGE PRIDGIN: Mr. Mills, thank you.

19 Mr. Conrad?

20 RE-CROSS-EXAMINATION BY MR. CONRAD:

21 Q. Mr. Traxler, following up on a question from
22 Commissioner Murray, she indicated or made reference, I think,
23 to the settlement or the stipulation in the regulatory plan
24 case.

25 A. Yes, sir.

1 Q. One of the concerns I've -- I have heard
2 voiced about that, whether it's been in the appeals or
3 somewhere else, was that the Commission was delegating
4 regulatory authority to Standard and Poor's. Have you heard
5 that in some way, shape or form?

6 A. I think I can agree with that, yes.

7 Q. My question to you is this based on the
8 Commissioner's question. When that risk factor changes and we
9 change this, explain to me why -- if we're set on a fixed set
10 of ratios, why the result of the amortization would change.

11 A. Well, the ratios themselves have not changed.
12 In other words, the -- the ratios are on the funds of -- funds
13 available from operations as debt coverage is 3.8 times
14 interest. You'll see that in the Appendix E of the
15 Stipulation and Agreement. Also in Appendix E you're going to
16 see that the funds available from operations as a coverage of
17 total debt is 25 percent.

18 So the metrics themselves have not changed.
19 It's just some of the assumptions we were relying on were
20 not -- that are used in those calculations were -- there's one
21 change and one correction. They just gave us a bad number. I
22 was using a bad number.

23 MR. CONRAD: All right. Thank you.

24 JUDGE PRIDGIN: Mr. Conrad, thank you.

25 Further recross? Redirect?

1 MR. DOTTHEIM: No redirect.

2 JUDGE PRIDGIN: All right. Thank you.

3 Mr. Traxler, thank you very much.

4 Mr. Dottheim?

5 MR. DOTTHEIM: Judge, at this time I'd like to
6 offer Exhibits 151 and 152.

7 JUDGE PRIDGIN: 151 and 152 have been offered.
8 Any objections?

9 MR. CONRAD: No objection.

10 MR. MILLS: No.

11 JUDGE PRIDGIN: 151 and 152 are admitted
12 without objection.

13 (Exhibit Nos. 151 and 152 were received into
14 evidence.)

15 JUDGE PRIDGIN: Are we ready for Mr. Camfield?

16 MR. PHILLIPS: Judge Pridgin, we had one
17 housecleaning matter related to Witness Dittmer from last
18 week. And it's my understanding I need to talk to two other
19 KCPL attorneys about this before we go forward. And,
20 therefore, I would like to do that after Mr. Camfield is
21 finished. Perhaps we could then go off the record and get
22 this straightened out and take care of for the last piece of
23 business today.

24 JUDGE PRIDGIN: Thank you. That's fine. Are
25 we ready for Mr. Camfield?

1 All right. If you'd come forward to be sworn,
2 please, sir.

3 (Witness sworn.)

4 JUDGE PRIDGIN: Thank you, sir. Please have a
5 seat.

6 And, Mr. Thompson, anything to take care of
7 before he's tendered for cross? Excuse me. It's a KCPL
8 witness. I'm sorry. Long hearing. Mr. Zobrist.

9 MR. ZOBRIST: Thank you.

10 ROBERT J. CAMFIELD testified as follows:

11 DIRECT EXAMINATION BY MR. ZOBRIST:

12 Q. Mr. Camfield, do you have any corrections to
13 your Direct or Surrebuttal Testimony?

14 A. I do. I have one correction. And it is on
15 the Direct Testimony, page 19. The sentence that begins and
16 ends on line 12 should be struck from the testimony. That
17 sentence is in complete error.

18 Q. Anything else, sir?

19 A. No other changes.

20 MR. ZOBRIST: Okay. Tender the witness for
21 cross, Judge.

22 JUDGE PRIDGIN: All right. Thank you.

23 Counsel who wish cross? Mr. Thompson. Any
24 other parties? Okay. Mr. Thompson, when you're ready, sir.

25 MR. THOMPSON: Thank you, Judge.

1 CROSS-EXAMINATION BY MR. THOMPSON:

2 Q. Good afternoon, Mr. Camfield.

3 A. Good afternoon.

4 Q. Now, Mr. Camfield, you're being compensated
5 for your participation in this case; isn't that correct?

6 A. That's correct.

7 Q. And your firm, I believe, is Christensen and
8 Associates?

9 A. Christensen Associates Energy Consulting, a
10 subsidiary of Christensen Associates.

11 Q. Thank you for your correction.

12 And the total compensation that your firm is
13 receiving is I believe \$160,000 for its participation in this
14 case; is that correct, sir?

15 A. You might be right. I'm not sure.

16 Q. Well, let me --

17 A. That sounds approximately correct.

18 Q. Approximately?

19 A. I don't know exactly what the billings are.

20 MR. THOMPSON: May I approach, your Honor?

21 JUDGE PRIDGIN: You may.

22 BY MR. THOMPSON:

23 Q. I'm going to show you a document that Staff
24 obtained from the company in response to Staff Data Request
25 0325. Have you ever seen that document before?

1 A. I have.

2 Q. And could you read the last paragraph just
3 above the signature line?

4 A. Did you request me to read the last paragraph?

5 Q. Yes, sir. I apologize. Into the record, if
6 you would.

7 A. For the scope of consulting services defined
8 above, the authorization for incremental funding is for the
9 amount of \$120,000 for a total of \$160,000.

10 Q. Thank you, sir. Now, your testimony, as I
11 understand it, sponsors an upward adjustment of some 50 to 100
12 basis points, is that correct, sir?

13 A. My testimony reports the technical study
14 results that we have conducted of corporate performance of
15 KCPL according to metrics that align with the welfare of
16 consumers in the state of Missouri. And on the basis of that
17 testimony -- analysis and my testimony, the 50 to 100 basis
18 points that you mentioned are fully justified by the net
19 benefits to retail consumers.

20 Q. So is that a yes answer to my question, sir?

21 A. That's a yes.

22 MR. THOMPSON: Could you strike that previous
23 answer, Judge, that was non-responsive and let the record
24 simply show the answer yes?

25 MR. ZOBRIST: Your Honor, I object to that.

1 That was simply explanatory and he did answer the question. I
2 don't think it needs to be stricken from the record.

3 JUDGE PRIDGIN: That's fine. I won't strike
4 it, but from now on, I'm going to try to monitor. If he asks
5 you a yes or no question, try to answer yes or no.

6 THE WITNESS: Thank you.

7 BY MR. THOMPSON:

8 Q. Mr. Camfield, I'm somewhat confused about the
9 company's position as to return on equity. Are you familiar
10 with the testimony of Dr. Samuel Hadaway that the company has
11 presented as its primary return on equity witness and
12 testimony?

13 A. I am familiar with the general conclusions of
14 that testimony.

15 Q. Now, am I correct in understanding that the
16 company is asking for a return on equity in this case of
17 11 1/2 percent?

18 A. 11.5 percent, that's correct.

19 Q. Thank you. Does that include the 50 to 100
20 basis point upward adjustment that you sponsor in your
21 testimony?

22 A. No.

23 MR. THOMPSON: Well, on the strength of that
24 answer, Judge, I'm going to suggest to you that this witness
25 and this witness's testimony is completely irrelevant to this

1 case. The company has not made any request of the Commission
2 based on this testimony. And, further, Staff would take the
3 position that the \$160,000 paid to this firm should not be
4 recovered from ratepayers as part of rate case expense.

5 JUDGE PRIDGIN: Mr. Zobrist.

6 MR. ZOBRIST: I'm not sure if that was a
7 motion or an objection. Could Mr. Thompson clarify? If he
8 wants to make an argument in a legal brief, we'll be glad to
9 address that. If it's a Motion to Strike this witness's
10 testimony, it has been shown to be relevant. It deals with
11 the company's overall performance. It is relevant to the cost
12 of capital issues in this case and it should be admitted.

13 JUDGE PRIDGIN: To the extent that he's
14 launched an objection or a Motion to Strike, I'm going to
15 overrule. Again, he's certainly welcome to make whatever
16 arguments he likes in legal brief and ask that the money be
17 stricken as an expense to be recovered.

18 MR. THOMPSON: Thank you for your ruling,
19 Judge.

20 BY MR. THOMPSON:

21 Q. Based on that ruling, Mr. Camfield, I have
22 some further questions for you. You're aware that the
23 testimony of Mr. Hadaway includes a 50 basis point upward
24 adjustment reflecting construction risk, are you not?

25 A. I am.

1 Q. And you're aware that the testimony of Chris
2 Giles has recommended an upward adjustment to reflect
3 off-system sales margin risk, are you not?

4 A. Yes.

5 Q. And we've already mentioned the upward
6 adjustment that you sponsor. So my question to you is this,
7 sir. Is the Commission to pancake these upward adjustments?
8 Is that how the Commission is to handle those? Simply add the
9 50 basis points that Mr. Hadaway recommends to the 50 to 100
10 basis points that you recommend to whatever the number is that
11 Mr. Giles recommends?

12 A. No, that's not correct.

13 Q. That's not correct?

14 A. That's not correct. Let me explain that
15 answer.

16 Q. Please do.

17 A. The -- the adjustments for risk construction
18 and wholesale market sales are part of the cost of capital.
19 That's part of it.

20 Q. Are you saying that Mr. Hadaway did not, in
21 his testimony, recommend a 50 basis point upward adjustment or
22 adder to reflect construction risk?

23 A. The construction risk that Mr. Hadaway
24 recommends, recognizes explicitly unique construction risk
25 associated with the resource plan of KCPL.

1 MR. THOMPSON: I'm not sure that was
2 responsive to my question, Judge. I thought it was a yes or
3 no question.

4 JUDGE PRIDGIN: Could you ask it again,
5 please?

6 MR. THOMPSON: Could you read it back, please,
7 Ms. Reporter?

8 THE COURT REPORTER: "Question: Are you
9 saying that Mr. Hadaway did not, in his testimony, recommend
10 a 50 basis point upward adjustment or adder to reflect
11 construction risk?"

12 MR. THOMPSON: That's a yes or no question,
13 your Honor.

14 JUDGE PRIDGIN: I think the question is. Are
15 you saying -- and if you need counsel to pose it to you in a
16 different way, that's fine.

17 THE WITNESS: Could I hear the question,
18 again, please?

19 THE COURT REPORTER: "Question: Are you
20 saying that Mr. Hadaway did not, in his testimony, recommend a
21 50 basis point upward adjustment or adder to reflect
22 construction risk?"

23 THE WITNESS: I am not saying that.

24 BY MR. THOMPSON:

25 Q. Thank you, sir.

1 MR. THOMPSON: I have no further questions for
2 this witness. Thank you, your Honor.

3 JUDGE PRIDGIN: Mr. Thompson, thank you.

4 Questions from the Bench? Commissioner
5 Murray.

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. Thank you. Good afternoon.

8 A. Good afternoon.

9 Q. On page 19 of your Direct Testimony --

10 A. I have it.

11 Q. -- on line 15 through 17 you say, Over the
12 entire study period, KCP&L reduced customer service operations
13 and maintenance costs substantially and has sharply
14 outperformed the industry in the comparison groups.

15 What are the primary ways in which KCP&L has
16 been able to do that?

17 A. I would interpret your question to be what
18 sort of actions and decisions that KCPL internally has taken
19 to achieve that level of performance. And I have to tell you
20 I don't know. I would infer that it's through the intensive
21 use of information systems.

22 Q. On page 23 of your direct you speak about
23 transmission limits continuing to impede delivery over the
24 foreseeable future or they can continue to do that. Are these
25 transmission issues a significant risk factor?

1 A. Oh, absolutely. In some areas of the
2 countries and some specific locations much more so than
3 others. And that's because the congestion of transmission
4 networks is highly location specific.

5 Q. And did you quantify in some way the
6 transmission risk as it applies to KCP&L?

7 A. I did not.

8 Q. You're just speaking in more general terms
9 there; is that correct?

10 A. That's correct, Commissioner.

11 Q. Okay. And how do you factor in a greater risk
12 for the industry as a whole?

13 A. Well, the risks of the industry from the
14 perspective of financial investors is -- is implicit in the
15 market trading experience of -- of the industry. The -- and
16 we should say within the industry, individual electric
17 companies.

18 Q. But if you're looking at determining the risk
19 factor for a specific utility, don't you begin with the risk
20 factors that apply in general to utilities? I mean, it's kind
21 of an even point at that stage, is it not?

22 A. It is. Though as a -- I think we recognize,
23 the differences in capital risk, financial risks of individual
24 utilities as far as the effects of the transmission are
25 concerned would be unique to individual utilities or regions

1 where several utilities, for example, together might be
2 impacted by transmission risks.

3 Q. But you would not attribute any unique
4 transmission risk to KCP&L; is that correct?

5 A. Not in the case of productivity performance.

6 Q. And then on page 25 of your direct, at line 10
7 you say, I encourage the Commission to make special
8 recognition of the high standard of productivity and overall
9 performance achieved by KCP&L over recent years in its
10 deliberation of the return on equity and revenue requirement
11 in the immediate docket.

12 And how specifically are you suggesting that
13 we recognize that high standard?

14 A. Well, KCPL's performance, as I've
15 demonstrated, is remarkably high. It's not as if they're
16 somewhat above the industry, but they're way above the
17 industry average.

18 And it -- and in view of this performance and
19 in view of the resource plan that KCPL is undertaking here, I
20 think it's very important for the Commission to consider the
21 very good job in the interest of retail consumers and the
22 state of Missouri that -- that they've produced in recent
23 years.

24 How the Missouri Public Service Commission
25 actually does that, I haven't deliberated on that in the

1 testimony specifically an awful lot, but as the Commission
2 deliberates on the various issues of this immediate docket,
3 the numerous issues of total cost of service and revenue
4 requirements, which also includes, of course, rate of return,
5 we would request and it's clearly shown that the high
6 performance I think deserves recognition.

7 Q. But you're not suggesting any specific adder
8 for that; is that correct?

9 A. If I were in your shoes, and I was a regulator
10 for many years, I would fully take account of KCPL's
11 performance and I would do it in the rate of return on equity.

12 KCPL's position, on the other hand, is that
13 the cost of equity including risks associated with substantial
14 construction expenditures is 11.5. But very clearly, as I've
15 demonstrated in the Surrebuttal Testimony, the value of the
16 performance to retail consumers is large and far outweighs the
17 revenue -- incremental revenue associated, Commissioner,
18 with -- with the 50 to 100 basis point adjustment performance
19 allowance.

20 Q. So let me see if I understand what you're
21 saying.

22 A. That was a long-winded answer, wasn't it? I
23 apologize.

24 Q. That's all right. I sometimes ask long-winded
25 questions.

1 If we agreed with KCP&L and the witnesses that
2 have recommended arriving at an ROE of 11.5 including a
3 50 basis point adder for construction risk, is it your
4 suggestion then that we should look beyond that in terms of
5 granting KCP&L a higher ROE based upon the additional
6 consideration of its extraordinary performance?

7 A. Absolutely.

8 Q. Okay.

9 A. Absolutely. Though you can take account of
10 that performance in other ways.

11 Q. Do you want to elaborate on one or two of the
12 ways in which we could take account of that performance?

13 A. Sure. Though I know little about the details,
14 but as I think we all understand, total costs have many
15 components including capital, the treatment of deferred items,
16 direct operations and maintenance expenses, how you treat
17 wholesale sales and so forth.

18 All these considerations are part of the
19 overall revenue requirement and ultimately determine at the
20 end of the day, the realized rate of return on equity. So it
21 seems quite plausible that in this various elements of total
22 cost, that the Commission could take account of it there.

23 Q. So is what you're saying that we have the
24 ability in how we treat these various components of the cost
25 of service to either be -- lean toward rewarding or lean

1 toward penalizing in the way we treat each component?

2 A. I -- I see no grounds for penalty in the total
3 matter of revenue requirements in the case of KCPL, quite
4 frankly.

5 Q. And I understand that.

6 A. Yes.

7 Q. But what I'm saying is the effect of our
8 treatment of the various issues can be either punitive or it
9 can be rewarding. Is that --

10 A. Yes.

11 Q. -- what you're saying?

12 A. Absolutely.

13 COMMISSIONER MURRAY: I don't think I have any
14 other questions. Thank you.

15 JUDGE PRIDGIN: Commissioner, thank you. And
16 I have no questions.

17 Recross?

18 MR. THOMPSON: Why, yes.

19 JUDGE PRIDGIN: Any other counsel?

20 Mr. Thompson.

21 RE-CROSS-EXAMINATION BY MR. THOMPSON:

22 Q. Mr. Camfield, you were having a discussion
23 with Commissioner Murray and you suggested that the Commission
24 could provide to KCP&L a higher ROE based on their
25 extraordinary performance, I think is how you put it. Do you

1 recall that?

2 A. I do.

3 Q. And I think you also characterized -- you
4 stated that their performance was remarkably high, I believe.
5 Do you recall that?

6 A. I do.

7 Q. Now, in reaching these conclusions, did you
8 have occasion to consider the destruction by explosion of
9 KCPL's Hawthorne 5 generating station some years ago?

10 A. Yes.

11 Q. And did you conclude that that was indicative
12 of a performance that was extraordinary and remarkably high?

13 A. That event is I think largely a random event
14 that any electric service provider could experience.
15 Secondly, it's implicit in my analysis. That is to say, the
16 Hawthorne event means that KCPL, in order to satisfy its
17 retail service requirements, is going to need to make up the
18 power through wholesale purchases that otherwise it could not
19 self-generate. Those costs are not recovered within the time
20 frame that that event and its ensuing aftermath occurred.

21 Q. Okay. And as a random event that any electric
22 service provider could experience, could you tell me how many
23 other electric service providers have experienced such an
24 event in the last 20 years?

25 A. Six that I can think of.

1 Q. Really? Can you enumerate them?

2 A. Well, let's see here. Georgia Power had a

3 snafu.

4 Q. And did that snafu involve the destruction by

5 explosion of a generating plant?

6 A. It did not.

7 Q. Okay. What's No. 2?

8 A. Number two was the Northeast Utilities NIECE

9 unit now part of national grid. They had an event, as I

10 recall.

11 Q. Was that an explosion, sir?

12 A. It was not.

13 Q. Okay.

14 A. At least to my knowledge. I --

15 Q. I understand.

16 A. Yes. Okay.

17 Q. How about No. 3?

18 A. I'm trying to recall the specific utility and

19 units and I'm -- I'm obviously struggling to provide that

20 explicit list that I say I can. Perhaps a follow-up response

21 would be adequate to serve your needs.

22 Q. That would be fine.

23 A. Okay.

24 Q. But you can recall two off the top of your

25 head --

1 A. I think so.

2 Q. -- and it is your belief there's as many as
3 six?

4 A. Yeah -- excuse me, yes. I think so, but I
5 would have to research that, quite frankly, and get you an
6 explicit list.

7 Q. I understand that.

8 A. I'm sorry.

9 Q. Appreciate your testimony, sir. Thank you.

10 MR. THOMPSON: No further recross.

11 JUDGE PRIDGIN: All right. Thank you.

12 Redirect?

13 MR. ZOBRIST: No questions, Judge.

14 JUDGE PRIDGIN: All right. Thank you.

15 Mr. Camfield, thank you very much, sir.

16 Appreciate your testimony.

17 I'm sorry, Mr. Mills?

18 MR. MILLS: Could I ask just a clarifying
19 question? Are we to expect a list from this witness of
20 certain bad things that happened to other utilities at some
21 point over the last five or ten years? And if so, when will
22 we be allowed to cross-examine on that list?

23 JUDGE PRIDGIN: I was going to say if that
24 would be something that's going to be a late-filed exhibit, I
25 certainly want to give counsel the chance to recross. I don't

1 know if there's much of an opportunity to do that. I mean,
2 the witness testified to what he remembers at this time.

3 MR. MILLS: I'm certainly not requesting a
4 late-filed exhibit.

5 JUDGE PRIDGIN: I understand.

6 MR. MILLS: In fact, I'm not sure I want one,
7 but if there's going to be one, I want the opportunity to
8 cross-examine on it.

9 MR. ZOBRIST: I think the witness was trying
10 to be as forthcoming as possible. If Mr. Thompson wants a
11 list of a couple of other units, we could get him a late-filed
12 exhibit. We oppose bringing this witness back to testify
13 about something that's not in his direct and he does not have
14 recollection of at this time.

15 MR. THOMPSON: Well, let me respond to that,
16 Judge. Staff opposes receiving the testimony of this witness
17 at all. The performance adjustment that he sponsors in his
18 testimony is not part of the company's ROE request.
19 Consequently, the testimony is not admissible because it is
20 not -- does not go to the proof or falsehood of any material
21 issue. And I suggest it should not be received. It is
22 nothing more than background noise.

23 If, however, the Commission is going to
24 receive this into the record, then we have a right and a duty
25 to test this testimony which is urging an upward adjustment to

1 the ROE, something that will show up in the bills of Missouri
2 ratepayers month after month that this company has, in fact,
3 been extraordinary and remarkably high in its performance such
4 that a reward of that kind would be appropriate.

5 Now, certainly the Hawthorne event was a
6 salient thing here in Missouri and I think it's only fair to
7 inquire the degree to which that was taken into consideration.
8 And when we hear it's something that could happen to any
9 utility, which I will remind you is contrary to the evidence
10 that was produced in the Commission's proceeding on that
11 event, then I think we have a right to ask for specifics, your
12 Honor.

13 So that's what I'm trying to do. And I'm not
14 trying to humiliate the witness or be argumentative or do
15 anything improper. I'm simply trying to test this testimony.

16 JUDGE PRIDGIN: I understand. And I believe
17 the witness has answered your question to the best of his
18 ability to recall. And because of the time schedule, because
19 of apparently his inability to come back and be cross-examined
20 on any late-filed exhibit, I don't want one.

21 MR. THOMPSON: Very well. We'll be happy to
22 leave it at this. But I will certainly -- again, if this
23 testimony is offered, which it has not yet been, and received,
24 I will certainly point in the brief to the fact that the
25 witness was unable to list the six examples that he believes

1 existed. Thank you.

2 JUDGE PRIDGIN: Thank you.

3 MR. CONRAD: Your Honor, we don't really have
4 a position on this issue, but I would just like to suggest
5 that we not bring the gentleman back for another \$160,000.

6 JUDGE PRIDGIN: Thank you, Mr. Conrad.

7 Mr. Camfield, thank you very much. Appreciate
8 your testimony.

9 THE WITNESS: Thank you.

10 MR. ZOBRIST: Judge, I would at this time
11 offer Exhibit 36 and 37, Direct and Surrebuttal Testimony of
12 Mr. Camfield.

13 JUDGE PRIDGIN: Exhibit 36 and 37 are offered.
14 Any objections?

15 MR. THOMPSON: Staff objects. Those exhibits
16 are irrelevant for the reasons I've already recited.

17 JUDGE PRIDGIN: Any other objections?

18 Okay. Objection's overruled. 36 and 37 are
19 admitted.

20 (Exhibit Nos. 36 and 37 were received into
21 evidence.)

22 JUDGE PRIDGIN: I'm sorry. You can step down,
23 sir.

24 THE WITNESS: Thank you.

25 MR. ZOBRIST: Judge, I would suggest the

1 Commission take official or administrative notice of two
2 proceedings, if I might. First, Case No. ES-99-581 issued by
3 the Public Service Commission on the 12th day of July, 2001.
4 It's entitled in the matter of Kansas City Power & Light
5 Company regarding an incident at the Hawthorne Station, Kansas
6 City, Missouri on February 17th, 1999. And I can give you the
7 other two if you'd like to have them as a group.

8 JUDGE PRIDGIN: Yes, please.

9 MR. ZOBRIST: Then I would offer the Report
10 and Order and the Report and Order on remand in Case
11 No. EC-99-553 in the matter -- well, pardon me. It's a
12 complaint case, GS Technology Operating Company, Incorporated
13 doing business as GST Steel Company versus Kansas City Power &
14 Light Company. The Report and Order was issued July 13, 2000.
15 The Report and Order on remand was issued December 2nd, 2004.

16 JUDGE PRIDGIN: The Commission will take
17 notice of those orders.

18 I believe that is the only witness scheduled
19 for today. Is there anything else counsel needs to bring to
20 my attention?

21 MR. ZOBRIST: I was going to visit with
22 Mr. Phillips and then we'll be back on the record, if I
23 understand.

24 JUDGE PRIDGIN: That's fine. You're free to
25 visit. We're still on the record but if you want to visit,

1 you certainly may. I'll give you just a minute.

2 JUDGE PRIDGIN: Mr. Phillips, when you're
3 ready, sir.

4 MR. PHILLIPS: I'm ready. Judge Pridgin, last
5 Friday, Witness Dittmer for DOE/NNSA made corrections to his
6 highly confidential testimony. And he has provided an errata
7 sheet today, which we would like to file as an HC exhibit,
8 Exhibit 809. I think we would ask the --

9 MR. THOMPSON: I'm sorry. What would be the
10 number?

11 MR. PHILLIPS: 809. And we could ask the
12 court reporter to so mark it.

13 JUDGE PRIDGIN: Okay. Mr. Phillips is asking
14 that Mr. Dittmer's errata sheet be labeled as Exhibit No. 809
15 highly confidential.

16 MR. ZOBRIST: No objection.

17 MR. THOMPSON: No objection from Staff.

18 JUDGE PRIDGIN: Assuming it's being offered --
19 Mr. Phillips, do you want that offered?

20 MR. PHILLIPS: Yes.

21 JUDGE PRIDGIN: All right. Hearing no
22 objection, Exhibit 809-HC is offered and admitted.
23 Mr. Phillips, thank you.

24 MR. PHILLIPS: Thank you.

25 (Exhibit No. 809-HC was received into

1 testimony.)

2 JUDGE PRIDGIN: I show that's the only witness
3 for today and that tomorrow we will have weatherization
4 witnesses and other customer program witnesses Nathan, Dias,
5 Randolph and Jackson. And I have them listed in that order.
6 If counsel wish them to be taken up in another order, that's
7 perfectly fine, but that's how I have them listed in the order
8 of witnesses. And would like to begin at 8:00 30 in the
9 morning.

10 Is there anything else from counsel before we
11 adjourn for the day?

12 I'm sorry, Mr. Thompson?

13 MR. THOMPSON: Nothing, your Honor.

14 JUDGE PRIDGIN: All right. I can't recall
15 if -- I understand that Mr. Cross, of course, was in that
16 accident and I don't recall if anyone -- I thought Staff,
17 excuse me, General Counsel's office might have some
18 cross-examination for him.

19 MR. THOMPSON: My understanding of the way the
20 cross of Mr. Cross has developed is that he is not going to be
21 crossed during this proceeding, that whatever the matter is
22 that the accounting staff is desperately eager to inquire into
23 will be taken up in the true-up.

24 MR. ZOBRIST: That's the company's
25 understanding as well.

1 JUDGE PRIDGIN: Very well. So if I understand
2 correctly, those would be the four witnesses I mentioned
3 earlier. Tomorrow will be the final four witnesses of this
4 proceeding and we will take them up tomorrow.

5 MR. CONRAD: So at this point we can cross off
6 the Cross cross.

7 JUDGE PRIDGIN: We can cross off the Cross
8 cross. Well done.

9 MR. ZOBRIST: Eloquent as always.

10 MR. CONRAD: Never miss a chance.

11 JUDGE PRIDGIN: And he wasn't even cross when
12 he said it. All right.

13 MR. THOMPSON: Top-notch performance, Judge.

14 JUDGE PRIDGIN: Thank you, Mr. Thompson.
15 Anything else?

16 All right. Hearing nothing else, we will go
17 off the record, adjourn for the day. We will resume at 8:30
18 in the morning. Thank you very much. We're off the record.

19 (Exhibit No. 809-HC was marked for
20 identification.)

21 WHEREUPON, the hearing was adjourned until
22 October 27th, 2006 at 8:30 a.m.

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1 Exhibit No. 809-HC
2 James R. Dittmer's errata sheet

1425 1424

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