

1 STATE OF MISSOURI  
2 PUBLIC SERVICE COMMISSION  
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6 TRANSCRIPT OF PROCEEDINGS  
7 Hearing  
8 October 16, 2006  
9 Jefferson City, Missouri  
Volume 5

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12 In the Matter of the Application )  
of Kansas City Power & Light )  
13 Company for Approval to Make )  
Certain Changes in its Charges for ) Case No. ER-2006-0314  
14 Electric Service to Begin the )  
Implementation of Its Regulatory )  
15 Plan )

16 RONALD D. PRIDGIN, Presiding,  
REGULATORY LAW JUDGE.

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18 JEFF DAVIS, Chairman,  
CONNIE MURRAY,  
19 STEVE GAW,  
ROBERT M. CLAYTON,  
20 LINWARD "LIN" APPLING,  
COMMISSIONERS.

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23 REPORTED BY:

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1 P R O C E E D I N G S

2 JUDGE PRIDGIN: Good morning. We are on  
3 the record. This is the hearing in Case No. ER-2006-0314,  
4 in the matter of the application of Kansas City Power &  
5 Light Company for approval to make certain changes in its  
6 charges for electric service to begin the implementation  
7 of its regulatory plan.

8 I am Ron Pridgin. I am the Regulatory Law  
9 Judge assigned to preside over this case. This hearing is  
10 beginning October 16th, 2006 at approximately 8:40 a.m.  
11 We are in the Governor Office Building in Jefferson City,  
12 Missouri.

13 What I'd like to do first is get entries of  
14 appearance from counsel, and I will go in the order in  
15 which I believe opening statements are scheduled to occur.  
16 And if I can get entries of appearance beginning with  
17 KCP&L, please.

18 MR. FISCHER: Thank you, Judge. Let the  
19 record reflect the appearance of James Fischer, Bill  
20 Riggins, Carl Zobrist, Roger Steiner and Curtis Blanc,  
21 appearing today on behalf of the Applicant Kansas City  
22 Power & Light Company. Our mailing addresses are noted on  
23 the written forms that we've submitted to the court  
24 reporter. Thank you.

25 JUDGE PRIDGIN: Mr. Fischer, thank you. On

1   behalf of the Staff of the Commission, please?

2                   MR. THOMPSON:   Kevin Thompson for the Staff  
3   of the Missouri Public Service Commission, P.O. Box 360,  
4   Jefferson City, Missouri 65102.  Various other attorneys  
5   of the Staff will be appearing during the course of this  
6   case, including Steve Dottheim, Nathan Williams, David  
7   Meyer, Jennifer Heintz, and I believe that's all.  Thank  
8   you, Judge.

9                   JUDGE PRIDGIN:  Mr. Thompson, thank you.  
10  On behalf of the Public Counsel, please?

11                  MR. MILLS:  On behalf of the Public Counsel  
12  and the public, my name is Lewis Mills.  My address is  
13  Post Office Box 2230, Jefferson City, Missouri 65102.  
14  Thank you.

15                  JUDGE PRIDGIN:  Mr. Mills, thank you.  On  
16  behalf of AARP, please?

17                  MR. COFFMAN:  John B. Coffman, appearing on  
18  behalf of AARP.  My address is 871 Tuxedo Boulevard,  
19  St. Louis, Missouri 63119.

20                  JUDGE PRIDGIN:  Mr. Coffman, thank you.  On  
21  behalf of Aquila and MGE, please?

22                  MR. COOPER:  Dean L. Cooper from the law  
23  firm of Brydon, Swearngen & England, P.C., P.O. Box 456,  
24  Jefferson City, Missouri 65102.  I'll be appearing on  
25  behalf of the Empire District Electric Company, but I

1 would also like to enter the appearance of Diana Carter,  
2 also of the law firm of Brydon, Swearngen & England, on  
3 behalf of Aquila, Inc. and Missouri Gas Energy, a Division  
4 of Southern Union Company.

5 JUDGE PRIDGIN: All right. Mr. Cooper,  
6 thank you. On behalf of the City of Kansas City, please?

7 MR. COMLEY: Good morning, Judge Pridgin.  
8 Let the record reflect the entry of Mark W. Comley,  
9 Newman, Comley & Ruth, 601 Monroe, Suite 301, Jefferson  
10 City, Missouri 65101, appearing on behalf of the City of  
11 Kansas City.

12 JUDGE PRIDGIN: Mr. Comley, thank you. On  
13 behalf of Jackson County, Missouri, please?

14 MR. FINNEGAN: Appearing on behalf of  
15 Jackson County, Missouri, Jeremiah Finnegan, Finnegan,  
16 Conrad & Peterson, 3100 Broadway, Suite 1209, Kansas City,  
17 Missouri 64111.

18 JUDGE PRIDGIN: Mr. Finnegan, thank you.  
19 On behalf of W. Bill Dias, please?

20 MR. DIAS: W. Bill Dias representing  
21 himself. My address is 358 Drury Circle, Kansas City,  
22 Missouri.

23 JUDGE PRIDGIN: Mr. Dias, thank you, sir.  
24 On behalf of the Missouri Department of Natural Resources,  
25 please?



1 MS. WOODS: Shelley Ann Woods, Post Office  
2 Box 899, Jefferson City, Missouri 65102, appearing on  
3 behalf of the Missouri Department of Natural Resources.

4 JUDGE PRIDGIN: Ms. Woods, thank you. On  
5 behalf -- I'm sorry. Mr. Cooper, you've already entered  
6 an appearance on behalf of Empire; is that correct?

7 MR. COOPER: Correct.

8 JUDGE PRIDGIN: All right. Thank you. On  
9 behalf of IBEW Locals, please? Counsel here for IBEW?

10 (No response.)

11 JUDGE PRIDGIN: On behalf of Ford Motor  
12 Company and MIEC, please?

13 MS. ILES: On behalf of Ford Motor Company  
14 and Missouri Industrial Energy Consumers, I'm Carol Iles  
15 from Bryan Cave, LLP. My address is 221 Bolivar,  
16 Suite 101, Jefferson City, Missouri. I've also entered  
17 the appearance of Diana Vuylsteke with Bryan Cave at the  
18 St. Louis address. She will also be appearing for those  
19 two clients in this case.

20 JUDGE PRIDGIN: Ms. Iles, thank you. On  
21 behalf of Praxair, please?

22 MR. WOODSMALL: Thank you, your Honor. On  
23 behalf of Praxair, David Woodsmall, the firm of Finnegan,  
24 Conrad & Peterson, 428 East Capitol, Suite 300, Jefferson  
25 City, Missouri 65101.

1 JUDGE PRIDGIN: Mr. Woodsmall, thank you.

2 On behalf of Trigen Kansas City, please?

3 MR. KEEVIL: Yes, Judge. Let the record  
4 reflect the appearance of Jeffrey A. Keevil and Charles  
5 Brent Stewart of the law firm Stewart & Keevil, LLC,  
6 address 4603 John Garry Drive, Suite 11, Columbia,  
7 Missouri 65203, appearing on behalf of Trigen Kansas City  
8 Energy Corporation.

9 JUDGE PRIDGIN: Mr. Keevil, thank you. On  
10 behalf of the United States Department of Energy, please?

11 MR. PHILLIPS: Yes, your Honor. My name is  
12 Paul Phillips, 1000 Independence Avenue SW, Washington,  
13 D.C. 20585. I'm also entering the appearance of  
14 Stephanie L. Bogart. She's counsel for the Kansas City  
15 site office, Post Office Box 410202, Kansas City, Missouri  
16 64141-0202. Thank you.

17 JUDGE PRIDGIN: Mr. Phillips, thank you.  
18 On behalf of Wal-Mart, please?

19 MR. DOWNEY: Good morning, Judge.  
20 Edward F. Downey of Bryan Cave, LLP, 221 Bolivar Street,  
21 Jefferson City, Missouri, on behalf of Wal-Mart Stores  
22 East, LP.

23 JUDGE PRIDGIN: Mr. Downey, thank you. I  
24 believe I have gone through all the parties. Is there  
25 anyone else I've missed?

1 (No response.)

2 JUDGE PRIDGIN: All right. Seeing nothing,  
3 looks like the next item on the agenda is to begin marking  
4 exhibits. I issued an Order some days ago giving blocks  
5 of numbers per party, and I would like to begin with  
6 Kansas City Power & Light and have them begin marking  
7 exhibits.

8 Please understand that this does not  
9 necessarily mean anything's coming into evidence. We're  
10 simply marking it for court reporter purposes, and we will  
11 take up any questions about admissability when motions are  
12 raised.

13 Mr. Fischer, I see you have some exhibits.

14 MR. FISCHER: Yes, your Honor, I've got  
15 exhibits.

16 JUDGE PRIDGIN: We'll go off the record.

17 (EXHIBIT NOS. 1-45, 101-143, 201-214,  
18 301-302, 401, 501-502, 601-605, 701-702, 801-808, 901-903  
19 AND 1301-1307 WERE MARKED FOR IDENTIFICATION BY THE  
20 REPORTER.)

21 JUDGE PRIDGIN: Let's go back on the  
22 record. Very briefly, what I'd like to do is see if there  
23 is anything that counsel would like to discuss before we  
24 begin opening statements, and then once that's done, take  
25 a brief recess so I can summon the Commissioners for

1 opening. So was there anything anyone needs to bring to  
2 my attention? Mr. Fischer?

3 MR. FISCHER: Yes, Judge. We have a couple  
4 of preliminary matters related primarily to scheduling  
5 that co-counsel Curtis Blanc would like to address.

6 JUDGE PRIDGIN: Mr. Blanc, sir?

7 MR. BLANC: Just a couple of issues having  
8 to do with witness availability. As I indicated in an  
9 e-mail to counsel, KCPL witness David Cross, who covers  
10 incentive compensation, he was originally scheduled to  
11 appear today but won't be available until the 23rd to  
12 appear, and I didn't receive any objections.

13 And with respect to incentive compensation,  
14 I discussed this with Mr. Thompson, and we wanted to  
15 propose moving the incentive compensation issue to the  
16 23rd instead of today. The only non-key KCPL witness is  
17 Mr. Harris of the Commission Staff. So subject to  
18 confirming his availability on the 23rd, we'd like to move  
19 that issue.

20 MR. THOMPSON: Judge, if I could, Staff  
21 would prefer to present Mr. Harris today, if that doesn't  
22 cause any upset.

23 JUDGE PRIDGIN: And those are the two  
24 witnesses on incentive compensation, then, so we'll kind  
25 of jump around?

1 MR. THOMPSON: Yes, Judge.

2 MR. BLANC: The second witness is Sam  
3 Hadaway. He's the return on equity witness. He was  
4 initially scheduled to appear on the 24th. He's available  
5 on the 25th. I haven't received any objections about  
6 that.

7 And the third and final scheduling  
8 change --

9 MR. PHILLIPS: Just a minute. We don't  
10 have any objections to Mr. Hadaway --

11 JUDGE PRIDGIN: Could you get your  
12 microphone on, Mr. Phillips?

13 MR. PHILLIPS: We don't have any objections  
14 to Mr. Hadaway on the 25th if he is the first one on the  
15 25th. Is that what you had in mind?

16 MR. BLANC: That would be fine.

17 And then the third is Mr. Camfield, who's a  
18 KCPL witness also on an ROE-related issue, industry  
19 performance of Kansas City Power & Light. He was  
20 initially scheduled to appear on October 24th, and he'll  
21 be available on the 27th.

22 And that's it for scheduling changes. And  
23 there were a handful of witnesses that we understand  
24 there's no cross on, and we wanted to ask the Judge to  
25 kindly check with the Commissioners to see if they had any

1 questions for these witnesses and if they could be excused  
2 from the proceeding. And they are Laura Becker related to  
3 load research; Christine Davidson with respect to cash  
4 working capital; John Grimwade, resource plan monitoring  
5 and in-service criteria; and Robert Hriszko, income tax  
6 and need to gross up the amortization amounts for taxes  
7 are his two issues.

8 Our understanding is there's no  
9 cross-examination from the other parties. It would just  
10 be questions by the Commissioners.

11 JUDGE PRIDGIN: And those were witnesses  
12 Becker, Davidson, Grimwade and Hriszko; is that correct?

13 MR. BLANC: That's correct, your Honor.

14 JUDGE PRIDGIN: If you could give me the  
15 subject matter again, please.

16 MR. BLANC: Sure. Laura Becker is load  
17 research. Ms. Davidson is cash working capital.

18 JUDGE PRIDGIN: Okay.

19 MR. BLANC: Mr. Grimwade is resource plan  
20 monitoring and in-service criteria. And Mr. Hriszko is  
21 income tax and tax issues related to amortization.

22 JUDGE PRIDGIN: Thank you.

23 MR. KEEVIL: Judge, if I could briefly  
24 comment on something he just said.

25 JUDGE PRIDGIN: Mr. Keevil, if you could --

1 I apologize. I know we don't have enough microphones to  
2 go around, but we're streaming.

3 MR. KEEVIL: Well, I don't know that I  
4 would call this an objection to his request to move  
5 Mr. Camfield to the 27th, but the issues of primary  
6 concern to my client -- and I indicated this in an e-mail  
7 to KCPL -- aren't set until the last two days of next  
8 week. So to the extent -- we've already got a bunch of  
9 witnesses scheduled, so I would hate to see the witnesses  
10 who were supposed to testify on those days bumped because  
11 of moving other witnesses into those days.

12 So I guess if you take the witnesses that  
13 are scheduled and then put Mr. Camfield on last or  
14 something, that would be no problem with me, but I don't  
15 want to see my guy from Ohio getting bumped to a following  
16 week because other witnesses were pushed back from a  
17 previously scheduled day.

18 JUDGE PRIDGIN: Any response from KCPL?  
19 We'll sure try to accommodate everybody.

20 MR. BLANC: Sure. We would have no  
21 objections to putting Mr. Camfield on after Trigen's  
22 witnesses.

23 MR. MILLS: And I have a similar concern  
24 with respect to Mr. Hadaway. Our cost of capital witness  
25 is flying in the afternoon of the 23rd, flying out the

1 morning of the 25th. So he will be here the day he's  
2 scheduled to be here, but if we mess around too much,  
3 we'll run the risk of getting him unavailable as well. So  
4 Mr. Hadaway I think was -- you were just talking about the  
5 25th; is that correct?

6 MR. BLANC: Correct.

7 MR. MILLS: I guess instead of taking him  
8 first on ROE, we would take him last. I guess I don't  
9 have an objection to that.

10 MR. PHILLIPS: Your Honor, we had asked all  
11 the parties if they had any objection to our witness  
12 Mr. Woolridge on cost of capital testifying on the 25th,  
13 and he has a conflict with another case in Connecticut  
14 where he's testifying, and he has advised me that he could  
15 be here the afternoon of the 25th and into the evening if  
16 it was necessary to do that.

17 JUDGE PRIDGIN: Okay. And I assume that  
18 schedules are going to shift around as the hearing  
19 progresses. I'm sure we will be doing some jumping around  
20 to try to accommodate witnesses and counsel. I appreciate  
21 counsel letting me know about these scheduling issues.  
22 Like I said, we'll accommodate everybody as best we can.

23 MR. PHILLIPS: There was one other witness  
24 change for us, and we had asked if Mr. Dittmer could  
25 testify on Wednesday of this week, which would be the --



1 JUDGE PRIDGIN: The 18th?

2 MR. PHILLIPS: The 18th.

3 JUDGE PRIDGIN: My guess is, as the case  
4 progresses, I will constantly monitor the witness list and  
5 ask counsel at the end of the day, who do you believe is  
6 supposed to testify tomorrow, this is who I have, are we  
7 conflicting with schedules, how are we doing on time,  
8 because it looks like people's schedules are changing.  
9 Like I said, we sure want to get everybody on as  
10 conveniently as we can.

11 MR. FISCHER: Judge, if I could address one  
12 other issue. It's my understanding that, as of this  
13 morning, one of the issues that's scheduled for later  
14 today, pensions, has been resolved between the Staff and I  
15 believe Public Counsel. It would be no longer an issue.  
16 Is that -- that's my understanding anyway.

17 JUDGE PRIDGIN: Mr. Mills?

18 MR. MILLS: We don't have a witness who's  
19 testifying as to pensions. I don't know that I'm familiar  
20 with what the Staff and the company have agreed with to  
21 say whether I'm okay with it or not.

22 JUDGE PRIDGIN: Mr. Williams?

23 MR. WILLIAMS: Judge, Staff and the company  
24 reached an agreement in principle it was my understanding  
25 last week, but it has not been reduced down to writing.

1 And I believe it also covers another issue that's being  
2 tried later, other benefits.

3 JUDGE PRIDGIN: I assume pension witnesses  
4 are here in case the Bench has questions.

5 MR. FISCHER: Yes. He's our second witness  
6 today. Mr. Bassham can address those issues, and I just  
7 wanted to let the parties know about that.

8 JUDGE PRIDGIN: So it sounds like we may  
9 not have any cross-examination from Staff, but other  
10 parties would obviously have a chance to cross-examine  
11 him, and the Bench as well.

12 Anything else from counsel? Mr. Keevil?

13 MR. KEEVIL: Your Honor, I noticed looking  
14 at the calendar, the schedule, that the initial  
15 post-hearing brief I think is set for like two weeks after  
16 the conclusion of the hearing or something like that,  
17 which is fine with me, but that raises an issue in regard  
18 to the transcript, I believe.

19 So again, the issues of primary interest to  
20 my client aren't until the end of the hearing, which  
21 would -- under the usual schedule, you get the transcript  
22 two weeks after the hearing. The transcript for those  
23 issues would be essentially due the day the brief is due.  
24 I was wondering if you were planning to move the  
25 transcripts up.

1                   Again, I'm not -- the brief is fine. I'm  
2 not trying to move that. I was just wondering if you were  
3 going to get the transcripts earlier or what.

4                   JUDGE PRIDGIN: Absolutely. Kellene, if we  
5 need to take that up off the record, that's fine, but  
6 we'll sure need these exhibits, and especially towards the  
7 end, expedited so counsel will have enough time to get  
8 those to file Briefs.

9                   MR. WOODSMALL: Well, your Honor, to the  
10 extent Mr. Keevil didn't, I would like to move that you  
11 may reconsider that date, depending on where we stand at  
12 the end of two weeks. I don't know if two weeks --

13                  JUDGE PRIDGIN: The briefing date you mean?

14                  MR. WOODSMALL: Yes.

15                  JUDGE PRIDGIN: Okay. That's something  
16 I'll be glad to hear counsel on. Obviously the operation  
17 of law date is racing towards us, but I'll be glad to  
18 listen to counsel if they think that's a bad day.

19                  Okay. Anything else from counsel?

20                  MR. THOMPSON: Yes, your Honor. First of  
21 all, there are four Staff witnesses for whom it appears  
22 there's no cross, and so I would appreciate it if you  
23 would confer with the Commissioners and determine whether  
24 or not they're going to need to appear. They are Elliott,  
25 McDuffey, Taylor and Wells.

1 JUDGE PRIDGIN: Elliott, McDuffey, Taylor  
2 and Wells?

3 MR. THOMPSON: Yes, sir.

4 JUDGE PRIDGIN: And the subject matter?  
5 They're going to ask me.

6 MR. THOMPSON: This is like a test. I  
7 didn't know this was coming up. Elliott and Taylor both  
8 testify on rate base. Wells testifies as to weather  
9 normalization. And although part of that issue is  
10 contested, it's my understanding that the -- Mr. Wells'  
11 part is not. And then finally, Mr. McDuffey testified  
12 about tariffs and rules and regulations, and that issue  
13 has dropped out of the case.

14 JUDGE PRIDGIN: Mr. Fischer?

15 MR. FISCHER: Yes, Judge. I just wanted to  
16 raise a point about opening statements today. A couple of  
17 counsel have asked me about it, and I -- it's my  
18 understanding that the practice recently has been that  
19 while we'll give an opening statement giving an overview  
20 of the case today, that there might be an opportunity to  
21 give a brief summary in the way of an opening statement  
22 before issues such as cost of capital or other specific  
23 issues that might be addressed on a later day.

24 JUDGE PRIDGIN: That's fine with me. I  
25 sure want to give counsel every chance to be heard, but

1 try to move this case along as quickly as we can.

2 Mr. Thompson? I'm sorry.

3 MR. THOMPSON: I would also propose, Judge,  
4 that we agree to waive the initial boilerplate questions  
5 in the examination; in other words, are you the same  
6 Mr. Smith that filed testimony in this case, would you say  
7 the same things today if asked. That tends to move the  
8 case along.

9 MR. PHILLIPS: You mean just do it  
10 initially, rather than each time they take the witness  
11 stand?

12 MR. THOMPSON: I would just take -- In  
13 other words, propose that we agree that those questions,  
14 it's stipulated that those questions have been asked and  
15 answered appropriately. Now, obviously where you have a  
16 witness adopting the testimony of another witness, you  
17 would have to ask questions, but otherwise those are the  
18 same ritual series of questions on each witness, and over  
19 the course of two weeks, actually quite a bit of time is  
20 opened up doing that.

21 JUDGE PRIDGIN: If counsel's agreeable to  
22 that, that's fine with me. Obviously there will be times  
23 where we would expect the witnesses to volunteer that they  
24 have changes that they want to make or corrections they  
25 want to make in their prefiled testimony. That happens

1 pretty regularly. But if we can handle that and that  
2 alone before we get to cross-examination, as long as  
3 that's agreeable with counsel, that's fine with me.

4 MR. KEEVIL: Judge, that raises a related  
5 issue. Several of the witnesses testify on several  
6 issues. What is your intent with regard to such a  
7 witness' testimony being offered and received into the  
8 record if they're going to be testifying several different  
9 times? Is it the last time they take the stand that their  
10 testimony is offered into the record or how do you handle  
11 it?

12 JUDGE PRIDGIN: I will let -- I mean, plan  
13 to proceed issue by issue to try to keep us focused as to,  
14 okay, what are we talking about? We're talking about  
15 incentive compensation, we're talking about pensions. And  
16 I understand sometimes witnesses will be yo-yoing back and  
17 forth.

18 And I'll leave it up to counsel as to when  
19 you want to offer the exhibit, and it may be, depending on  
20 what kind of objections we have from counsel, that the  
21 entire exhibit would not be offered perhaps until the  
22 final -- the final time that witness is up. I mean, I  
23 don't know what objections counsel's going to have.

24 And I'll ask counsel to understand, look,  
25 we understand you may have an objection to Issue C, but

1 right now we're talking about Issue A, and expect counsel  
2 to handle that. But depending on what counsel wants, I  
3 mean, I see no reason that you can't introduce the exhibit  
4 the first time that the witness is up, but again, I don't  
5 know what kind of objection we're going to get from  
6 counsel.

7 But I do want to go from issue to issue to  
8 try to keep us focused on -- obviously some witnesses are  
9 going to talk about several different issues. Did that  
10 answer your question?

11 MR. KEEVIL: Yes, I think so.

12 MR. PHILLIPS: Judge Pridgin, I wanted to  
13 ask a clarification of Kansas City Power & Light counsel  
14 regarding opening statements and see if I heard what he  
15 said correctly. And I believe what Mr. Fischer was saying  
16 is that he wanted to reserve an opportunity, for example,  
17 on cost of capital to have an additional opening statement  
18 about that issue; is that correct?

19 MR. FISCHER: Yes. Paul, recently the  
20 Commission has been allowing brief summaries before the  
21 issues start on each of the days. And while it's not done  
22 on every issue, it is helpful to some of the issues to  
23 summarize it. That way it also -- we don't have to spend  
24 an hour and a half this morning going through an opening  
25 to talk about each and every little issue.

1                   MR. PHILLIPS: We don't have an objection  
2 to that.

3                   JUDGE PRIDGIN: Anything else from counsel  
4 before we recess and I summon the Commissioners for  
5 opening statements?

6                   MR. WOODSMALL: Your Honor, at least for  
7 today, I'd ask -- I may be in and out, and I'd ask to be  
8 excused to the extent I'm not here at any particular time.

9                   JUDGE PRIDGIN: Absolutely. I understand  
10 some counsel only have issues with certain pieces of  
11 evidence and are only here for limited purposes, and  
12 you're certainly all excused if you're not interested in a  
13 particular issue. And you are welcome and, in fact,  
14 encouraged to waive opening statements if you wish.

15                   Anything else before we recess? All right.  
16 Let's go off the record. I show that the time at the back  
17 of the room is a little bit after 10. It is my hope and  
18 belief that we will have opening statements by 10:15.  
19 I'll go poll the Commissioners and see who wishes to be on  
20 the bench. We're off the record.

21                   (AN OFF-THE-RECORD DISCUSSION WAS HELD.)

22                   JUDGE PRIDGIN: We're back on the record.  
23 We'd like to proceed with opening statements, and I have  
24 in the order of witnesses that Staff filed opening  
25 statements in a certain order, and I plan on proceeding in



1     that order, and I would like to begin with KCP&L. I  
2     understand, Mr. Fischer, that KCP&L may also have  
3     additional openings per topic; is that correct?

4                     MR. FISCHER: Yes, your Honor. We'd like  
5     to give an overview of the case at this point, and I think  
6     based upon my understanding with other counsel, there  
7     could be summaries of some of the major issues later on in  
8     the case.

9                     JUDGE PRIDGIN: And that's fine. I would  
10    certainly like to extend to other counsel the same  
11    courtesy. If they wanted to make brief openings per  
12    topic, that's fine.

13                    Whenever you're ready, Mr. Fischer.

14                    MR. FISCHER: Good morning, Commission. My  
15    name is Jim Fischer, and I am representing Kansas City  
16    Power & Light in this proceeding. I also have with me  
17    today Bill Riggins, Carl Zobrist, Curtis Blanc and Roger  
18    Steiner that also will be assisting in the presentation of  
19    our case.

20                    This is Kansas City Power & Light's first  
21    litigated rate case in 20 years. The last time that KCPL  
22    had a litigated rate case, the Wolf Creek nuclear power  
23    plant was being introduced into rates in 1986. Since that  
24    time, KCPL has reduced its rates on four separate  
25    occasions. That was possible in part because of declining

1 costs like interest costs, fuel costs, income taxes, and  
2 because of increased revenue and income from off-system  
3 power sales that resulted from the deregulation of the  
4 wholesale market.

5                   Those cost items, along with other  
6 operating and maintenance costs, including pensions,  
7 though, have been increasing for some time. We've also  
8 added a number of power plants and capacity to serve our  
9 customers. For some time we were able to compensate for  
10 those increased costs by increasing our operating  
11 efficiency and by relying on increasing off-system sales  
12 in the competitive wholesale market, but unfortunately  
13 that's no longer the case.

14                   Although KCPL has always tried to improve  
15 its efficiency, KCPL has already ranked in the top  
16 25 percent nationally using most operational benchmarks.

17                   This is also the first KCPL rate case since  
18 the Commission approved the regulatory plan in Case  
19 No. EO-2005-0329. As the Commission knows, KCPL has  
20 embarked upon a series of infrastructure and customer  
21 enhancement projects valued at \$1.3 billion. These  
22 projects were reviewed as a part of that regulatory plan  
23 proceeding.

24                   In addition, a regulatory road map was  
25 created that was intended to provide the company and its

1 various stakeholders with assurances that KCPL would be  
2 allowed to recover its investment and continue to be  
3 attractive to shareholders and bond holders as an  
4 investment and meet the needs of its customers and the  
5 regulatory agencies that regulate the company.

6                   The regulatory plan was groundbreaking in  
7 that in its collaborative and its forward-looking  
8 approach, it balanced the interests of the company's  
9 customers, the shareholders and creditors in undertaking  
10 significant investments during the next several years.  
11 The signatory parties to the regulatory plan agreed, in  
12 essence, that making those investments during that time  
13 frame would position the company to continue to provide  
14 reliable and reasonably priced electricity while achieving  
15 reasonable earnings.

16                   KCPL has kept its commitments made in the  
17 regulatory plan. The Spearville wind facility is fully  
18 operational. It was completed ahead of schedule and under  
19 budget. The selective catalytic reduction equipment at  
20 Lacine 1 is about one-third of the way complete and is on  
21 schedule to become operational as planned by May of 2007.

22                   We've negotiated a partnership agreement  
23 with Aquila, Empire, the Missouri Joint Municipal Electric  
24 Utility Commission and KEPCO for the Iatan 2 unit. We've  
25 obtained the necessary environmental permits. We've

1 awarded the contracts for the turbine, the boiler and the  
2 air quality control systems for both Iatan 1 and Iatan 2,  
3 and we began construction on the Iatan 2 unit this month.

4               We made significant progress on the five  
5 projects comprising the distribution asset management  
6 program and the 14 projects comprising the transmission  
7 asset management program. And working with the  
8 signatories to the regulatory plan, we've implemented nine  
9 new customer programs related to weatherization and energy  
10 efficiency.

11              This is the first of a series of four  
12 potential rate cases called for in the Stipulation &  
13 Agreement that was approved in that regulatory plan case.  
14 In this case, KCPL has requested a \$55.8 million rate  
15 increase, or a approximately 11 1/2 percent increase in  
16 rates.

17              From KCPL's perspective, the critical task  
18 of the Commission in this case is to appropriately balance  
19 the interests of customers, shareholders and bondholders.  
20 However, the interest of shareholders may differ from the  
21 interest of bondholders depending upon how the Commission  
22 decides some critical issues, and I'd like to come back to  
23 that point in just a couple minutes.

24              Two major factors that are unique to KCPL  
25 among other Missouri electric utilities should also be

1 considered in this case. First, the Commission should  
2 take into account the company's multi-billion-dollar  
3 construction projects, including the construction of  
4 Iatan 2, the new wind generation which has just been  
5 completed, and numerous environmental upgrades. The  
6 construction program will require KCPL to generate  
7 sufficient cash earnings to raise substantial amounts of  
8 equity and debt to finance these construction projects.

9               Second, the Commission should take into  
10 account KCPL's risk and uncertainty related to off-system  
11 sales. Unlike other electric companies that are regulated  
12 by this Commission, approximately 50 percent of KCPL's  
13 earnings today come from the unregulated and volatile  
14 off-system sales market. The price of electric energy in  
15 that off-system sales market is largely driven by natural  
16 gas prices, also the generation unit availability and  
17 retail sales levels.

18               Now, we've all witnessed how volatile the  
19 natural gas market can be during this last year. We've  
20 seen natural gas hit a record high of \$15 last winter, and  
21 now the spot price I think is around in the \$5 range, less  
22 than one year later.

23               As the price of natural gas goes up, there  
24 are generally more opportunities for KCPL's off-system  
25 sales since KCPL's coal-fired generation is more economic

1    than the gas-fired generation. As a result, other  
2    electric utilities that are reliant upon natural gas will  
3    purchase more of KCPL's electricity in the off-system  
4    sales market and at higher prices. These earnings enabled  
5    KCPL to build more than 1400 megawatts of generation  
6    capacity over the past 20 years, while at the same time  
7    reducing its rates.

8                   However, as natural gas prices fall, as  
9    they have in recent months, then KCPL will be unable to  
10   sell as much electricity in the off-system sales market.  
11   When that happens, there are less earnings from off-system  
12   sales, and KCPL's total earnings will obviously decline,  
13   too.

14                   Since off-system sales margins are also  
15   included in revenue requirement calculation, declining  
16   off-system sales margins will also affect the revenue  
17   requirement that must be recovered from the company's  
18   ratepayers if the company is to earn its authorized rate  
19   of return.

20                   In the past three months, KCPL's  
21   projections for off-system sales have fallen as natural  
22   gas prices have plummeted. Chris Giles and Michael  
23   Schnitzer discuss these projections and the risks of this  
24   off-system sales market in their testimony. I would truly  
25   encourage you to ask questions of Chris Giles and

1 Mr. Schnitzer on this topic because it is a major risk  
2 that the company has, and I'd ask you to ask whatever  
3 questions you have about this topic to them.

4                   Needless to say, when 50 percent of KCPL's  
5 earnings are directly linked to this unregulated and  
6 volatile off-system market, the company's risk that it  
7 will not be able to earn its authorized rate of return  
8 goes up dramatically. KCPL is asking the Commission to  
9 carefully consider this increased risk in this case.

10                   Again, KCPL is different from other  
11 electric utilities in Missouri because so much of its  
12 earnings are directly linked to this risky off-system  
13 sales market, and the rate of return on equity should  
14 reflect this difference in risk.

15                   As Chris Giles points out in his testimony,  
16 you simply cannot compare KCPL, which receives nearly  
17 50 percent of its earnings from an unregulated volatile  
18 market, with other electric utilities that receive 90 to  
19 100 percent of their earnings from retail customers whose  
20 prices are regulated. These risks are clearly different,  
21 and KCPL's ROE should reflect this increased risk.

22                   Speaking of ROE, Kansas City Power & Light  
23 is seeking a return on equity of 11 1/2 percent in this  
24 case. The ROE in this case should be set at this level to  
25 generate the necessary cash earnings for the company to be

1 able to finance its construction projects independent,  
2 independent of other mechanisms like the regulatory  
3 amortization that was approved by the Commission in the  
4 regulatory plan case.

5                   Now, the mechanics of calculating the  
6 regulatory amortization have been agreed to by KCPL, Staff  
7 and Public Counsel in this case, and we intend to file a  
8 Stipulation & Agreement that explains that agreement on  
9 how the regulatory amortization will be calculated.

10                   In effect, the regulatory plan amortization  
11 is similar to accelerated depreciation. It's a non-cash  
12 item that generates book depreciation expense that is  
13 included in rates. Eventually the amortization or  
14 accelerated depreciation as I sometimes call it will be  
15 used as an offset or a reduction to KCPL's rate base in  
16 future cases.

17                   This regulatory amortization is intended to  
18 be used as a means to maintain KCPL's credit ratios in the  
19 event that its earnings and other cash flows that are  
20 determined in general rate cases like this one fail to  
21 satisfy the necessary financial ratios to assure that KCPL  
22 bonds will maintain their investment grade rating.

23                   But the amortization is not a substitute  
24 for earnings. It's not a substitute for earnings. By  
25 staying investment grade rated, bondholders are protected,



1 and KCPL's cost of borrowing will be minimized. But  
2 merely by protecting the bondholders by keeping the  
3 company's bonds at investment grade rating will not be  
4 enough for KCPL to successfully complete the company's  
5 construction program. The company also needs to have  
6 sufficient cash earnings to attract equity investors when  
7 the company needs to issue common stock. Unless the  
8 company's real cash earnings are adequate, it will be  
9 difficult for the company to issue common stock as it  
10 completes its construction program.

11 In other words, if Kansas City Power &  
12 Light Company is to be successful in completing its  
13 comprehensive energy plan, the company needs real cash  
14 earnings to attract equity investors as well as an  
15 investment grade rating to protect the bondholders and  
16 minimize the cost of borrowing.

17 And herein lies the rub of this case.  
18 The fact that the company can't be successful without  
19 adequate cash earnings is the reason that we're litigating  
20 this case today. The company can't be successful if too  
21 much of its earnings come from non-cash items like  
22 depreciation or a regulatory amortization.

23 We're asking you, the Commission, to strike  
24 a more appropriate balance between the need for real cash  
25 earnings and the regulatory amortization that is built

1 into the cases of the Staff and the Public Counsel.

2 Now, in reality, the company, the Staff and  
3 the Public Counsel are just not very far apart on their  
4 revenue requirement recommendations in this case. We are  
5 not very far apart. As I mentioned earlier, KCPL has  
6 requested a \$55.8 million rate increase. The Staff is  
7 recommending a rate increase of almost \$51.7 million, and  
8 Public Counsel is recommending more, 52.8 million. So the  
9 company's at 55. Staff and Public Counsel are at 52.

10 These recommendations are contained in the  
11 revenue requirement reconciliation that was filed by Staff  
12 on October 11th. And for purposes of discussion, your  
13 Honor, I'd like to mark an exhibit that includes that  
14 reconciliation.

15 JUDGE PRIDGIN: You may. I believe this  
16 will be No. 46, Mr. Fischer.

17 MR. FISCHER: Yes. That's the next KCPL  
18 number.

19 (EXHIBIT NO. 46 WAS MARKED FOR  
20 IDENTIFICATION BY THE REPORTER.)

21 MR. FISCHER: Your Honor, this was filed by  
22 Staff. It includes the reconciliation in our case. I'd  
23 ask that it be admitted for purpose of our discussion  
24 today.

25 JUDGE PRIDGIN: Any objections?

1 (No response.)

2 JUDGE PRIDGIN: Exhibit No. 46 is admitted.

3 (EXHIBIT NO. 46 WAS RECEIVED INTO  
4 EVIDENCE.)

5 MR. FISCHER: This reconciliation shows  
6 that the company is requesting only 3 to \$4 million more  
7 than the Staff and Public Counsel. Line 84 of the second  
8 page of the reconciliation shows that the Staff revenue  
9 requirement -- that would be the last page of your  
10 exhibit. The reconciliation is actually a two-page  
11 document that's attached to that pleading.

12 But line 84 of the second page of the  
13 reconciliation shows that the Staff revenue requirement  
14 after the regulatory plan amortization is \$51.7 million.  
15 Line 90 of that second page of that reconciliation shows  
16 that the Public Counsel's revenue requirement after the  
17 regulatory amortization is somewhat higher at  
18 \$52.8 million.

19 At these revenue requirement levels, Staff  
20 and Public Counsel are supporting rate increases of nearly  
21 11 percent. If my calculator was right, the Staff would  
22 be at 10.66 percent, and the Public Counsel's at  
23 10.8 percent. And as I mentioned, the company's  
24 requesting an 11 1/2 percent increase.

25 With those numbers, the question kept up,

1    why are we here? Why are we spending two weeks in the  
2    hearing room to discuss all of these issues with the  
3    Commission? Why are we trying this case and asking the  
4    Commission to make the decision when the company is  
5    recommending an 11 1/2 percent increase and the Staff and  
6    the Public Counsel are recommending almost an 11 percent  
7    increase? Is there really a difference worth fighting  
8    for?

9                   Unfortunately, the answer is yes. While  
10   the difference in the immediate impact on customers' bills  
11   between the company's approach and the approach being  
12   suggested by Staff and Public Counsel is not very  
13   significant, 3 or \$4 million on a \$55 million case, the  
14   impact on the company's real cash earnings is huge.

15                   The real reason that we're here is that  
16   Staff and Public Counsel want to lower the company's real  
17   cash earnings related revenues by 34 1/2 million as the  
18   company embarks upon a \$1.3 billion construction program.

19                   But because Staff's and Public Counsel's  
20   case does not produce sufficient cash earnings and cash  
21   flows to keep the company at an investment grade rating  
22   without the amortization, they add back to the revenue  
23   requirement an \$86 million non-cash item known as the  
24   regulatory plan amortization to make up the difference.  
25   This regulatory plan amortization - book depreciation

1 increase is listed on line 83 of the second page of the  
2 reconciliation.

3               This \$86 million regulatory plan  
4 amortization is admittedly necessary to achieve the  
5 financial ratios for the company's bonds to stay at  
6 investment grade rating, assuming now, assuming that the  
7 Commission would accept the recommendations of Staff and  
8 Public Counsel in this case. Of course, that's not an  
9 assumption that the company can accept, and we're going to  
10 oppose a lot of the adjustments that they're suggesting.

11              However, if the Commission accepted an ROE  
12 recommendation in the range of Public Counsel and Staff as  
13 well as their accounting adjustments, the company's real  
14 cash revenues related to earnings would be lowered by  
15 \$34 1/2 million. This \$34 1/2 million revenue requirement  
16 reduction is being proposed by Staff and Public Counsel,  
17 and that particular number is found on line 82 of that  
18 second page of the reconciliation.

19              Remarkably, this revenue requirement  
20 reduction of \$34 1/2 million would be occurring at a time  
21 when the company is trying to attract equity investors for  
22 it's \$1.3 billion construction project for its  
23 comprehensive energy plan that includes not only the  
24 construction but all the other programs that we talked  
25 about in the regulatory plan case.

1                   Because of the agreements reached in the  
2     regulatory plan case to include an amortization if it  
3     became financially necessary to stay at investment grade  
4     rated, the Staff and Public Counsel would add back an  
5     \$86 million regulatory amortization in this case. And  
6     again, as I said before, this assumes that their case was  
7     accepted.

8                   I was trying to come up with an analogy  
9     that would kind of explain the problem in this case, and  
10    we've heard some great analogies from this podium, but I'd  
11    like to provide this one. Let's assume that you are a  
12    landlord and you own a building. One way to improve your  
13    return on your investment is to increase the rents on the  
14    building. This results in more cash coming in to pay the  
15    bills and improves your actual cash return.

16                  The other way to make your investment look  
17    better, at least on paper, is to depreciate the building  
18    faster. By using accelerated depreciation, you depreciate  
19    your building faster so that it becomes fully depreciated  
20    in a shorter period of time.

21                  Now let me throw in a utility-related  
22    assumption. Let's assume that the rents are actually  
23    determined annually based upon the net amount you still  
24    have invested in the building after depreciation is  
25    subtracted from the original investment. As you

1 depreciate the building over the years, the net investment  
2 in the building after depreciation is subtracted is less.  
3 It declines. So when you go to establish your rents every  
4 year, your rents will actually be declining each year  
5 because your net investment in the building is declining.

6                   Let's also assume that your community needs  
7 another new building and you need an equity partner to  
8 invest in the property before you can proceed. Is it  
9 likely that you will be able to attract a new equity  
10 partner if you tell him that your rents will be declining  
11 each year, but at least you'll have depreciation to make  
12 up for it? Or more specifically, what if you told him  
13 your rents would be declining by \$34 1/2 million this  
14 year, but at least you'll have an \$86 million  
15 amortization, a non-cash item on your books?

16                   If you were the building owner in this  
17 analogy, what would you do? Does it make sense to rely so  
18 heavily on accelerated depreciation as a strategy in this  
19 situation? KCPL doesn't think so.

20                   Kansas City Power & Light, though, believes  
21 there is a better way. Instead of establishing an ROE at  
22 the levels recommended by Staff and Public Counsel in this  
23 case and having to back stop the company's cash flows by  
24 implementing an \$86 million regulatory plan amortization,  
25 the company believes that the Commission should establish

1 an ROE at 11 1/2 percent and accept its accounting  
2 adjustments.

3 Under what scenario, there would be no need  
4 for a regulatory amortization to meet the minimum  
5 financial metrics to stay investment grade rated, and KCPL  
6 would be in a position to raise the equity capital  
7 necessary to complete its construction project in the  
8 comprehensive energy plan.

9 On the other hand, if the Commission lowers  
10 KCPL's ROE and adopts the accounting adjustments proposed  
11 by some of the other parties, there will be a need for a  
12 regulatory amortization. The real question for the  
13 Commission and the -- the big question for the Commission  
14 in this case is how much should the cash earnings of KCPL  
15 be and how much, if any, should the regulatory  
16 amortization be?

17 From KCPL's perspective, the low level of  
18 cash earnings and the large amount of regulatory  
19 amortization proposed by Staff and Public Counsel is just  
20 not reasonable under the circumstances, and these  
21 recommendations should be rejected by the Commission.

22 I should also mention the DOE has  
23 recommended an ROE recommendation that's even lower than  
24 Staff and Public Counsel. While the reconciliation does  
25 not reflect how large the regulatory amortization would



1 have to be if DOE's recommendation was accepted, it  
2 undoubtedly would exceed that \$86 million regulatory plan  
3 amortization that's being suggested by Staff and Public  
4 Counsel.

5                   In summary, if the Commission established  
6 KCPL's ROE at 11 1/2 percent and accepted our accounting  
7 adjustments as requested, there would be sufficient real  
8 cash earnings to attract equity for the company's  
9 construction program. This approach would also meet the  
10 financial ratios necessary to stay at investment grade  
11 ratings for the bonds. However, it would not require the  
12 substantial amortization being suggested by the other  
13 parties' cases.

14                   Incidentally, the company's requested ROE  
15 in this case is just one-half of a percent higher than  
16 what the Commission found reasonable in the Empire case  
17 last year. The company clearly believes this is a better  
18 way. Traditional DCF and other cost of capital approaches  
19 will justify an 11 1/2 percent return on equity. However,  
20 certainly the company's excellent performance in its  
21 operations and customer service could also be considered  
22 and should also be considered.

23                   Kansas City Power & Light will sponsor the  
24 testimony of Mr. Robert Camfield, a vice president of  
25 Christian & Associates Energy Consulting. He's based in

1 Madison, Wisconsin. He's also a former staffer for the  
2 Michigan and New Hampshire Public Service Commissions. He  
3 reviewed several metrics for comparing KCPL to other  
4 electric companies. Those were the overall retail prices,  
5 total factor productivity, which is an economic term for  
6 showing how your productivity has compared with others,  
7 cost benchmarks for utility operations and performance  
8 measures related to customer satisfaction.

9                   What he found was that since 1994, KCPL's  
10 retail prices have declined 1 1/2 percent faster than the  
11 industry and 1.75 percent faster than KCPL's peer group.  
12 The total factor productivity of KCPL has increased at an  
13 average annual rate of 2.4 percent from 1994 to 2004,  
14 surpassing the 1 percent annual rate achieved by  
15 neighboring utilities. The industry as a whole realized  
16 only a .6 percent total factor productivity increase at  
17 the same time KCPL did four times that, 2.4 percent.

18                   His analysis also concluded that KCPL has  
19 satisfied its target levels for customer satisfaction and  
20 has increased its performance in the metrics measuring  
21 percentage of customers returned to service within two  
22 hours and response times for calls for service.

23                   As I mentioned, the company's excellent  
24 performance in operations and customer service should be  
25 considered in this case, in addition, the increased risk

1 of large construction program that is going to be  
2 occurring over the next five years, as well as the fact  
3 that 50 percent of the company's earnings have come from  
4 the volatile off-system sales market. These three big  
5 factors should be considered when you're considering the  
6 ROE and the company's -- the overall result in this case.

7                   We believe that these factors would justify  
8 conclusion that KCPL's risk profile is higher than other  
9 traditional electric utilities and that a higher ROE is  
10 needed to support the company's large construction program  
11 as it embarks upon this \$1.3 billion investment.

12                   There are, of course, other more  
13 traditional issues in this case, and I'm not going to take  
14 time right now to go through those in any detail.  
15 However, as Judge Pridgin mentioned, we will be given an  
16 opportunity to summarize some of those as we begin those  
17 more traditional issues.

18                   We greatly appreciate the Commission's  
19 continuing interest in this process and Kansas City  
20 Power & Light, and we look forward to your questions. But  
21 as I close, I would also request that the Commission keep  
22 your eyes on the big picture in this case.

23                   There are lots and lots of issues in this  
24 case, but ultimately the Commission needs to decide how  
25 much of the 52 to \$55 million rate increase that's being

1 recommended by Kansas City Power & Light, the Staff and  
2 Public Counsel, how much of that 52 to \$55 million rate  
3 increase will come from real cash earnings and how much  
4 will come from a non-cash regulatory plan amortization?  
5 This issue is critical to the success of KCPL's efforts to  
6 complete its comprehensive energy plan.

7 Thank you very much for your attention  
8 today, and we look forward to your questions throughout  
9 the case.

10 JUDGE PRIDGIN: Mr. Fischer, thank you.  
11 Mr. Thompson, will you be giving opening for Staff?

12 MR. THOMPSON: Yes, I will.

13 JUDGE PRIDGIN: When you're ready, sir.

14 MR. THOMPSON: May it please the  
15 Commission? That was a great opening statement that  
16 Mr. Fischer gave, and he said many things that I'm just  
17 not going to have to repeat, a beautiful teeing up of  
18 Staff's opening statement. So I would echo Mr. Fischer by  
19 urging you to keep your eyes on the big picture in this  
20 case, just as he did, but Staff's take on that picture is  
21 a little bit different from the company's.

22 So as I start this opening statement, I  
23 feel like, you know, I should have the Darth Vader music  
24 playing, because here I am, the representative of the  
25 evil, evil Staff that is attempting to take real cash

1 earnings away from this company in its hour of need. What  
2 an evil, evil thing it is.

3 Well, let me ask you a question or pose a  
4 thought for you. Why has this company not been in in  
5 20 years for a rate increase? Why has this company  
6 decreased its rates four times since its last litigated  
7 rate case in 1986? And these are all things mentioned by  
8 Mr. Fischer in his opening statement. I'll tell you why.  
9 The word is overearning. Overearning.

10 Looking at that very reconciliation that  
11 Mr. Fischer drew your attention to, looking at line 82, a  
12 line he drew your attention to, you see a negative  
13 \$34.5 million figure. That is the level of overearning  
14 that Staff has found in this case. \$34 1/2 million.

15 But we can't give the ratepayers the kind  
16 of relief that normally would result when a company is  
17 overearning because, as Mr. Fischer explained in detail,  
18 they're embarking on a \$1.3 billion program of capital  
19 expenditures to add generating capacity, to improve  
20 generating capacity that they already have, to improve  
21 transmission and distribution equipment, to add customer  
22 programs.

23 This capital program has to be funded. It  
24 has to be paid for. And as Mr. Fischer says, KCPL, even  
25 with its consistent history of overearning, is not in a

1 position to fund it out of the cash they have on hand.

2 But this Commission has already considered  
3 that conundrum, and this Commission has responded with the  
4 Kansas City Power & Light Company experimental regulatory  
5 plan approved by this Commission in Case EO-2005-0329.  
6 As a courtesy, Staff has provided a copy of that plan to  
7 each of you. It's marked as Exhibit No. 143, and Staff at  
8 this time requests that the Commission take notice of its  
9 Order and the attached Stipulation & Agreement and receive  
10 it into the record.

11 JUDGE PRIDGIN: Any objections?

12 MR. FISCHER: No objection.

13 JUDGE PRIDGIN: Mr. Thompson, that was  
14 Exhibit 143?

15 MR. THOMPSON: Yes, sir.

16 JUDGE PRIDGIN: All right. That is  
17 admitted.

18 (EXHIBIT NO. 143 WAS RECEIVED INTO  
19 EVIDENCE.)

20 MR. THOMPSON: Just as Mr. Fischer said,  
21 the big issue in this case is how you're going to get to  
22 that revenue requirement. We're not far apart. We're not  
23 far apart in terms of dollars, but we are worlds apart in  
24 terms of the composition of that revenue requirement.

25 Because Staff believes its audit has shown

1     that this company is presently overearning, Staff believes  
2     that an \$86 million contribution through the additional  
3     amortization mechanism is called for to provide the  
4     necessary flow of revenue. As Mr. Fischer has told you,  
5     that's a non-cash item. It's a non-cash item because it's  
6     not new earnings. It's conversion of assets into cash  
7     through accelerated depreciation.

8                     It's saying, hey, shareholders, you pay for  
9     it, you pay for it, take your property that you're earning  
10    return on and convert some of that to cash on an  
11    accelerated basis and that way you can pay for the  
12    projects that we agree you need, and in that way, the  
13    ratepayers will also have the benefit of the reduction of  
14    the real cash earnings portion of the revenue requirement  
15    recognizing that this company today, as usual, is in an  
16    overearning situation.

17                    Thank you very much.

18                    JUDGE PRIDGIN: Mr. Thompson, thank you.

19     Mr. Mills?

20                    MR. MILLS: Thank you. May it please the  
21     Commission? Lewis Mills on behalf of the Public Counsel's  
22     office.

23                    Well, Mr. Fischer and Mr. Thompson have  
24     covered a lot of ground that I'm going to cover, but I'm  
25     going to take a little bit different look at it. One of

1 the things they mention is the fact that there a lot of  
2 issues in this case. I count 64 issues in this case. I  
3 don't know if that's a world record. It's probably not,  
4 but it's a lot of issues, and it's particularly a lot of  
5 issues for a litigated electric rate case.

6 And it's not because the parties are miles  
7 apart on each of them. My suspicion is that many of these  
8 64 issues could have been settled if the parties weren't  
9 so apart on the philosophy of the amortization. And I'm  
10 not suggesting that the parties are far apart on the  
11 mechanics of the amortization because that part is pretty  
12 much resolved, as Mr. Fischer mentioned.

13 But when you start talking about the big  
14 picture, and Mr. Fischer kept referring to the big  
15 picture, that's where the real difference is. There's a  
16 huge gulf between OPC, Staff and the Intervenors on one  
17 side and KCPL on the other side. OPC and Staff take the  
18 approach, and I would urge the Commission to take the  
19 approach, that the Commission should determine the revenue  
20 requirement in this case on an issue-by-issue basis, as it  
21 would in any case, and then the amortizations will flow  
22 from the revenue requirement determination that you have  
23 made.

24 Mr. Fischer on the other hand has suggested  
25 that the Commission should keep one eye on the



1     amortization level as it decides each and every little one  
2     of these 64 issues and let that influence your decision on  
3     those issues. That's not the way the regulatory plan was  
4     intended to operate. The Commission should decide each  
5     revenue requirement issue on its merits and then, after  
6     the revenue requirement decision is made, determine if an  
7     amortization is needed and, if so, how much.

8                     Mathematically the two numbers are  
9     intertwined. From a decision-making process, they should  
10    not be. So, in order to get to that point, KCPL has  
11    decided to use every trick in the book, including some  
12    that are not really allowed by the regulatory plan, to  
13    inflate the revenue requirement so that they can keep the  
14    level of amortizations low.

15                    And it's because the sides are so far apart  
16    on that one huge that we have the unusual situation of  
17    64 issues going to hearing. This is almost like a teleco  
18    arbitration case in the number of issues that are out  
19    there and the relative dollar amounts and merit of each of  
20    the issues.

21                    I'm not going to talk about all of those  
22    issues this morning. In fact, I'm just going to highlight  
23    a few of them. The parties will be doing what I think  
24    you're familiar with from the Empire case that we just  
25    tried a couple of weeks ago, sort of mini opening

1 statements as we get to each issue as we go through the  
2 issues list, and I'll have more to say on each of the  
3 issues on which the Public Counsel has taken an active  
4 role as we get to them.

5                   Public Counsel is a small shop and at the  
6 best of times can't cover all the issues in a case like  
7 this. With all the big cases going on right now, we have  
8 to try to make a determination about which issues are the  
9 most important, and we do this by looking at both how much  
10 in dollars the issues are worth in this case as well as  
11 what sort of policy implications that they have in future  
12 cases.

13                   So I'm just going to touch on three or four  
14 issues this morning. One of them, and I think in both of  
15 those viewpoints, both from the standpoint of dollars in  
16 this case and future implications from a ratemaking  
17 standpoint, is off-system sales. In the regulatory plan,  
18 KCPL agreed that off-system sales revenues should be  
19 treated above the line. Yet in this case it has proposed  
20 a treatment that gives it a three to one chance of making  
21 a windfall profit on off-system sales.

22                   Another way to look at this issue is to  
23 think of the Bell curve that represents the possible  
24 amounts of off-system sales margins in the future. Rather  
25 than picking a point at the top where KCPL has a

1 50 percent chance of making more money on off-system sales  
2 margins and a 50 percent chance of making less, KCPL has  
3 picked a point at the 75 percent level, so that it has a  
4 75 percent chance that they will get more revenues than  
5 what we put in the rate calculation in this case and only  
6 a 25 percent chance of getting less.

7                   Now, I don't know about you, but when the  
8 weather forecast is a 75 percent chance of rain, I carry  
9 an umbrella. I think there's a pretty strong likelihood  
10 that that's going to happen. That's not the way rates  
11 should be set.

12                   Rate case expense, although it's not a huge  
13 dollar amount, is a troubling issue in this case because  
14 of the departure that some parties have urged from the  
15 typical way that rate case expense is handled. Rate case  
16 expense is typically normalized. That is, you take what  
17 you think is a fair level of expense, determine what you  
18 think is a fair period of time between rate cases, and set  
19 a normal level in rates for collection on an annual basis  
20 from ratepayers.

21                   Some parties, including Staff and KCPL,  
22 wanted to treat rate case expense as an extraordinary item  
23 and defer and amortize it in this case. Rate cases for  
24 KCPL, as I'm sure you're aware, are not going to be a rare  
25 event anymore. They're going to be a very routine event.

1 In fact, in the next few years, there will likely only be  
2 a few short periods when KCPL doesn't have a rate case  
3 pending.

4 The last issue I want to talk to you on  
5 this morning is the return on equity. I've talked about  
6 the regulatory plan somewhat. So has Mr. Thompson and so  
7 has Mr. Fischer. That agreement represents an  
8 extraordinary effort designed to minimize the risks to  
9 KCPL and the cost to its ratepayers during a period of  
10 heavy construction.

11 KCPL in this case has sponsored a witness  
12 who, despite the extraordinary regulatory plan, proposes a  
13 50 basis point bump up on ROE to address construction  
14 risk. If KCPL wants to address construction risk in an  
15 ROE kicker, then it shouldn't get to take advantage of the  
16 amortizations in the regulatory plan. You should only  
17 address risk once.

18 Think about insuring your house, and here  
19 I'm going to use one of those analogies that Mr. Fischer  
20 was so kind to point out that we frequently do in opening  
21 statements. Think about insuring your house. That's a  
22 way to address risk that most of us are familiar with. Do  
23 you get to insure your house with two different carriers  
24 so that when it burns down you get paid twice? No. You  
25 can't do that. You only address risk once. You don't get

1 to leverage risk in order to make an excess profit by  
2 addressing it twice.

3 But that's what KCPL has proposed here.  
4 They've proposed to address the construction risk in two  
5 different ways, both through the amortization and through  
6 a kicker on ROE, and the 50 percent kicker on top of the  
7 already astronomical ROE of 11 percent.

8 The return on equity should be much lower  
9 of this case. The evidence supports the 9.9 percent  
10 proposed by OPC witness Baudino or the approximately  
11 9.4 percent proposed by the Staff. It would be patently  
12 unfair to allow an additional ROE adder to address  
13 construction risk.

14 That concludes my opening remarks. Thank  
15 you.

16 JUDGE PRIDGIN: Mr. Mills, thank you.  
17 Mr. Coffman?

18 MR. COFFMAN: May it please the Commission?  
19 John Coffman appearing on behalf of AARP. I'll be very  
20 brief.

21 On the revenue requirement issues, I would  
22 generally echo what Mr. Mills has said. AARP is generally  
23 in agreement with the testimonial positions taken by  
24 witnesses for the Office of the Public Counsel and the  
25 Department of Energy on most issues. Obviously the

1 off-system sales issues is the -- is the bulk of the  
2 revenue requirement issues here.

3 But as a representative of seniors, senior  
4 ratepayers, many of my clients are the most vulnerable of  
5 customers and those who will be hit the hardest and most  
6 traumatized by rate increases such as the double digit  
7 increases that are being discussed here.

8 And I might add that AARP is not a  
9 signatory to the KCPL regulatory plan, and I think are  
10 somewhat glad they're not. I think they would actually  
11 prefer to be discussing a significant rate reduction in  
12 this case, as would be traditionally done, 3 or \$4 million  
13 rate reduction.

14 But understanding that the Commission has  
15 found the regulatory plan to be reasonable, or most of  
16 these Commissioners here have, I want to emphasize what  
17 has been said about the off-system sales issue here. It  
18 really does not seem reasonable to me that the risk of not  
19 meeting the expected level of off-system sales should be a  
20 reason to reduce the recovery, particularly when there is  
21 a regulatory plan that presumably reduces that very risk.

22 And because of an expected filing as early  
23 as February 1 of 2008 we will be in another case possibly  
24 as early as February 1, and so any uncertainty about  
25 projections can certainly be mitigated by the fact that

1 we'll be in new case very soon. Anything that you decide  
2 in this case will be rather short lived, and I don't think  
3 you have to worry about the uncertainty of time making  
4 your decisions stale or out of date.

5                   Also, on the return on equity, for the same  
6 reason it does not make sense to bump up the ROE for  
7 construction risk, assuming -- because they have this  
8 regulatory plan that they think -- or at least the main  
9 goal of which was to eliminate or reduce that risk.

10                   So I think you should look at this case the  
11 way you would a traditional case, make decisions knowing  
12 that this is a decision that will be in effect for a  
13 little more than a year, year or two perhaps, and then if  
14 you do feel that you have to follow the regulatory plan,  
15 then apply the amortization as it would flow through and  
16 has been expected.

17                   And I guess no one has mentioned yet the  
18 fact that this very regulatory plan has a commitment by  
19 KCPL to not reduce the off-system sales argument, and  
20 there's -- obviously when there's this much money  
21 involved, arguments about why we can parch the words of  
22 that stipulation, but the intent was not to have  
23 shareholders get anything less than the full measure of  
24 the benefit of those off-system sales. And so please take  
25 that into consideration and consider the reasonableness of

1     how much the final result of this rate increase will be.

2                     And then on the matter of rate design,  
3     considering that if the regulatory plan is to be followed,  
4     we're looking at a rather huge hit for all customers, and  
5     I would like to just speak on behalf of those residential  
6     customers who are on limited incomes and who do not have  
7     the ability to adjust as easily, and suggest that this  
8     would not be the case to make any significant rate design  
9     changes, especially not if you're getting anywhere near a  
10    double digit increase on revenue requirement.

11                    We are going to be back, as I said, in  
12    other cases very soon, and as soon as the Iatan 2 plant is  
13    here proposed, we will be looking at class customer  
14    relationships that will be significantly different. So on  
15    the rate design issues, AARP is supporting KCPL and its  
16    position that this is not the time to make any dramatic  
17    rate design shifts and that you should perhaps wait until  
18    we have a new power plant online to consider that.

19                    That's all that I have. Thank you.

20                    JUDGE PRIDGIN: Mr. Coffman, thank you.

21    Any opening on behalf of Aquila, MGE?

22                    MR. COOPER: No. Aquila and MGE would  
23    waive opening statement.

24                    JUDGE PRIDGIN: Mr. Cooper, thank you. On  
25    behalf of the City of Kansas City, Mr. Comley?



1 MR. COMLEY: May it please the Commission?

2 Good morning.

3 The City is appearing on behalf of the  
4 Weatherization Program Administration. It's a very  
5 limited issue. As the Commission may remember, the City  
6 of Kansas City was a signatory on the regulatory plan in  
7 EO-2006-329, and as a consequence of that stipulation, a  
8 very comprehensive weatherization program developed.

9 And Robert T. Jackson of the Administration  
10 of Weather-- Weatherization Administration staff testifies  
11 about how satisfactory that process is. He does, however,  
12 have two process improvements in his testimony. One  
13 concerns coordination on referral of applicants. Another  
14 recommendation concerns recipients of low-income home  
15 energy assistance program funds. I'll not get into that  
16 in detail.

17 Another issue developed, I think, with the  
18 late intervention of Mr. Dias. My understanding is that  
19 during the local public hearing in August Mr. Dias did  
20 bring to the Commission another type of weatherization  
21 program. To date, it's unclear exactly what that program  
22 may entail, and you'll notice in Prehearing Briefs on the  
23 issues and that sort of thing the City did object to the  
24 inclusion of any kind of issue pertaining to the  
25 weatherization program Mr. Dias did mention.

1                   I will add, though, I don't think the City  
2   would stand in the way of any kind of program that would  
3   benefit low-income or other qualified people to make sure  
4   that they're getting the most highly efficient use of  
5   energy in the city.

6                   And with that, it is a very limited issue.  
7   Mr. -- Judge Pridgin has given us the excuse to leave. I  
8   wanted to let the Commission know that since this issue  
9   will probably be heard next Friday, October 27th, I will  
10  be probably going in and out of the courtroom. Thank you.

11                  JUDGE PRIDGIN: Mr. Comley, thank you. Any  
12  opening on behalf of Jackson County? Mr. Finnegan.

13                  MR. FINNEGAN: May it please the  
14  Commission? Jackson County has taken a limited role in  
15  this proceeding basically because there's a plethora of  
16  utility cases and the County's budget is very strained.  
17  So we are here, but not -- we do not want the Commission  
18  to feel that we are not very interested in this case and  
19  the result.

20                  We are supporting the Commission's Staff,  
21  at least up through line 82 where the Staff has said the  
22  company is overearning by \$34 1/2 million. We think that  
23  is the bottom line here in this case. We are not  
24  signatories, we were not signatories to the regulatory  
25  plan, and we decided not to sign that plan because we do

1 not agree with it.

2 I was here 20 years ago in 1985 when the  
3 Wolf Creek rate case was decided. The Commission -- the  
4 company spent over \$3 billion to build the Wolf Creek  
5 plant. They did it without a regulatory plan. They did  
6 it without help from the ratepayers, like it's being asked  
7 in this case is for the ratepayers to build this plant.

8 Which comes to a big question is why is  
9 this plant being built when the company is getting 50  
10 percent of its revenues from off-system sales? Other  
11 utilities in the state do not do that. They are part of a  
12 utility, and the utility serves ratepayers. This company  
13 has a holding company, Great Plains Energy. Why doesn't  
14 Great Plains Energy build this regulatory plan -- build  
15 this plant to increase their off-system sales market?

16 And the other thing that comes -- that I  
17 find real troublesome is the fact that in the past and  
18 throughout this -- the, what, 80 years of regulation,  
19 maybe 100 years now of regulation, the interest was  
20 balancing the interest of the ratepayers on the one hand  
21 and the stockholders on the other hand. All of a sudden  
22 in this case there's a new party, and that's the  
23 creditors. I think the creditors can take care of  
24 themselves. It's their job to take care of themselves.  
25 They look at the picture. They know what they're doing.

1     Why are we -- why are they asking the Commission to  
2     abdicate its power so that the creditors, the credit  
3     rating agencies can determine the rates in Missouri? We  
4     are very opposed to that.

5                     And we believe that this company has been  
6     overearning for 20 years. It's proven this year that it's  
7     overearning by \$34 1/2 million. That's just this year.  
8     You've got to look back for 20 years they've been  
9     overearning. And if I remember the statute, it's the  
10    average return on investment, and I'd say this company has  
11    made a pretty good average return on its investment over  
12    20 years, and I think it's time for the rate decrease.

13                    Thank you.

14                    JUDGE PRIDGIN: Mr. Finnegan, thank you.  
15    Mr. Dias, any opening statement?

16                    MR. DIAS: First of all, I thank the  
17    Commission for allowing me to come in and talk and the  
18    fact that you-all considered my case, found some merit in  
19    it and gave me the intervention.

20                    Although I am representing myself, I have  
21    been working with several companies, several people,  
22    specifically individuals who have the community's good at  
23    heart. I take issue at some of the things that Kansas  
24    City Power & Light has basically put forth. Mr. Fischer  
25    said they're going to have nine new customer programs.

1 Well, I've looked at those customer programs. None of  
2 those programs deal with anything that's going to be a  
3 financial help to the people who have been talking to  
4 Kansas City Power & Light. Home energy analyzer, change a  
5 light program, business energy analyzer, audit rebate.

6 This is coming from the testimony of Mrs. Susan Nathan.

7                   Programs that they're talking about doing  
8 in the future, affordable new homes, home performance with  
9 Energy Star, cool homes, Energy Star homes. They're  
10 talking about actually going out and constructing new  
11 homes for the low-income person. I don't have a problem  
12 with that. Low-income individuals have just about every  
13 option that you can find out there. There's somebody  
14 willing to help somebody who's in need, they will do it.

15                   The people that the Baptist Ministers Union  
16 have been talking about are the people who are struggling  
17 day to day to make things happen for themselves. As an  
18 example, everybody knows that energy conservation,  
19 weatherization is almost a must if you're going to stay  
20 ahead of your day-to-day living cost. If you don't put  
21 some money into your home or your apartment to get it  
22 weathertight, it's going to cost you more money than you  
23 probably are earning.

24                   One of my -- one of the things that I  
25 brought forth, and the City of Kansas City, Missouri spoke

1 to this, was to do an energy conservation and  
2 weatherization program tied to on-time bill payment. Now,  
3 I guess you say, why is on-time bill payment so critical  
4 in this -- in this case? And you would think that if  
5 someone proposed something to a utility company that over  
6 200,000 households are going to say we're going to sign up  
7 to pay you on time, that they would really be happy with  
8 that. Not in this case.

9 Mrs. Nathan -- I'm going to -- I want to  
10 give you all an exhibit, and I'm going to talk about  
11 her -- some of the comments she made in her rebuttal  
12 statements. This is a newspaper article -- first of all,  
13 let me back up here.

14 First of all, I am not a lawyer. I'm just  
15 a plain, everyday engineer. I don't really know what I'm  
16 doing here. Some of the things that -- that are  
17 procedural probably have not been done, and those are the  
18 kinds of things that I would like for you -- if I need to  
19 do them, I'll certainly try to do them.

20 But in Mrs. Nathan's testimony that was  
21 filed on October the 6th, she specifically says she met  
22 with the Baptist Ministers Union and that they are all in  
23 agreement with some of the things that Kansas City Power &  
24 Light are proposing.

25 Well, we met with the -- we met with senior

1 officials from the chairman of Kansas City Power & Light  
2 on July the 12th. In that particular meeting, we -- the  
3 ministers gave them what they would like for them to do.  
4 It centered around finding a way that Kansas City Power &  
5 Light would underwrite weatherization programs for those  
6 individuals that fall out of the low-income category, and  
7 there's a reason for that, low credit scores. You cannot  
8 seek outside financing to have someone come in and do your  
9 weatherization unless you have a decent credit score.

10                   So these individuals -- and I understand  
11 there's about 62,000 of them in Kansas City. These  
12 individuals have nowhere to turn. They can't qualify for  
13 the federal programs. They can't qualify for any of the  
14 low-income programs. They're just caught in the middle.  
15 All we're asking the Commission to do is to have Kansas  
16 City Power & Light offer to underwrite these people to do  
17 weatherization, and then, in turn, they're going to  
18 promise to maintain an energy efficient level. They're  
19 going to promise to pay their bill on time. That's what  
20 they're going to promise.

21                   Well, what I want to talk about is this  
22 news article. The senior officials came to us, the  
23 chairman sent them, and they were telling us how they were  
24 going to put together the information to come back and  
25 present it to you-all, with the homes that are 50 years

1 and older and all of this kind of stuff. Well, it came  
2 out that they were only going to use the data from homes  
3 in Grandview and Johnson County. I got to tell you, the  
4 average age of those homes are nine years and younger.  
5 You're not going to get accurate data about energy  
6 consumption for homes that are 50 years plus when you look  
7 at only two zip codes.

8 Well, in Mrs. Nathan's testimony she says,  
9 well -- let me find that page. On page 2 of her testimony  
10 she says, Mr. Dias indicated that he has concerns that  
11 Kansas City Power & Light test models only use areas in  
12 Grandview and areas in Johnson County to put together the  
13 data that's going to be submitted to the Public Service  
14 Commission. And then she goes on to say they're leaving  
15 out data on homes that are 50 years old and younger.

16 On the very next page, page 3, the question  
17 is -- asked her to respond to this. She says, yes, I can.  
18 She says, I am unaware of any test models that is only  
19 used in areas of Grandview and in Johnson County for data.  
20 I'm also unaware of any program or test models that leaves  
21 out homes 50 years or older.

22 Well, that's in direct -- that's in direct  
23 conflict of what the senior representatives from Kansas  
24 City Power & Light hold us in this meeting. They told us  
25 that that's what they were going to do. I'm assuming they



1 said that because I doubt very seriously if they thought  
2 that someone sitting on that executive committee at the  
3 Baptist Ministers Union would be standing here today to  
4 call out the differences between what they said in the  
5 meeting and what they're putting before you.

6 Now, I don't like calling people liars, and  
7 I'm not going to do that. I'm going to say that they say  
8 whatever is convenient to get their point across. I'm not  
9 the only one that heard that they were going to use this  
10 data in Grandview, and at that time that we had this  
11 meeting, those were the -- that's where they were pulling  
12 their data from. That's why we had a reporter from the  
13 Kansas City Call come there, so they could offer evidence  
14 that that's the way that they plan to do business.

15 Now, I heard some other indications that,  
16 well, there may be some trickery going on here. Well, I  
17 don't know and I don't really care. All I want the  
18 Commission to do -- and I know that you-all are honorable  
19 people -- is to look at those customer programs, the one  
20 issue, energy conservation, weatherization, on-time bill  
21 payment for persons who agree to do that, to demand Kansas  
22 City Power & Light underwrite the cost of weatherizing  
23 their homes. That's the first issue.

24 The second thing I wanted to talk about,  
25 while we're on that meeting, these are minutes of a

1 meeting that we had with the senior officials of Kansas  
2 City Power & Light February 9th of '06.

3 MR. FISCHER: Your Honor, with apologies to  
4 Mr. Dias, I'd like to interpose an objection, I guess. To  
5 the extent that evidence is being presented from the  
6 podium, I think it would be more appropriate that that be  
7 taken up at the time we have a witness scheduled, which is  
8 I believe Friday the 27th. I don't have any problem with  
9 Mr. Dias presenting his comments. However, to the extent  
10 we're trying to introduce evidence, I will object.

11 JUDGE PRIDGIN: I don't think he's even  
12 offered them. So I'll let him -- you're free to speak  
13 about these, but they're not in evidence yet.

14 MR. DIAS: I'm not even offering these in  
15 evidence until we have the opportunity to talk to these  
16 people.

17 Gentlemen, what I've given you is minutes  
18 of a meeting that we had with the representative sent by  
19 the chairman of the board of Kansas City Power & Light to  
20 sit down with this executive committee of the Baptist  
21 Ministers Union.

22 The one thing, as you can see, Kansas City  
23 Power & Light doesn't care too much about -- they have  
24 their minds made up on the direction that they're going to  
25 go. The community tells them exactly, this is what we

1    need, and they came back and they told you in that  
2    Appendix B of the regulatory plan that, what is it,  
3    EO-2006-00329, I think it was, they gave you a plan that  
4    they were going to work with and listen to the community.

5                   The community spoke.  Kansas City Power &  
6    Light -- and on page No. 3, I'm going to read that to you.  
7    KCPL suggests that any black-owned business that services  
8    a pay station as well as monies paid -- to pay this  
9    company would have to be identified to make sure that  
10   money goes back to the community.

11                   In other words, if they're going to get a  
12   minority-owned business involved in anything associated  
13   with doing business with Kansas City Power & Light -- and  
14   I've got to tell you, this is something -- they use  
15   PayPals.  They use all kinds of other companies to  
16   transmit payments from a customer base back to their -- to  
17   their security, secured server.

18                   But when the community asked them to put  
19   something in place that will benefit their cust-- benefit  
20   not only minority-owned business but benefit their  
21   customers, here's what they had to say.  They want you to  
22   put money back -- they want to know that if we do a  
23   contract with you, that you're going to put money back  
24   into the community.

25                   They never made that stipulation to anybody

1 else that they're doing business with. They're doing  
2 business now with all kinds of construction people.  
3 They've not made a demand on those individuals to put  
4 money back into the African American community. What's  
5 good for the goose is good for the gander. So if they  
6 made that demand on them, we would be okay, but they  
7 didn't.

8                   The last thing that Kansas City Power &  
9 Light -- and this guy that said this, his name is John  
10 Marshall. He says that people would not understand  
11 on-time concept, nor would they care. I guess we're just  
12 not smart enough to understand that paying my bill on time  
13 is going to be able to give me an alternative credit score  
14 that the Bank of America or Nebraska Furniture Mart or  
15 anybody else that I'm going to buy something from is going  
16 to pull that information and give me a rate, not  
17 12 1/2 percent, 7 percent. I'm going to save money.  
18 That's what I could do. That's why the community is  
19 trying to get something of this nature.

20                   But I thought that was interesting that a  
21 senior official of Kansas City Power & Light would be so  
22 comfortable in this day and time as to make that kind of  
23 statement.

24                   All right. Next I want to share with you  
25 information on the trend of using utility bills, rent

1 payments, those kinds of things to develop an alternative  
2 score. This is basically for people who have -- who  
3 have -- basically they pay their bills in cash. And the  
4 major banks in this country say, hey, we've got to find a  
5 way that we can track some of this. Just because a person  
6 pays in cash doesn't mean that they may not be a good  
7 credit risk.

8                   So what they're doing is they're trying to  
9 work with utility companies across this country to make  
10 that happen. What hasn't occurred yet is the ability to  
11 so pool the information and keep track of the payment in  
12 such a fashion that the payment can be reported on time.

13                   That's what we propose is to get a level  
14 payment, including any past due, have that individual do a  
15 payroll direct deposit. He's agreed to it. Have that  
16 individual give us all of their personal information. We  
17 have not even asked Kansas City Power & Light to provide  
18 us any company private information on that customer. All  
19 the information that we will get from that customer will  
20 come from that customer.

21                   I'm going to hand out this article. What  
22 you have here, it's an article that I pulled off of USA  
23 Today. It's on this alternative credit scores. And this  
24 is big news around the entire country, and the reason for  
25 that is, is that there's about 62 million people that fall

1 in this category, that pay all of their bills basically in  
2 money orders, and they are not being reported to the four  
3 major credit reporting agencies.

4 Well, over the last 18 months, there's a  
5 trend now to begin to try to find a way to summarize these  
6 payments and then send those to Fair Isaac, which is  
7 the -- that's the FICA score that you might be familiar  
8 with, but to summarize that information and have them put  
9 a credit score on it.

10 Now, the great news is, they're looking at  
11 putting in scores from 300 to 850 on an alternative score.  
12 So now you're going to have the two different sides.  
13 You're going to have alternative scores and you're going  
14 to have the TransUnion, Experian and Equifax scores. So a  
15 lender who wants to -- a person wants to finance a  
16 refrigerator or a car or something for a person that finds  
17 themselves having to use alternative credit will have a  
18 score from which to measure their risk.

19 Now, this is what we also proposed to  
20 Kansas City Power & Light. This is what the ministers  
21 proposed to Kansas City Power & Light. We have a need for  
22 that. Now, traditionally, low scores, and you go figure,  
23 why would there be so many disproportionate low scores in  
24 Hispanic and black communities? Well, maybe because they  
25 make less money. Don't know. I guess the major reason

1 would probably be that they are a total cash society, more  
2 or less.

3 But there's a move afoot now that now we  
4 can do something. We don't -- with Kansas City Power &  
5 Light, all we need to do is have them agree to accept the  
6 payment, and they've said that, no, we won't accept that  
7 payment, and they've never given us a reason why. I mean,  
8 they accept the payment from PayPals. They even went so  
9 far as signing a memorandum of understanding with me, and  
10 never has honored it.

11 So once again, you can say how many  
12 customer service programs you're going to do and all these  
13 great things you're going to do for the customers, but  
14 when it comes down to the bottom line, will they do it, or  
15 is it one of those things where they're going to be the --  
16 an egg shell type of thing, or is it the pea game? They  
17 put a pea under, they try to make changes and what have  
18 you.

19 It will never happen unless the  
20 Commissioners get involved and say, we want you to  
21 implement programs for alternative credit. That's the  
22 only way it's going to happen.

23 Now, I cannot for the life of me why a  
24 utility company who's sitting here talking about  
25 \$34 million and it not being adequate would be opposed to

1 getting paid on time, reducing their debt. They're  
2 opposed to that. Am I missing something? I mean, what is  
3 it about this customer class or these customers that  
4 Kansas City Power & Light feels that they do not have to  
5 do anything for them? I must be missing something.

6 But I think that the Commissioners -- it's  
7 easy to see, alternative credit is almost a must. Now,  
8 with this individuals -- we for years in our communities,  
9 we dealt with things, predatory lending. We have been  
10 victims of all of this. This is our first chance to get  
11 away from those types of con artists who want to come in  
12 and prey on us because we can't afford it, our credit  
13 scores don't give us the ability to go to the other side,  
14 but now we have the opportunity.

15 All we'd like to do is have the  
16 Commissioners require them to participate. It's not going  
17 to cost them any money, other than the cost of the  
18 transaction fee, and they're paying more now. They're  
19 going to stop paying -- they're going to start paying a  
20 dollar that it takes when you go to a grocery store,  
21 they're going to start paying them. It's costing them  
22 about \$1.45 already.

23 But now we're talking about proposing a  
24 situation where the only thing they're going to have to do  
25 is pay a transaction fee and they're going to get paid on



1 time. We're going to even do the reporting.

2 Well, in these meetings, Kansas City  
3 Power & Light, well, you're not experienced. You haven't  
4 been doing this. We don't think that you can do it. Why?  
5 We had one company come up there, came up there, it owns  
6 the card that we're going to use, the Mio card, the owner  
7 of that company is the sixth richest man in America.  
8 Their company, Free Holdings, has -- it's one of the  
9 Fortune 500 companies, and they don't have the ability to  
10 do the technical stuff here? I mean, you can make up all  
11 kinds of excuses.

12 But even more importantly than that, since  
13 2004 we have been sending payments to Kansas City Power &  
14 Light. We've been assisting those customers. We have a  
15 list of pay stations where these people -- this is the  
16 only place they can go make a payment, and they're able to  
17 go and they do that.

18 And so what I want to do now is I want to  
19 give you a list -- I'm going to stop here in a minute.  
20 What you have there is a document that shows the customers  
21 that have come in, gave us their information, the amount  
22 of money that we sent on to Kansas City Power & Light  
23 through this -- it's called an unauthorized payment,  
24 because Kansas City Power & Light won't authorize it, but  
25 we did it anyway. The customer pays us money, and we sent

1 it to them.

2 What we would like to have done is Kansas  
3 City Power & Light to authorize these payments, and --

4 COMMISSIONER GAW: Just a minute, Judge.  
5 May I?

6 JUDGE PRIDGIN: That's fine.

7 COMMISSIONER GAW: I know this is not being  
8 offered at the present time, but since it does have names  
9 and amounts on it, I'm wondering if there -- if there's  
10 some desire to protect some of this information in regard  
11 to confidentiality. I just raise it in order that  
12 somebody may notice it when that becomes appropriate, if  
13 it does. And Mr. Dias may already have waivers from these  
14 people or no expectation that it will be kept in some way  
15 confidential. But I just raise it for that purpose. I  
16 apologize for interrupting.

17 MR. DIAS: Oh, no, not a problem. Let's  
18 deal with that issue. Those individuals on that list,  
19 basically that is the history that was captured when they  
20 made the payment essentially. It is basically -- there's  
21 nothing on there that would be damaging to them if it got  
22 out into the general public. And as I said, it starts in  
23 2004, and I think the latest entry is -- goes to 2005.

24 You-all can deal with it whichever way you  
25 want to, basically. And we have not obtained waivers,

1 but -- other than the fact that when they do make the  
2 payment, they do sign a hold harmless letter with our --  
3 with our agents. So I think we're protected.

4 MR. FISCHER: Your Honor, I think I'd like  
5 to interpose an objection. I see no grounds that this  
6 could be introduced into evidence in a hearing before the  
7 Commission. I see no foundation that can be laid that  
8 would permit this to be introduced. And it appears to me  
9 we're entering into the area of testifying from the  
10 podium, and I will object to that.

11 JUDGE PRIDGIN: Mr. Dias, I will -- if and  
12 when you offer Exhibit 1305, we will take that up, as well  
13 as the confidentiality. I'm going to try to redirect your  
14 comments to what you believe the evidence will show and  
15 not as much your testimony at this moment.

16 MR. DIAS: Right. Not a problem with that.  
17 Well, I'm going to conclude by saying that Kansas City  
18 Power & Light could literally -- they are a first class  
19 company, but for whatever reason there are people within  
20 that company that have little or no compassion to the  
21 people that I represent, and that is blacks, Hispanics and  
22 poor whites. They don't have that much compassion for  
23 them. They could care less if they pay -- had to pay a  
24 12 1/2 percent interest rate on buying a refrigerator.  
25 They could care less if they pay 44 percent more per month

1 on their mortgage. They could care less.

2 And I think the conscious that's going  
3 to -- that's going to come with Kansas City Power & Light  
4 is going to have to start with the Commission. I think  
5 you're going to be the only way that these people are  
6 going to get any kind of I'd say benefit.

7 Kansas City Power & Light will say a lot.  
8 They tell you they've got all these great programs, but I  
9 would bet you that on their fourth go-around on the fourth  
10 rate case they still will not be implemented. Thank you  
11 for your time.

12 JUDGE PRIDGIN: Mr. Dias, thank you, sir.  
13 Any opening on behalf of Missouri Department of Natural  
14 Resources?

15 MS. WOODS: May it please the Commission?  
16 Good morning. I did have a brief opening statement, but  
17 thanks to Mr. Comley, it's even briefer. We basically are  
18 here on three issues. Two of them were brought up by City  
19 of Kansas City, and I'll just tell you that we support the  
20 recommendations made by the City.

21 The third issue that has been raised in  
22 weatherization -- under the weatherization heading has  
23 been raised by Mr. Dias. I think we're on the record as  
24 objecting to that largely because of the lack of evidence.  
25 There was some surrebuttal or what's been classed

1 surrebuttal testimony filed late last week, but it's our  
2 position that at the present there just isn't anything  
3 before this Commission to make any decisions on.

4 Thank you.

5 JUDGE PRIDGIN: Ms. Woods, thank you. Any  
6 opening on behalf of Empire? Mr. Cooper.

7 MR. COOPER: Good morning. The Empire  
8 District Electric Company has filed testimony and taken a  
9 position as to an aspect of the regulatory plan additional  
10 amortizations issues that are to be tried in this case.  
11 That aspect is whether a gross up for taxes should be  
12 added to any additional amortization necessary to maintain  
13 KCPL's credit ratios.

14 Empire believes that such a gross up is  
15 required if the regulatory amortization is to have a  
16 chance to accomplish its purpose. Empire will expand on  
17 this position at such time as the regulatory amortization  
18 issues are tried later in the week. Thank you.

19 JUDGE PRIDGIN: Mr. Cooper, thank you. Any  
20 opening on behalf of IBEW Locals? I don't believe I had  
21 an entry of appearance from counsel?

22 Okay. On behalf of Ford/MIEC?

23 MS. ILES: No, your Honor.

24 JUDGE PRIDGIN: Ms. Iles, thank you. On  
25 behalf of Praxair?

1                   MR. WOODSMALL: Praxair would just reserve  
2 any comments for the time preceding any individual issues.

3                   JUDGE PRIDGIN: Mr. Woodsmall, thank you.  
4 On behalf of Trigen, Mr. Keevil?

5                   MR. KEEVIL: Thank you, Judge. I'll try to  
6 keep this brief. I made a note -- I had originally  
7 written down to begin with good morning. I have a little  
8 note to check clock, make sure it's still morning. May it  
9 please the Commission?

10                  My client has addressed or we have  
11 addressed three issues in the Briefs. I only want to  
12 address two of those which are of primary interest to my  
13 client, and I should probably point out that these are not  
14 set for hearing until late next week, so we'll probably go  
15 over these again at that time.

16                  But the first of these issues that I wanted  
17 to just touch on very briefly here this morning is that  
18 KCPL is proposing to expand or broaden the qualification  
19 provision of its small, medium and large general service  
20 all-electric discount rates, to make those discount rates  
21 available to customers who are not all-electric customers.  
22 Obviously from our Briefs you're aware that we're opposed  
23 to this.

24                  Submit to you that KCPL is proposing this  
25 expansion of the tariff despite the fact they have no cost

1 of service or incremental or marginal cost analysis or any  
2 studies to support it. They're making the proposal  
3 without having analyzed or having any information on the  
4 impact that the proposal will have on its customers, on  
5 the billing determinants, or on its revenues, and  
6 apparently they don't even know how many customers would  
7 be affected by the proposal.

8                   In addition, although KCPL is proposing to  
9 expand the availability of its current all-electric  
10 general service tariffs, the evidence will show that there  
11 are serious flaws with KCPL's current all-electric  
12 discount tariff. So we believe that certainly they should  
13 not be expanded as KCPL is proposing.

14                   And I would point out that currently during  
15 the winter months customers served under the KCPL  
16 all-electric general service tariffs are paying  
17 approximately 23 percent less for their entire winter  
18 electric usage than they would otherwise pay under the  
19 standard -- what I refer to as standard general service  
20 tariff, and yet KCPL proposes to expand the availability  
21 of these tariffs and, therefore, expand presumably the  
22 number of people qualifying for that 23 percent discount.

23                   As for the second issue I just wanted to  
24 touch on here, it relates to the first issue actually. As  
25 I mentioned, we believe the evidence will show that KCPL's

1 existing general service all-electric tariffs and the  
2 separately metered space heating provision of KCPL's  
3 standard general service tariff should be eliminated in  
4 this case.

5                   Although KCPL did file a class cost of  
6 service study in this case, as I believe they were  
7 required to do by the regulatory plan, the customers which  
8 are served under these discount rates were rolled in with  
9 the standard tariff customers within each of the general  
10 service categories. Therefore, there is no cost support  
11 in this case for any of these discount rates, nor is there  
12 any -- even any evidence that the discount rates exceed  
13 the incremental cost of providing the service.

14                   We also believe the evidence shows that the  
15 discount rates unreasonably and unfairly discriminate  
16 between the customers themselves within each of the  
17 categories by charging different amounts for identical  
18 usage under similar circumstances.

19                   Furthermore, the discount rates are  
20 actually favoring low load factor/high demand use  
21 customers, which obviously goes against the typical rate  
22 design proposal.

23                   We believe there are additional flaws which  
24 are addressed in the testimony and the Brief and I won't  
25 go over here, but it appears that these discount rates are



1 simply a matter of continuing past practice without any  
2 support and we believe should be eliminated.

3                   However, if for some reason you decide not  
4 to eliminate them in this case, we believe that at a  
5 minimum they should be restricted to the current -- to the  
6 qualifying customers currently receiving service under the  
7 discount rates until there is a comprehensive cost of  
8 service or cost effectiveness study which analyzes and  
9 supports these discount rates, as well as supporting and  
10 analyzing the KCPL affordability, energy efficiency and  
11 demand response programs.

12                   Now, as I mentioned, these issues aren't  
13 set 'til the end of next week, and at that time our  
14 witness, Joseph A. Herz, will be here to sponsor his  
15 testimony and answer any questions you may have. Thank  
16 you very much.

17                   JUDGE PRIDGIN: Mr. Keevil, thank you.

18                   COMMISSIONER GAW: Judge, can I ask a  
19 question?

20                   JUDGE PRIDGIN: Absolutely.

21                   COMMISSIONER GAW: Mr. Keevil, would you  
22 mind refreshing my memory? Is this -- I understand the  
23 factual issues generally that you just discussed. Are  
24 there legal issues in regard to this question and, if so,  
25 can you give me some very general idea of what those are?

1 MR. KEEVIL: I'm not sure I understand.

2 COMMISSIONER GAW: Well, you're mentioning  
3 that there are no -- you think there are not sufficient  
4 grounds on a cost of service to justify the discounts, if  
5 I'm understanding you correctly. Is it -- do you think  
6 that that's a legal requirement, first of all, that there  
7 be some support or justification based upon cost of  
8 service? And secondly, is there some issue of  
9 discrimination, discriminatory treatment that is not  
10 allowed under the statute in your argument?

11 MR. KEEVIL: Okay.

12 COMMISSIONER GAW: If that helps.

13 MR. KEEVIL: I think I understand.  
14 Certainly as for the first issue, the KCPL proposal to  
15 expand the availability, I think the -- and I apologize.  
16 I don't have the citations with me here this morning.

17 COMMISSIONER GAW: No. And I don't need  
18 them right now, but I just --

19 MR. KEEVIL: I certainly think the law puts  
20 the burden of proof on KCPL to support its proposal. I'm  
21 not aware of anything off the top of my head that says you  
22 have to have a down to the dollar cost study that supports  
23 it, but you have to have a reasonable basis.

24 The statute's cited in the prehearing  
25 brief. The statutes do require that the rates be just and

1 reasonable, obviously. And I believe there's been some  
2 discussion in the cases about the support -- when you get  
3 into the question of discriminating among classes, whether  
4 there's support for it. And again, I don't have the  
5 statutory cite with me, but it's cited in the prehearing  
6 brief. I believe there is a statute that --

7 COMMISSIONER GAW: And to some extent on  
8 the second issue, I'm not talking about discrimination  
9 between different classes as much as I am discrimination  
10 on rates without any distinguishing class being --

11 MR. KEEVIL: Right. It would be  
12 intra-class discrimination. The standard general service  
13 tariff customer is paying more as a result of the  
14 all-electric general service tariff customers getting a  
15 discount. That's right. This -- and that's a good point  
16 I suppose I should have pointed out. This does not affect  
17 the residential. This will have no impact there.

18 Thank you.

19 JUDGE PRIDGIN: Mr. Keevil, thank you. On  
20 behalf of the U.S. Department of Energy, Mr. Phillips?

21 MR. PHILLIPS. Thank you. Good afternoon.  
22 My name is Paul Phillips, and I represent U.S. DOE/NNSA in  
23 this proceeding.

24 Mr. Fischer in his opening pointed out that  
25 this is the first time in some 20 years that the company

1 has asked for a rate increase. We participated in that  
2 case some 20, 21 years ago as well. As a matter of fact,  
3 we filed testimony in that case relating to cost of equity  
4 and rate of return. And your predecessor commission  
5 issued a forward-looking rate decision that for a number  
6 of years remained valid for Kansas City Power & Light, but  
7 a period came when it was clear based on an investigation  
8 by the Staff that the company was overearning. We were  
9 able to negotiate with the company some four times, I  
10 believe, in that period of time to reduce rates.

11 As Mr. Finnegan said, that was what's  
12 called the Wolf Creek case, the \$3 billion nuclear plant  
13 that the company built. There was no regulatory plan.  
14 There was no additional amortization involved in that  
15 case. It was simply a tried and true rate case which was  
16 authorized by the statutes of Missouri that was passed in  
17 1913, some 93 years ago.

18 There have been some amendments to that  
19 legislation since then, but on the whole it's primarily  
20 the same as it was back then, and it was based on statutes  
21 passed by the state of Washington prior to that time.

22 The Staff introduced or has marked Exhibit  
23 No. 46, and that is the Reconciliation and Motion for  
24 Leave to File Reconciliation Out of Time. And excuse me.  
25 I think, Mr. Fischer, you had that marked. He also drew

1 your attention to the last page, and first of all to  
2 line 82. Line 82 shows the Staff revenue requirement, and  
3 the caveat there is prior to regulatory plan amortization,  
4 they show a rate reduction in this case for this company  
5 of 34.4 -- \$34.5 million. They then show the Office of  
6 the Public Counsel difference from the Staff position, and  
7 they show the Department of Energy difference from the  
8 Staff position.

9 We have filed testimony by James R. Dittmer  
10 and by Jay Randolph Woolridge, as well as by Gary Price.  
11 Mr. Price does not appear on the Staff document because  
12 that relates to cost of service and rate design.

13 If you'll look at line 91, you will see  
14 off-system sales margin, and you'll see a number in  
15 parentheses of \$5.1 million. What that represents is the  
16 difference between our witnesses' testimony relating to  
17 off-system sales margin and that of the Staff. On the  
18 next line, line 92, you'll see a return on equity of  
19 9 percent. That's our witness, Mr. Woolridge. He differs  
20 from the Staff by \$4.1 million. Staff has a proposed  
21 return on equity in this case of 9.37 percent, and our  
22 witness, has a recommendation of 9 percent.

23 When the Staff on behalf of Mr. Barnes  
24 filed rebuttal testimony, which has been premarked as  
25 Staff Exhibit 102, assuming I got all those numbers

1 correct this morning, Mr. Barnes was asked if he had any  
2 rebuttal testimony to Mr. Woolridge, and in that prefiled  
3 testimony Mr. Barnes says, no, because I do not disagree  
4 with Mr. Woolridge.

5                   The next number, line 93, is a  
6 recommendation to eliminate amortization for ice storm  
7 costs. It goes back to the year 2002. Mr. Dittmer will  
8 testify in support of that, and that is a downward  
9 adjustment of 2.6 million.

10                   So if we were to compare Staff, Public  
11 Counsel and the Department of Energy, the Staff's number  
12 of \$34.5 million reduction would become \$46.5 million  
13 reduction. That's the difference for those three items  
14 relative to our filing and the Staff's filing.

15                   We are not signatory to the regulatory plan  
16 amortization issue either, as Mr. Finnegan said, and as a  
17 couple of other people have advised. So this 86 million  
18 number that appears in Staff's summary here is something  
19 that we believe that the Commission is going to have to  
20 decide if it's something that they need to include based  
21 on the competent and substantial evidence in this case.

22                   Mr. Fischer said that as we go through the  
23 proceeding we will have an opportunity to make some  
24 additional comments and summaries relative to other  
25 witnesses. We would like to reserve that for cost of

1 service and rate design. We would also like to reserve  
2 that in regard to rate of return and cost of equity.  
3 That's all I have this morning. Thank you.

4 JUDGE PRIDGIN: Mr. Phillips, thank you.  
5 On behalf of Wal-Mart, Mr. Downey?

6 MR. DOWNEY: Good afternoon. First of all,  
7 let me thank the Commission for allowing Wal-Mart to  
8 participate in this case.

9 Wal-Mart's evidence will consist of the  
10 testimony of James Selecky, his direct, his rebuttal, his  
11 surrebuttal, and the exhibits attached to that. And that  
12 evidence addresses class cost of service, and the evidence  
13 will show that Wal-Mart supports the underlying principles  
14 of cost of service, and that is matching costs to the  
15 customers who cause those costs.

16 As discussed in its direct, rebuttal,  
17 surrebuttal and prehearing brief, cost of service is a  
18 fundamental basis for allocating the appropriate costs to  
19 those who cause those costs. Wal-Mart supports bringing  
20 rates to cost of service because that would promote  
21 revenue stability, conservation, efficiency and fairness,  
22 and provide appropriate price signals to customers to  
23 allow them to manage their consumption of energy.

24 Kansas City Power & Light uses an energy  
25 allocation factor in calculating its administrative and

1 general expenses instead of using a salary wage allocator  
2 as supposed by the National Association of Regulatory  
3 Commissioners in its Electric Utility Cost Allocation  
4 Manual.

5                   Kansas City Power & Light's cost of service  
6 study and allocation of revenue requirements to customer  
7 classes fails to meet the cost causation principles of  
8 matching costs to the customers who cause those costs  
9 because it utilizes the average and peak method for  
10 purposes of allocating production and transmission costs.  
11 Such a method double counts energy consumption and fails  
12 to recognize appropriate tradeoffs between production and  
13 transmission fixed costs to the respective classes.

14                   Kansas City Power & Light's cost of service  
15 analysis and proposed allocation of its proposed rate  
16 increase moves rates further away from the cost of service  
17 based rates. Kansas City Power & Light's average and peak  
18 methodology in allocating production and transmission  
19 fixed costs contains fundamental flaws and should be  
20 rejected by this Commission.

21                   Wal-Mart proposes and its evidence supports  
22 alternative methodologies. Both the coincident peak  
23 methodology or average and excess demand methodology more  
24 accurately reflects cost causation principles and cost of  
25 service studies. The coincident peak method is superior



1 to the A&P method used by Kansas City Power & Light  
2 because it more accurately reflects the operating  
3 characteristics of the loads that are served by using each  
4 customer class' coincident peak demand to allocate the  
5 production and transmission fixed costs.

6                   Production and transmission investments by  
7 utilities are sized to meet the maximum simultaneous  
8 demands of all customers on the system. These investments  
9 are not rated by average demand or the amount of energy  
10 that is consumed during the year. Rather, production  
11 units and transmission lines are normally rated by their  
12 maximum capability in MVAs.

13                   The coincident peak method allocates the  
14 appropriate production and transmission fixed costs based  
15 on each customer's contribution to the predominant peaks.  
16 The A&E method proposed by Wal-mart also is superior to  
17 the A&P method used by Kansas City Power & Light because  
18 it recognizes that a utility plant capacity serves dual  
19 purposes and therefore allocates costs to the rate classes  
20 utilizing an average demand component and an excess demand  
21 component.

22                   The average demand component is the total  
23 kilowatt hour usage by rate class divided by the total  
24 number of hours in the year and assumes that each class  
25 uses energy at a consistent 100 percent load factor. The

1 excess demand component provides for the allocation of  
2 costs that represent each class' peak usage or  
3 contribution to peak in excess of average demand. The A&E  
4 method allows allocation of additional production capacity  
5 cost of the system in proportion to the peaks that each  
6 customer class imposes that are in excess of their average  
7 demand.

8                   For the reasons stated in the direct,  
9 rebuttal, surrebuttal, prehearing brief, and as will be  
10 demonstrated in this proceeding, Wal-Mart respectfully  
11 requests the Commission, one, to reject Kansas City  
12 Power & Light's use of the A&P method in its class cost of  
13 service study; two, adopt either the coincident peak  
14 method or average in excess demand method; three, adjust  
15 the administrative and general expenses based on a salary  
16 wage allocator; four, adjust rates for each class to bring  
17 all rates closer to their respective class cost of  
18 service; and last, fifth, in the event the Commission does  
19 not grant Kansas City Power & Light its total requested  
20 increase, adjust rates to bring all rates to their class  
21 cost of service and then allocate any remaining reduction  
22 based on rate base to all classes.

23                   Thank you.

24                   JUDGE PRIDGIN: Mr. Downey, thank you.

25 Before we break for lunch, let me make sure that we are

1 all on the same page as to who will be the witnesses this  
2 afternoon, and I do see, according to the order of  
3 witnesses that Staff filed, that KCP&L would put on  
4 overview and policy witnesses first, beginning with  
5 Mr. Downy; is that correct?

6 MR. FISCHER: That's correct, your Honor.

7 JUDGE PRIDGIN: All right. And I see that  
8 only -- excuse me. I see that Mr. Cross from KCP&L, at  
9 least according to this list, is only available today. I  
10 want to know, No. 1, is that still correct, and No. 2, are  
11 there other witnesses that are available only today?

12 MR. THOMPSON: He's going to be available  
13 on October 23rd. You'll recall that was brought up --

14 JUDGE PRIDGIN: Thank you.

15 MR. THOMPSON: -- this morning.

16 JUDGE PRIDGIN: So is he available today or  
17 only on the 23rd?

18 MR. BLANC: Only on the 23rd.

19 JUDGE PRIDGIN: Thank you. So that after  
20 lunch we will begin with overview and policy with  
21 Mr. Downy and Mr. Bassham, if I'm pronouncing that name  
22 correctly, and Mr. Giles; is that correct?

23 MR. FISCHER: That's correct.

24 JUDGE PRIDGIN: One more thing before we  
25 break for lunch. We haven't even got to any evidence yet

1 and we've gone through a half day of hearing. According  
2 to Mr. Mills, we've got 64 issues or so to get through in  
3 about the next two weeks. So with that in mind, I want to  
4 exhort counsel to recall and remember the main reason for  
5 the rest of this hearing, and that is cross-examination,  
6 and when you're crossing witnesses, you probably should be  
7 leading the witness, asking them -- suggesting the answer  
8 with your question and trying to elicit such answers as  
9 yes and no and I don't know and I don't remember.

10 And if you're asking those kinds of  
11 questions and the witness is not giving you the proper  
12 answers to a leading question, I'm going to entertain an  
13 objection so that that answer is not responsive. And if  
14 nobody objects, I may cut the witness off anyway.

15 I've got four binders full of testimony.  
16 I've got Briefs. I'll have more Briefs. We've got an  
17 enormous amount of information. Please try to limit your  
18 cross-examination to leading questions. Whoever is  
19 sponsoring that witness can ask open-ended questions to  
20 rehabilitate. The Bench may have open-ended questions.

21 And also be prepared, again because we have  
22 so much to cover, I believe the Chairman brought up in  
23 agenda Thursday that we may get to do some evenings and  
24 perhaps even some weekends to try to plow through all this  
25 material. It is 12:15 by the clock on the back of the

1 wall. Let us go back on the record at 1:30 p.m.

2 Thanks. We're off the record.

3 (A BREAK WAS TAKEN.)

4 JUDGE PRIDGIN: We're back on the record.

5 It is approximately 1:35 p.m. on Monday, October 16th.

6 We're now ready for cross-examination. If I understand  
7 correctly, the first witness to be called is KCPL witness  
8 Mr. Downy; is that correct?

9 MR. RIGGINS: That's correct, your Honor.

10 JUDGE PRIDGIN: Mr. Downy, if you'll come  
11 forward to be sworn, please, sir. If you'll raise your  
12 right hand to be sworn.

13 (Witness sworn.)

14 JUDGE PRIDGIN: Thank you very much. If  
15 you would have a seat. And if I'm not mistaken,  
16 Mr. Thompson mentioned earlier about perhaps waiving all  
17 of the foundation about the witness agreeing with what is  
18 in the testimony, would he say what was in the direct  
19 testimony if asked those questions today, et cetera. I  
20 don't know if counsel has any strong feelings about that  
21 one way or the other.

22 MR. RIGGINS: That's fine with me, your  
23 Honor.

24 JUDGE PRIDGIN: Can we get your microphone  
25 on, please?

1                   MR. RIGGINS: That's fine with me. Your  
2 Honor, we do have one correction to make to Mr. Downy's  
3 testimony.

4                   JUDGE PRIDGIN: And that's -- obviously we  
5 would ask witnesses to make corrections, but other than  
6 that, if there is any objection to counsel from dispensing  
7 with the usual formalities of asking if they are who they  
8 say they are, if that's their testimony, et cetera.

9                   MR. FINNEGAN: Instead of waiving, can we  
10 call it a stipulation? I think that's -- the word used  
11 before was stipulation.

12                  JUDGE PRIDGIN: That's right.  
13 Mr. Finnegan's question was instead of waiving, can we  
14 simply call it a stipulation that the witnesses are who  
15 they claim to be, that that's their testimony. Any  
16 concerns with that?

17                   (No response.)

18                  JUDGE PRIDGIN: Okay. Hearing none, we'll  
19 move forward, and if there are any corrections to  
20 Mr. Downy's testimony...

21 WILLIAM H. DOWNY testified as follows:

22 DIRECT EXAMINATION BY MR. RIGGINS:

23                  Q.     Mr. Downy, could you make the correction  
24 we've been talking about to your testimony, please?

25                  A.     Yes. On page 3 of my testimony, line 21,

1     there's a typographical error, and the sentence that  
2     starts competitive wholesale markets did not, the word  
3     there is exit. It should be exist.

4             Q.       Thank you. Do you have any further  
5     corrections to your testimony?

6             A.       No, I do not.

7             MR. RIGGINS: Tender Mr. Downy for  
8     cross-examination.

9             JUDGE PRIDGIN: Mr. Riggins, thank you. On  
10    my order of cross-examination, I see that Aquila and MGE,  
11    any questions?

12            (No response.)

13            JUDGE PRIDGIN: See nobody here from  
14    Aquila, MGE. City of Kansas City?

15            (No response.)

16            JUDGE PRIDGIN: Jackson County,  
17    Mr. Finnegan?

18            MR. FINNEGAN: Yes, sir.

19    CROSS-EXAMINATION BY MR. FINNEGAN:

20            Q.       Mr. Downy.

21            A.       Hello there.

22            Q.       I represent Jackson County. I've got some  
23    questions concerning your testimony. You indicated that  
24    you're with -- became with KCPL in 2000?

25            A.       That's correct.

1 Q. And you're also with Great Plains Energy?

2 A. I am.

3 Q. You're the president and chief executive  
4 operating officer?

5 A. Chief operating officer and president of  
6 the holding company.

7 JUDGE PRIDGIN: If I can interrupt,  
8 Mr. Downy, is your microphone on? I just want to make  
9 sure people can hear who are listening online.

10 THE WITNESS: Can you hear me now?

11 JUDGE PRIDGIN: That's better. Thank you.  
12 Mr. Finnegan, I'm sorry to interrupt.

13 MR. FINNEGAN: That's quite all right.

14 BY MR. FINNEGAN:

15 Q. Great Plains Energy, what does it do  
16 besides the holding company?

17 A. Well, it is a holding company for our two  
18 operating companies, and that's its primary purpose.

19 Q. Okay. Does it have any authority to or  
20 power to build and -- build a utility generating plant and  
21 sell the power?

22 A. As a holding company, it could engage in a  
23 number of unregulated but closely connected activities to  
24 a regulated electric utility business, so it could do that  
25 if it so chose.



1           Q.       So Great Plains Energy you said could build  
2 the Iatan 2, is that correct, or a plant just like that?

3           A.       They could if they so chose, and at one  
4 point contemplated that as an independent power plant.

5           Q.       Right. And as an independent power plant,  
6 Kansas City Power & Light could be one of your customers;  
7 is that correct?

8           A.       Potentially.

9           Q.       Over 20 years ago, Kansas City Power &  
10 Light built the Wolf Creek Nuclear Station, did it not?

11          A.       In conjunction with other partners, yes.

12          Q.       But Kansas City Power & Light was like the  
13 47 1/2 percent owner, if I'm not mistaken?

14          A.       We have about a 47 percent ownership share.

15          Q.       47. Okay. And that plant cost, what,  
16 little over \$3 billion?

17          A.       I don't recall the exact number. I wasn't  
18 here at the time.

19          Q.       Okay. There was no regulatory plan in  
20 place when they built the Wolf Creek plant, was there?

21          A.       Not that I'm aware of.

22          Q.       They built it under the normal procedure of  
23 using construction work in progress?

24          A.       Well, they built it under a traditional  
25 procedure that existed prior to the many changes that have

1 occurred in the structure of the industry in recent years.

2 Q. Okay. But as far as Kansas City Power &  
3 Light, the structure there hasn't changed in recent years,  
4 has it?

5 A. The environment within which it operates  
6 has changed.

7 Q. But Kansas City Power & Light's still a  
8 regulated public utility in the state of Missouri?

9 A. That's correct.

10 Q. And in Kansas?

11 A. That's correct.

12 Q. And as such, in your testimony you say, as  
13 a regulated public utility with the Commission we need to  
14 balance the risk and benefits between customers,  
15 shareholders and creditors; is that correct?

16 A. That's correct.

17 Q. And you say that numerous times?

18 A. Yes, I do, because it's a very important  
19 point.

20 Q. Okay. When I started in this industry back  
21 in 1975, I -- and since that time, I thought that the  
22 interests that were being balanced were the interests  
23 between shareholders and the customers, and now you add  
24 another interest in here, the creditors; is that correct?

25 A. Well, I started in the business in 1971,

1 and -- and I think those three constituencies have always  
2 been present. We obviously have to raise enormous sums of  
3 money in this business to build facilities to serve  
4 customers, and there has always been this balance between  
5 shareholders, creditors and the customer.

6 Q. I'm just -- I misspoke myself when I said  
7 1975. I was here in 1965.

8 A. You got me.

9 Q. So I've been here longer. But in the past  
10 it was you balanced the shareholders against the  
11 ratepayers or vice versa. You balanced both their  
12 interests, and now we've got this third interest, the  
13 creditors. Are they given an equal weight, so instead of  
14 50/50 between the shareholders and ratepayers, now it's  
15 shareholders on one side -- shareholders and creditors on  
16 one side and the ratepayers on the other side?

17 A. Well, as I mentioned, there have been  
18 significant changes in the industry over the past decade  
19 in particular, and one of the reasons that we entered way  
20 back in 2004 into the extensive discussions that led to  
21 the stipulation that is the basis of this whole framework  
22 for our investment was because we realized the significant  
23 changes and sensitivities, that it would be  
24 extraordinarily difficult, if not impossible, for a  
25 utility of our size and nature to come forward with a

1 significant construction program without recognizing the  
2 changes in the industry, the growing risks, the  
3 introduction of a wholesale market which 20 years ago when  
4 we built Wolf Creek did not exist and which today impacts  
5 rather significantly our industry and particularly the  
6 regulated industry.

7                   So there are a lot of factors that have  
8 occurred. You've got a mixture of different structures  
9 across the various states in this country. You have  
10 massive federal regulatory change that has been occurring.  
11 You have issues between states, federal government and now  
12 regional planning consequences.

13                   So I think, as I said, the environment  
14 within which we go about our business has dramatically  
15 changed and has caused some sensitivities and some  
16 differences that perhaps didn't exist during that period  
17 when we would go ahead and build and then come in later.  
18 We did not feel it was at all prudent, wise or possible  
19 for us to be able to do that in today's environment.

20           Q.       But you were able to do it in 1985, and for  
21 20 years now you have not been back for a rate increase?

22           A.       Well, and for 20 years we haven't built a  
23 major new power plant, not untypical of other regulated  
24 utilities across the country, and we've been able to not  
25 come back for a rate increase for a variety of reasons,

1     some -- the efficiency efforts that we've undertaken, the  
2     productivity improvements in our business.

3             Q.       I think that --

4                     JUDGE PRIDGIN: I think I'm going go ahead  
5     and cut you off, Mr. Downy. Try not to launch into a  
6     narrative. I think the question was more along the lines  
7     of you haven't been back in 20 years for a rate increase.  
8     And the answer?

9                     THE WITNESS: Is yes, we have not.

10                    JUDGE PRIDGIN: Thank you.

11     BY MR. FINNEGAN:

12             Q.       And you say in your testimony that today  
13     rating agencies and investors are very knowledgeable about  
14     our industry; is that correct?

15             A.       Yes.

16             Q.       Are you saying that in 1985 the rating  
17     agencies and investors were not very knowledgeable about  
18     the electric industry?

19             A.       I didn't think I made that statement.

20             Q.       Standard & Poor's was there, wasn't it,  
21     Moody's, and they were all around since I started in '65.

22             Q.       Well, they were -- and all I can reflect  
23     is, we sit down with Standard & Poor's and Moody's, which  
24     we do regularly, this -- these concerns have been raised.  
25     We've been in significant conversations with them since

1 I first joined the company in 2000 around these issues,  
2 and -- and a lot of that conversation back and forth is  
3 what moved us to engage in the discussions that we did to  
4 try to achieve the stipulation that we did.

5 Q. But you're not like all the other  
6 utilities, are you? You're just a regulated utility,  
7 you're not competing anywhere, nobody is competing with  
8 you, is that correct, in your service area? I'll add  
9 that.

10 A. That's correct.

11 Q. The ratepayers today are being asked to  
12 help pay for the plant that will be in place five years  
13 from now; is that correct?

14 A. Yes.

15 Q. The ratepayers today, they move, they die,  
16 they may never receive one kilowatt of power from this  
17 plant 'til it goes in service?

18 A. That's correct.

19 Q. How are you going to treat those ratepayers  
20 who made payments? Are you going to give them a refund  
21 for when they died or when they move on so they haven't  
22 got a chance to use your plant?

23 A. Well, to your point, I think this is an  
24 issue that's been raised for many decades. And, you know,  
25 the approach that we are taking is, I think, a fairly

1 consistent approach with regulatory policy on how we treat  
2 our customers in the course of these significant  
3 construction programs.

4 Q. In the prior regulatory environment, did  
5 the plant did not go in service and ratepayers were not  
6 being charged for that plant until it actually went in  
7 service and began producing power for the ratepayers;  
8 isn't that correct?

9 A. Yes.

10 MR. FINNEGAN: That's all the questions.

11 JUDGE PRIDGIN: Mr. Finnegan, thank you.

12 Mr. Dias, any questions for this witness?

13 MR. DIAS: No, sir.

14 JUDGE PRIDGIN: All right. Thank you. Any  
15 questions from DNR? I don't think Ms. Woods is here.

16 Empire?

17 (No response.)

18 JUDGE PRIDGIN: I don't see Ford or MIEC.

19 IBEW? I don't see Mr. Woodsmall from Praxair.

20 Trigen?

21 MR. KEEVIL: No questions at this time,

22 Judge.

23 JUDGE PRIDGIN: Thank you. Department of  
24 Energy?

25 MR. PHILLIPS: No questions.

1 JUDGE PRIDGIN: Mr. Phillips, thank you.

2 Wal-Mart, I don't see any -- is Mr. Downey here?

3 (No response.)

4 JUDGE PRIDGIN: Mr. Coffman, AARP?

5 (No response.)

6 JUDGE PRIDGIN: Mr. Dias?

7 MR. DIAS: I do have two questions I want  
8 to ask.

9 JUDGE PRIDGIN: If you'll come forward,  
10 please.

11 Mr. Coffman, did you have cross?

12 MR. COFFMAN: I'm not sure at this point.

13 CROSS-EXAMINATION BY MR. DIAS:

14 Q. Mr. Downy, I talked to you on the phone?

15 A. Yes. Several, several times.

16 Q. I have two questions. Is there a  
17 standing policy -- is there a standing policy in Kansas  
18 City Power & Light that deals with the issues of the  
19 community in such a way that you listen to what the  
20 community wants and then try to come at least halfway, or  
21 is it a policy of -- a dictatorial kind of policy, this is  
22 what we plan, you either like it or not? Is there such a  
23 policy in your company?

24 A. Well, we certainly have an approach that  
25 attempts to listen to the community that we serve and to



1 be responsive. That's part of our ongoing function.

2 Q. If you have a situation where the community  
3 at large had asked some of your people to do something  
4 that the community felt would be beneficial and your  
5 representatives basically said, well, we don't think that  
6 you need that, what would be your response to that?

7 A. It would depend on the issue.

8 Q. Well, the issue is alternative credit,  
9 weatherization underwritten by Kansas City Power & Light  
10 for people who are beyond the low-income guidelines.  
11 Those are the issues we're talking about. Those are the  
12 issues that have been -- that have been presented to  
13 Kansas City Power & Light by the leaders of the community,  
14 but we were all rejected. What would you say to that?

15 A. I would say, first of all, I don't think  
16 we've rejected the leaders of the community. I think we  
17 work consistently and constantly with them, and there are  
18 many proposals and alternatives to do many different  
19 things, some of which you're interested in.

20 And as a company, we have to make decisions  
21 on the best way to do that and who we work with and why we  
22 work with them. And so I think that the intent to work  
23 with the community is always there. We may choose a path  
24 that you may not agree with, but we will inevitably choose  
25 a path that we feel is in the best interests of our

1 customers and our company.

2 Q. One final question. If you have an  
3 individual who because of a credit score cannot go and get  
4 outside financing for weatherization and there are no  
5 other alternatives for that person and you-all have chosen  
6 not to put something in place for that, what's your  
7 response to that, if that's what the community asked for?  
8 What other alternative would there be? I mean, the  
9 community has asked you to do this.

10 A. Well, for example, within the context of  
11 the stipulation, we're working with a number of state and  
12 local agencies around any number of issues, this included.  
13 We're also working -- for example, we've just  
14 significantly funded a United Way effort in the Kansas  
15 City area where we can refer customers with issues to  
16 United Way agencies that support it.

17 So there are any number of ways we might do  
18 it, and we certainly continue to work with the community  
19 to do that.

20 Q. The methods that you've presented are for  
21 fixed-income and low-income and no-income persons. I'm  
22 talking about the middle class individuals who are  
23 struggling every day to make things happen. There is --  
24 they're in this hole right now, and as I said, community  
25 leaders have presented this to you, and your

1 representatives are coming back and saying, well, we don't  
2 really care -- we don't really care what you-all want,  
3 we're already doing the low income, you ought to be  
4 satisfied.

5 JUDGE PRIDGIN: Mr. Dias, what's your  
6 question?

7 BY MR. DIAS:

8 Q. My question is, would they consider  
9 something like that, or is it going to take the Commission  
10 to order you to do that?

11 A. Well, you know, I have not been involved  
12 directly with you in the conversations with our company in  
13 recent years. I was back in 2001 when we chose not to  
14 take the approach you were suggesting.

15 But more recently, John Marshall, who is  
16 going to be a witness here in the case on our behalf, has  
17 been involved in detail with you and I know he's going to  
18 be responding to these issues.

19 Q. Will he be here on Friday the -- I think  
20 it's the 20th? That's when I'm scheduled to come back in.

21 JUDGE PRIDGIN: Do you know the answer to  
22 that question, Mr. Downy?

23 THE WITNESS: I don't.

24 JUDGE PRIDGIN: Okay. Thank you.

25 MR. DIAS: Other than that, that's it, your

1 Honor.

2 JUDGE PRIDGIN: Mr. Dias, thank you.

3 Mr. Coffman?

4 MR. COFFMAN: Yes, I have a couple.

5 JUDGE PRIDGIN: Thank you.

6 CROSS-EXAMINATION BY MR. COFFMAN:

7 Q. Good afternoon, Mr. Downy.

8 A. Good afternoon.

9 Q. I'm here today representing AARP, which is  
10 a nonsignatory with regard to the experimental regulatory  
11 plan. And you already had some discussion with  
12 Mr. Finnegan regarding the possibilities of a regulatory  
13 amortization pursuant to that plan and the fact that any  
14 such amortization may not benefit individuals who would  
15 either move or die before the, say, the Iatan 2 plant were  
16 to come online. You recall those questions?

17 A. I recall him talking about that. I don't  
18 remember him mentioning amortization, but I do recall him  
19 raising the issues.

20 Q. And at the current time, the expected  
21 completion date for the Iatan 2 project is what date?

22 A. In the middle of 2010.

23 Q. So would it be fair to say that KCPL's main  
24 goal and purpose in entering the experimental regulatory  
25 plan that was approved in August of 2005 was to mitigate

1 the business risk that KCPL would have in building the --  
2 a large coal plant that is Iatan 2?

3 A. Well, there were a number of objectives  
4 within the stipulation, and you can see them in the  
5 various elements. The coal plant was among them, but  
6 retrofits on environmental equipment for plants that are  
7 currently in existence and serving our customers was a  
8 component. Energy efficiency and demand response programs  
9 were a component. The construction of wind generation was  
10 a component.

11 So we had a rather broad and far-reaching  
12 game plan that, yes, did have significant risk attached to  
13 it, but also had significant benefits offered as a result.  
14 And we did enter into broad-based discussions, for  
15 example, on the environmental retrofits.

16 Q. Excuse me, Mr. Downy. I wasn't asking  
17 about the environmental retrofits. Can you just answer  
18 yes or no whether one of the main goals of KCPL was to  
19 mitigate the business risk associated with building a  
20 large plant, Iatan 2?

21 MR. RIGGINS: I think Mr. Downy was  
22 attempting to answer the question, and I would appreciate  
23 it if he'd be allowed to finish his answers.

24 JUDGE PRIDGIN: Mr. Coffman, if you want to  
25 pose a leading question.

1 MR. COFFMAN: I thought I was, your Honor.

2 JUDGE PRIDGIN: Okay. And perhaps you  
3 were. Ask it again, please.

4 BY MR. COFFMAN:

5 Q. Pursuant to your instruction at the  
6 beginning of this hearing, I was hoping to ask a question  
7 that had a yes or no answer, and that is, can you tell me,  
8 sir, yes or no, was the mitigation of the business risk  
9 associated with building Iatan 2 one of the main goals  
10 that your company had in entering into the experimental  
11 regulatory plan?

12 A. It was a goal, among many.

13 Q. Do you believe that the experimental  
14 regulatory plan succeeds in mitigating that risk?

15 A. In part, but only in part.

16 Q. Okay. You mention on page 3 of your  
17 testimony that maintaining investment grade credit rating  
18 has become more difficult because of the increased  
19 scrutiny of this industry in the past five years. Do you  
20 see where you -- where that is in your testimony?

21 A. What line is that?

22 Q. Lines 19 through 21.

23 A. Right. Okay. Yes.

24 Q. And would it be fair to say that the  
25 increased scrutiny that the electric industry has received

1 is the result of problems primarily with regard to  
2 deregulated and unregulated activities within the electric  
3 industry?

4 A. I believe it has to do with all of the  
5 change that has been caused to occur within the industry  
6 that has created a number of different forms, and as I  
7 mentioned earlier, debates and issues, federal, state, who  
8 has jurisdiction, you know, the wholesale market. All of  
9 those things have led to what was a fairly stable,  
10 predictable industry historically to be one that has much  
11 more unpredictability to it.

12 Q. And wouldn't it be fair to say that KCPL  
13 has been rather fortunate to avoid a lot of the ups and  
14 downs and turmoil that has affected other parts of the  
15 industry?

16 A. We think we and our customers have  
17 benefited from that, yes.

18 Q. So the answer is yes?

19 A. Yes.

20 Q. So would you agree with me that perhaps  
21 some of the increased scrutiny that your industry has  
22 faced might be unfairly placed upon your company?

23 A. My mother and father told me life was not  
24 fair. We were a part of the industry, and as a result we  
25 face that scrutiny whether we wanted to or not or

1       regardless of our own individual performance.

2               Q.       You mentioned earlier that there were some  
3       benefits and some obligations to this regulatory plan that  
4       had some give and take to it. I'm assuming that you would  
5       be willing to state again that KCPL is committed to taking  
6       both benefits and the obligations of this plan?

7               A.       That's correct.

8               Q.       And is it your opinion that KCPL would not  
9       be able to proceed at all with a coal plant project of the  
10       magnitude of Iatan 2 without such an experimental plan  
11       here in Missouri?

12              A.       We would have been very reluctant to have  
13       gone forward with any such efforts without the assurances  
14       that are embedded in this stipulation.

15              Q.       But it might have been possible to proceed  
16       under some -- in some manner, though, wouldn't it?

17              A.       I'm not sure. I'm not sure we could have  
18       convinced our board of directors in their fiduciary  
19       responsibilities to move forward.

20                      MR. COFFMAN: Fair enough. That's all I  
21       have. Thank you.

22                      JUDGE PRIDGIN: Mr. Coffman, thank you.  
23       Mr. Mills, any cross?

24                      MR. MILLS: I have no questions for this  
25       witness.



1 JUDGE PRIDGIN: Mr. Mills, thank you.

2 Mr. Thompson?

3 CROSS-EXAMINATION BY MR. THOMPSON:

4 Q. Mr. Downy, you referred to GPE as having  
5 two operating companies?

6 A. That's correct.

7 Q. One of them I assume is KCPL?

8 A. That's correct.

9 Q. Which is the other?

10 A. Strategic Energy.

11 Q. Are there any other members of the  
12 corporate family in addition to KCPL and Strategic Energy?

13 A. Those are the two operating companies.

14 Q. Are there any other corporations that are  
15 owned by GPE?

16 A. We have some small subsidiaries that are  
17 nonoperating entities, KLT, for example.

18 Q. And what is the nature of KLT?

19 A. They are a secondary holding company for a  
20 number of things that we own, including ownership of  
21 Strategic Energy.

22 Q. So KLT owns part of Strategic Energy?

23 A. Yes.

24 Q. And what else does KLT own?

25 A. I don't recall all of the things. There

1 are some low-income tax credits and there's some other  
2 issues, but I can't recall them specifically.

3 Q. Are there any other witnesses that are  
4 going to testify in this case who, to your knowledge,  
5 would know the answer to that question?

6 A. I'm sure there are witnesses who would have  
7 knowledge, but I'm not sure who they would be in the case.

8 Q. In addition to KLT, what other subsidiaries  
9 does GPE own, besides KCPL and Strategic Energy?

10 A. Home Service Solutions is a -- now -- was a  
11 structure that we had for certain retail services, which  
12 we no longer are providing, but still exists as it's  
13 exiting the business.

14 Q. Any others?

15 A. There may be, but I can't recall.

16 MR. THOMPSON: Thank you. No further  
17 questions.

18 JUDGE PRIDGIN: Mr. Thompson, thank you.

19 Let me see if we have any questions from the Bench.

20 Commissioner Murray?

21 COMMISSIONER MURRAY: Yes.

22 QUESTIONS BY COMMISSIONER MURRAY:

23 Q. Good afternoon, Mr. Downy.

24 A. Good afternoon.

25 Q. I have a few questions. We've heard the

1 argument today that KCP&L has been overearning for years.

2 First of all, do you agree with that statement?

3 A. No, I do not. We have a regular process  
4 and review by the Commission Staff. I mean, we're looking  
5 back historically, I have not -- I'm not aware of any such  
6 challenges from previous Commission reviews in the time  
7 that I've been here. As I say, I joined the company in  
8 2000.

9 We annually submit information to the  
10 Commission for its review, and we have not had a formal  
11 rate case, but we have also not had any adverse action  
12 from the Commission or its Staff in the six years that  
13 I've been here anyway.

14 Q. Okay. Can you tell me how the percentage  
15 of off-system sales that you currently -- that currently  
16 exists compares with the percentage of off-system sales --  
17 and when I say percentage, I mean percentage of your  
18 revenue that relies on off-system sales. How does the  
19 current percentage compare to the percentage after the  
20 capital improvements?

21 A. How will it be after? Well, I don't think  
22 I have a number in my head, and I also don't have the  
23 forecast out on the wholesale market at that time. I  
24 don't believe that I have -- we've talked in our testimony  
25 about the tremendous volatility.

1                   Just to give you a historical perspective,  
2   when I first came here, we were a net buyer in the  
3   wholesale market because we had had the Hawthorn plant  
4   explosion and were short on capacity.  
5   When we got Hawthorn back, and as the wholesale market  
6   grew because of natural gas prices, we became a consistent  
7   and profitable seller in that wholesale market to the  
8   point in the last two years that has resulted in about  
9   20 percent of our revenue.

10                  But our peak load on the retail side  
11   continues to grow. Our expectation obviously is with this  
12   plant, new construction, that we will need that new  
13   capacity. There obviously will be additional retail  
14   revenue or retail -- or there will be additional kilowatt  
15   hours to sell off the new plant, but I don't have a  
16   specific number for you today.

17                Q.     But in this rate case, you're estimating  
18   that 50 percent of your revenue will be from off-system  
19   sales; is that correct?

20                A.     You're talking revenue or profitability?

21                Q.     I'm not sure.

22                A.     I think it's profitability. I don't  
23   think -- I think the revenue right now in the last two  
24   years has been about 20 percent.

25                Q.     Okay. And that --

1           A.       But that 20 percent of that revenue  
2       currently is accounting for about 50 percent of our  
3       profitability, which is the risk that we're concerned  
4       about because of the volatility of those wholesale sales,  
5       both in terms of quantity and volume -- quantity and  
6       price. I'm sorry.

7           Q.       All right. Thanks for clearing that up.  
8       The need for the new capacity was thoroughly examined in  
9       the regulatory plan case, which I don't have the number.  
10      EO-2005-0329, was it not?

11          A.       Yes, it was.

12          Q.       And the Commission approved that  
13      Stipulation & Agreement that was presented in that case,  
14      including these new capital improvements?

15          A.       It did. The Stipulation defined these as  
16      prudent investments.

17          Q.       And I think I heard an argument made today  
18      that if KCP&L is profiting to the extent that it is from  
19      off-system sales, why is there a need for these additional  
20      capital improvements, and I'm assuming that that was  
21      thoroughly vetted in this previous case?

22          A.       It was. There were -- first of all, the  
23      need for new generation was vetted in the stipulation  
24      process and agreed to, but also the need for new  
25      environmental investment, the need for the wind

1 investment, the need for the investment in energy  
2 efficiency and demand control were also a part of that  
3 case. And all of those investments, which total in excess  
4 of \$1.3 billion, represent the single largest investment  
5 that our company will have made in several decades into  
6 new facilities.

7                   And for environmental reasons, for new  
8 generation requirement reasons, this is also a plant  
9 that's being built as a regional asset. We have local  
10 partners, Aquila, Empire, public utilities who are all  
11 sharing in this asset. It was viewed that we would be a  
12 key contributor and that we had the ability and the  
13 resources to construct this plant and execute all of these  
14 game plans.

15                   So there were a variety of things that were  
16 agreed to and approved within the context of this  
17 framework and that were important for us to be able to  
18 move forward with an effort of this size and magnitude.

19           Q.       Mr. Mills spoke about KCP&L's alleged  
20 effort to leverage your risk twice. Do you recall that?

21           A.       Would you repeat that? I'm sorry.

22           Q.       Well, he spoke about KCP&L attempting to  
23 leverage the risk twice. Do you recall that?

24           A.       I don't believe I was here for that. So I  
25 don't --

1 Q. Well, he did.

2 A. He did. I'm not sure I understand the  
3 statement, but --

4 Q. And my question is, are there two major  
5 risks, the first reliance on off-system sales as being a  
6 large risk factor, and then construction risk?

7 A. Well, this case is about three important  
8 issues, and in order to -- you have to understand the  
9 changes in the industry that have occurred that are  
10 impacting us as we try to do all of this.

11 The key issues in this case are the level  
12 of return that we're allowed to earn, how off-system sales  
13 are treated -- and within the stipulation we agree that  
14 the -- that those revenues accrued at the benefit of our  
15 retail customers -- and then there's this amortization  
16 issue.

17 But with regard to the off-system sales,  
18 the tremendous difficulty and the concern that we have,  
19 particularly given the amount of off-system sales that we  
20 have, and we are probably unique in the state in terms of  
21 the percentage of off-system sales and the amount of our  
22 profitability that comes from those, understanding the  
23 inherent risk, the traditional concepts that have been  
24 embedded in regulatory process for decades are affected  
25 significantly by this new part of the equation.

1                   And these revenues and the profitability  
2   attached to them are not at all as predictable as our  
3   traditional regulatory rate base. For example, if, as we  
4   did this past year, we had a failure at our Hawthorn plant  
5   and we lose the Hawthorn gen, we still have to provide  
6   retail kilowatt hours, but we don't have kilowatt hours  
7   available to sell in the wholesale market. So we have  
8   tremendous risk on our ability to -- to make those sales,  
9   and we have seen volatility in pricing. We have benefited  
10   from upward march of prices based on natural gas.

11                   I can tell you, though, the month of  
12   September was rather breathtaking in the opposite  
13   direction, and so there is enormous risk both in the  
14   quantities available to sell into the wholesale market,  
15   because we only sell after we meet all our retail needs,  
16   and -- and then on price. And prices we have benefited  
17   and our customers have benefited tremendously.

18                   But for the wholesale sales that we have  
19   been seeing, we would have been in several years ago, just  
20   to meet the cost increases in the regulated retail  
21   company. We were able to forestall that because of the  
22   significant benefits from the wholesale sales.

23                   So customers already have been enjoying  
24   that benefit on our system, but this risk, as you think  
25   about those wholesale sales and the components they are of



1   our revenue and profits in this rate case, don't lend  
2   themselves easily to the traditional set of rules or  
3   concepts that were there, and we are trying to get that  
4   point across.

5                   We are not seeking to dramatically  
6   overearn. We are seeking to obtain a fair return and to  
7   earn appropriately for our shareholders because we have an  
8   enormous capital fundraising effort that we have to do in  
9   this five-year period to pay for all this equipment we're  
10   putting in, and we want to be able to meet the obligations  
11   we have with investors and customers and creditors in the  
12   process.

13                   And it's a complex balance between these  
14   that is going to be critical in the decision of this  
15   Commission. We are being scrutinized on this rate case by  
16   the investment community, and we're going to be back to  
17   them multiple times over the next few years for capital to  
18   meet the obligations of this program. And -- and they're  
19   watching this case very closely to see how this balance is  
20   achieved. And this issue of off-system sales is a  
21   brand-new one for this Commission and an extremely  
22   important one to consider appropriately and to balance  
23   those issues.

24                   And the balance is what we're seeking, and  
25   trying to understand appropriately how to treat those in

1 the context of a traditional rate case. This isn't a  
2 traditional rate case because of the stipulation, because  
3 of this off-system sales market and all the changes that  
4 have occurred in the industry, and we hope that we get  
5 that point across in this process.

6 Q. And what can you tell us about KCP&L's  
7 performance -- operational performance as it relates  
8 statewide or nationally?

9 A. We're very proud of the performance of this  
10 company. In fact, one of the things we've done in this  
11 case and we did in the stipulation was to share our game  
12 plan for performance improvement, the benchmark data that  
13 we use to compare ourselves to other companies in the  
14 industry, the customer satisfaction data that we use to  
15 get reactions from our customers directly as to how they  
16 feel about us. And that is all information that we use  
17 annually and in our three- and five-year plans to drive  
18 the performance of the company.

19 We're particularly proud of the reliability  
20 of our service, of the cost of our service, which is in  
21 the bottom quartile of costs in the country. We're proud  
22 of our reaction to our customers, the programs that we  
23 implement. We work very hard to be the kind of utility  
24 that this state wants and desires to have serving its  
25 people, and so I think that that's particularly important

1 in the case and it's something that we've been quite open  
2 and straightforward about and feel is critical to our  
3 long-run success.

4 Q. And do you think that there should be a  
5 reward for good performance in the rate case?

6 A. We believe it's an important factor for  
7 commissions to consider. Companies -- one might say,  
8 well, it's your obligation anyway, but there's a whole  
9 continuum of performance that occurs, and -- and, you  
10 know, we believe that a strong utility is an asset to the  
11 state of Missouri.

12 And strong means many things. It means  
13 providing good service to our customers and the  
14 communities that we live in, but it also means having  
15 financial strength. A weak -- a financially weak company  
16 is not an asset to the state of Missouri.

17 COMMISSIONER MURRAY: Thank you. I think  
18 that's all I have, Judge.

19 JUDGE PRIDGIN: Commissioner, thank you.  
20 Commissioner Appling?

21 QUESTIONS BY COMMISSIONER APPLING:

22 Q. How you doing, sir?

23 A. Good.

24 Q. Good to see you again.

25 A. Thank you. Nice to see you.

1           Q.       The only question, and I think they're the  
2     same questions that I asked you a couple years ago when I  
3     first met you in your office some time ago, but describe  
4     for me -- and I'll try to ask all three of questions  
5     consecutive here so you can answer all three and we'll be  
6     finished with it.   Okay?

7           A.       Okay.

8           Q.       Describe for me the morale of your  
9     employees, how you think it's going and how you see it.  
10    I'd like for you to talk a little bit about your  
11    relationship with the community.   I am interested in the  
12    community and what companies care about.   I am interested  
13    a little bit, and you might want to tell your witness  
14    that's going to come to talk about how you-all help  
15    specifically Kansas City, to talk to that issue a little  
16    bit when he comes on station.   I'm interested in what  
17    Mr. Dias is attempting to describe, and I also -- I'm  
18    interested in how your projects are progressing.

19                    Could you talk to me just a little bit  
20    about those, specifically the morale of your employees?

21           A.       Thank you.   I believe the morale of our  
22    employee group is high.   There are -- that is a complex  
23    thing that we pay a lot of attention to.   When I first  
24    joined the company six years ago, we were a company that  
25    had almost been acquired on two occasions by other

1 companies, and -- and, you know, the direction was  
2 uncertain.

3 I think that today we've got a company that  
4 has a firm path before it, we've got a strategy, and we're  
5 very busy and intent on executing it. And I'll follow up  
6 with some of that in answer to your third question. And  
7 we are focusing an awful lot on our employees and engaging  
8 and involving them in the fundamental decisions of the  
9 company as well as many other things, including our  
10 community involvement. And I'll talk about that in a  
11 little bit.

12 When we originally created the game plan  
13 that led to the Stipulation, we had multiple meetings with  
14 our employees, a thousand people at a time, so that our  
15 employees could be involved in and understand and  
16 appreciate the various issues that we were wrestling with.  
17 And I think that was unique. It was part of an effort on  
18 our part to engage and get committed our employees.

19 It's about employees being excited about  
20 what they're doing when they come to work every day. It's  
21 not about everybody being totally happy and content  
22 because that's a perfect world that I'm not able to reach.

23 But certainly I think we have an engaged  
24 and committed work force that understands the game plan  
25 and is trying to move forward and is proud of the things

1 that we're doing, both in terms of our fundamental  
2 electric service, but also in terms of how we are citizens  
3 of the communities that we serve.

4           You asked what we're doing in the  
5 community. I can tell you that we're very active across  
6 all of the elements of our community, and -- and, you  
7 know, I personally happen to serve on a number of  
8 institution boards, and I know our other officers do and  
9 other employees do, that serve every element of the  
10 community, and we constantly are paying attention to that.

11           We know that some of our customers have  
12 problems paying their bill. I mentioned United Way. We  
13 recently in Kansas City created a 211 number to take calls  
14 and answer people's problems, people who are in trouble  
15 personally, financially, whatever. We help to fund that,  
16 that number. We work in close cooperation with United  
17 Way, so when customers call in who have issues, we can get  
18 those customers linked up with services within the United  
19 Way organizations that can help them.

20           We work very closely with all of the  
21 agencies of the state and local government to help people  
22 who have difficulty paying their bills through whatever  
23 programs are available, and we are proactive on that. We  
24 don't sit and wait. We seek the partnerships and we work  
25 closely with them. We think that the needs of our young

1 people in the communities, the environmental issues in our  
2 communities are very important, and we work closely with  
3 all the agencies.

4 As a part of this Stipulation, we hammered  
5 out agreements in the Kansas City metropolitan area around  
6 the environmental issues that were important to the  
7 metropolitan area, and that led to the investments we're  
8 making, and we have broad support from environmental  
9 groups around that.

10 So we are extremely active in the  
11 community, in all of the elements of the community, and we  
12 try to represent in the things that we do and the funds  
13 that we provide and the employment goals that we have for  
14 the company to be as diverse a company as our community  
15 is.

16 With regard to the projects, that is an  
17 important element. We made all these promises within the  
18 context of the Stipulation, and the challenge, of course,  
19 is to execute on those promises. And I think that in our  
20 first year we really have demonstrated that execution.

21 The wind generation that we promised is up  
22 and running. And I will tell you that we didn't reach  
23 agreement here in Missouri until after the Federal  
24 Government passed the Energy Policy Act, which presented  
25 tremendous challenges to us in terms of getting that wind,

1 getting the turbines, getting them in service because  
2 there was tremendous competition for that equipment after  
3 the Act and we were prohibited from moving forward prior  
4 to the conclusion of our Stipulation. So we did yeoman's  
5 work to get those facilities and put them in place, not  
6 only by the deadline but ahead of the deadline we had set  
7 for ourselves within the Stipulation.

8                   We have been working very hard in moving  
9 forward on all of the pilots on the energy efficiency and  
10 the demand control, and I think we're succeeding there.  
11 We expect to be on schedule for all of the transmission  
12 and the distribution investments that we committed to for  
13 this year in the programs.

14                   And with regard to the environmental  
15 investment at Lacine, we have worked very hard this year.  
16 We are on schedule. We committed to have that equipment  
17 up and running next spring in May in time for the summer  
18 season, and we fully expect to be there. We have a very  
19 transparent process of reporting. We've been reporting  
20 now twice we issued our reports on schedule to the  
21 Commission with regard to that progress. We will shortly  
22 be issuing the third such report.

23                   We have succeeded in negotiating all the  
24 partnership agreements for the plant, as required by the  
25 Commission, and the partners who were identified in the



1 Stipulation are indeed the partners in the plant. And as  
2 I said before, this is a regional asset that will benefit  
3 western Missouri, and we successfully concluded all of  
4 those partnerships this year within the framework that we  
5 talked about.

6 We filed this rate case and have been  
7 timely in all of those elements. So as you -- and we --  
8 we have been moving very rapidly ahead in a very demanding  
9 environment on the fundamental work on the building of  
10 this plant.

11 One has to understand that this industry --  
12 when we started this in 2004, we were on the leading edge  
13 of new construction, new environmental investment.  
14 Changes at the federal level and policy and regulation and  
15 the law have driven the entire industry into a  
16 construction phase on new generation and new environmental  
17 equipment.

18 Fortunately, we're still on the front end,  
19 but we are in a very much more demanding environment to  
20 execute all of these projects. There's demand for labor,  
21 there's demand for raw materials, there's demand for the  
22 key manufacturers of key equipment.

23 And in the context of all that, we have  
24 been successful in ordering the three major components of  
25 equipment and successfully executing contracts for the

1 generator, for the boiler, for all of the air quality  
2 control equipment that is going to go into these plants.  
3 We've been able to do that here in probably the last six  
4 months, an extraordinary effort and one that we believe  
5 we've accomplished well in the process.

6 And it is not an easy environment within  
7 which to do that. The cost of every piece of equipment  
8 and component and material going into these plants and the  
9 environmental equipment, we've seen commodity prices  
10 escalating extravagantly, partly because of international  
11 demand from other countries, such as China and India.

12 So I think the point I'm trying to make is  
13 that we have been successful in the execution even in the  
14 face of a demanding environment that we would never have  
15 expected when we first started into this effort, and we've  
16 been able to execute successfully and meet those  
17 challenges.

18 COMMISSIONER APPLING: Thank you very much,  
19 Judge. I have no further questions.

20 JUDGE PRIDGIN: Commissioner Appling, thank  
21 you.

22 I don't have any questions for this  
23 witness. Does anyone wish recross?

24 (No response.)

25 JUDGE PRIDGIN: Seeing no volunteers, may

1     this witness be excused? Any redirect? I'm sorry.

2                     MR. RIGGINS: No, your Honor. I do think,  
3     however, I neglected to move into evidence Mr. Downy's  
4     direct testimony, which I believe has been marked as  
5     Exhibit 1.

6                     JUDGE PRIDGIN: Any objections?

7                     (No response.)

8                     JUDGE PRIDGIN: Hearing none, Exhibit No. 1  
9     is admitted.

10                    (EXHIBIT NO. 1 WAS RECEIVED INTO EVIDENCE.)

11                    MR. RIGGINS: And I would also ask that  
12     Mr. Downy be excused for the remainder of the hearing.

13                    JUDGE PRIDGIN: Any objection from counsel?

14                    (No response.)

15                    JUDGE PRIDGIN: Seeing none, Mr. Downy, you  
16     are excused. Thank you very much for your time, sir.

17                    The next witness is Terry Bassham; is that  
18     correct?

19                    MR. RIGGINS: It's Bassham, and that's  
20     correct.

21                    JUDGE PRIDGIN: If you'll come forward to  
22     be sworn, please.

23                    (Witness sworn.)

24                    JUDGE PRIDGIN: If you would please have a  
25     seat, and let me begin with cross-examination. I don't

1     see one here. I'm going to skip over Aquila and City of  
2     Kansas City at least momentarily because I don't see  
3     anyone here.

4                     Mr. Finnegan?

5                     MR. FINNEGAN: No questions.

6                     JUDGE PRIDGIN: Mr. Finnegan, thank you.

7     Mr. Dias, any questions?

8                     MR. DIAS: None.

9                     JUDGE PRIDGIN: I don't see DNR, Empire,  
10    Ford, Praxair.

11                    Trigen?

12                    MR. KEEVIL: No questions, Judge.

13                    JUDGE PRIDGIN: Mr. Keevil, I can't see you  
14    from here, so if I skip over you, please leap in if you  
15    want to ask questions.

16                    MR. KEEVIL: All right.

17                    JUDGE PRIDGIN: Department of Energy?

18                    MR. PHILLIPS: No questions.

19                    JUDGE PRIDGIN: Thank you. I don't see  
20    Wal-Mart. Mr. Coffman, AARP?

21                    MR. COFFMAN: No.

22                    JUDGE PRIDGIN: Thank you. Mr. Mills?

23                    MR. MILLS: No questions.

24                    JUDGE PRIDGIN: Mr. Thompson?

25                    MR. THOMPSON: No questions.

1 JUDGE PRIDGIN: Very good. Commissioner  
2 Murray, any questions from the Bench?

3 COMMISSIONER MURRAY: Seems a shame to let  
4 him --

5 THE WITNESS: I'm not offended,  
6 Commissioner.

7 COMMISSIONER MURRAY: Just give me one  
8 second, Judge. It must be that your written prefiled  
9 testimony was so abundantly clear that no one has any  
10 questions.

11 THE WITNESS: That would be my conclusion.

12 COMMISSIONER MURRAY: Thank you.

13 JUDGE PRIDGIN: Commissioner Appling, any  
14 questions for this witness?

15 COMMISSIONER APPLING: I'm trying to dig up  
16 one, but I don't think I have any questions, so thank you,  
17 sir.

18 JUDGE PRIDGIN: It pains me, but I don't  
19 have any questions either. May this witness be excused,  
20 Mr. Riggins?

21 MR. RIGGINS: And I'd move admission of  
22 Mr. Bassham's direct testimony.

23 JUDGE PRIDGIN: I believe that's exhibit,  
24 is it No. 2?

25 MR. RIGGINS: Should be.

1 JUDGE PRIDGIN: Any objections?

2 (No response.)

3 JUDGE PRIDGIN: Hearing none, Exhibit No. 2  
4 is admitted.

5 (EXHIBIT NO. 2 WAS RECEIVED INTO EVIDENCE.)

6 JUDGE PRIDGIN: The next witness,  
7 Mr. Giles. I could be mistaken. If I'm not mistaken,  
8 Mr. Giles may have testimony on more than one issue, but  
9 the purpose of the testimony and the cross now would  
10 simply be overview and policy.

11 MR. RIGGINS: Yes, your Honor, that's our  
12 understanding as well. And just to clarify, from our  
13 review of the testimony, it appears to us that Mr. Giles'  
14 policy testimony is contained in his direct testimony and  
15 that his rebuttal and surrebuttal testimony go toward the  
16 issues that we'll be addressing later. So I would  
17 anticipate cross-examination over his direct testimony at  
18 this point.

19 JUDGE PRIDGIN: All right. Thank you.  
20 Mr. Giles, if you'll raise your right hand and be sworn.

21 (Witness sworn.)

22 JUDGE PRIDGIN: Thank you very much, sir.  
23 If you would please have a seat.

24 Mr. Finnegan, any questions?

25 CHRIS B. GILES testified as follows:

1 CROSS-EXAMINATION BY MR. FINNEGAN:

2 Q. Mr. Giles, I feel bad about the last  
3 witness, so I thought I'd better ask you a question or  
4 two.

5 A. I'm not surprised.

6 Q. Not many. On page 3 of your testimony,  
7 when you talk about the regulatory plan that was adopted,  
8 you indicate that Jackson County, Missouri participated in  
9 a workshop; is that correct?

10 A. That's correct.

11 Q. You're not intending to imply therewith  
12 that the -- Jackson County signed the regulatory plan?

13 A. No, I don't believe they did.

14 Q. And the exhibit that's here present,  
15 Exhibit 143, clearly shows that Jackson County's signature  
16 block is blank.

17 On page 6 of your testimony, you talk about  
18 the traditional model of regulation?

19 A. That's correct.

20 Q. And you say that the traditional model  
21 often focuses upon historic information rather than  
22 looking forward five to ten years. Now, when Kansas City  
23 Power & Light built the Wolf Creek plant, and I understand  
24 you were at the company at that time, maybe not involved  
25 in it, but were you at the company then?

1           A.       Yes, I was.

2           Q.       Were you involved at all?

3           A.       Yes, I was.

4           Q.       Before they built the plant, didn't they  
5 look forward five to ten years to see what they needed to  
6 build, if they needed a plant or not?

7           A.       The utility did. What I -- what I'm  
8 referring to here by this comment is that --

9           Q.       Well, that was my question.

10          A.       Yes, the utility did. Yes.

11          Q.       And, in fact, it took, what, five years to  
12 build the plant and perhaps another five years before that  
13 to plan it; is that correct?

14          A.       I'm not sure how long it took.

15          Q.       It took some years?

16          A.       Yes, several.

17          Q.       And on page 6 also in your -- the last  
18 question, you talk about the -- why your not doing  
19 traditional modeling could lead to contentiousness and  
20 time-consuming disputes concerning the prudence of its  
21 decision. You see that?

22          A.       Yes, I do.

23          Q.       You're not saying that the prudence issue  
24 is off the table in this case, is it, as to when this  
25 plant is built and whether or not the -- your properly



1 expended sums of money that you did expend for the plant?

2 A. Well, the -- the concept in the regulatory  
3 plan, the best way I can summarize it, is that the  
4 signatories agreed that these were the right investments  
5 to make and it's the right time to make them. As far as  
6 prudence goes, I think the Stipulation & Agreement  
7 specifically states that costs -- if you will, cost  
8 overruns are still appropriately challengeable.

9 MR. FINNEGAN: I believe that's all the  
10 questions I have.

11 JUDGE PRIDGIN: Mr. Finnegan, thank you.  
12 Mr. Dias, any questions?

13 MR. DIAS: No, sir.

14 JUDGE PRIDGIN: All right. Thank you. Go  
15 on to the usual suspects. Mr. Keevil?

16 MR. KEEVIL: Judge, it's my understanding  
17 that the witness is up here for overview and policy. I  
18 have no questions on that.

19 JUDGE PRIDGIN: Thank you, Mr. Keevil.  
20 Department of Energy?

21 MR. PHILLIPS: We have no questions on  
22 overview and policy, thank you.

23 JUDGE PRIDGIN: Thank you. Don't see  
24 anyone from Wal-Mart. AARP, Mr. Coffman?

25 MR. COFFMAN: No questions at this time.

1 JUDGE PRIDGIN: Mr. Mills?

2 MR. MILLS: No questions.

3 JUDGE PRIDGIN: Mr. Thompson?

4 MR. THOMPSON: No questions.

5 JUDGE PRIDGIN: Commissioner Murray?

6 COMMISSIONER MURRAY: I believe I do, if  
7 you'll just wait a moment, Judge.

8 JUDGE PRIDGIN: Certainly.

9 COMMISSIONER MURRAY: On second thought,  
10 the testimony seems very clear, and I can't think of a  
11 question.

12 JUDGE PRIDGIN: Commissioner Murray, thank  
13 you. Commissioner Appling?

14 QUESTIONS BY COMMISSIONER APPLING:

15 Q. How you doing?

16 A. Great.

17 Q. Good. Do you have any dealings with the  
18 Federal Government and regulation?

19 A. I do.

20 Q. Is everything going pretty smoothly as far  
21 as that area? Is there any outstanding issues with the  
22 Federal Government?

23 A. Not -- not at this time.

24 Q. So everything is running smooth?

25 A. Everything is running fairly smooth at the

1 moment.

2 COMMISSIONER APPLING: Thank you very much.  
3 Appreciate it.

4 JUDGE PRIDGIN: Commissioner Appling, thank  
5 you. Mr. Chairman, any questions?

6 CHAIRMAN DAVIS: No questions, Mr. Giles.  
7 Thank you.

8 JUDGE PRIDGIN: Mr. Chairman, thank you. I  
9 don't have any questions for this witness. Any recross?

10 (No response.)

11 JUDGE PRIDGIN: Redirect?

12 MR. RIGGINS: No, sir.

13 JUDGE PRIDGIN: All right. Thank you. May  
14 this witness be excused?

15 MR. RIGGINS: Move admission of Mr. Giles'  
16 direct testimony.

17 JUDGE PRIDGIN: I believe that's Exhibit  
18 No. 3?

19 MR. RIGGINS: That's correct.

20 JUDGE PRIDGIN: Any objections?

21 (No response.)

22 JUDGE PRIDGIN: Hearing none, Exhibit  
23 No. 3 is admitted.

24 (EXHIBIT NO. 3 WAS RECEIVED INTO EVIDENCE.)

25 JUDGE PRIDGIN: I believe on my witness

1 list we would be moving on to an incentive compensation  
2 witness, and I believe the KCPL witness is not available  
3 today, so that would leave the Staff witness, Mr. Harris;  
4 is that correct?

5 MR. THOMPSON: That's correct.

6 JUDGE PRIDGIN: All right. Mr. Harris is  
7 ready. If you'll come forward to be sworn, please.

8 (Witness sworn.)

9 JUDGE PRIDGIN: Thank you very much, sir.  
10 If you would please have a seat. We'll go on to  
11 cross-examination, unless there are any corrections. Is  
12 this witness ready for cross?

13 V. WILLIAM HARRIS testified as follows:

14 THE WITNESS: Actually, I do have a couple  
15 corrections, your Honor.

16 JUDGE PRIDGIN: Okay. Thank you.

17 THE WITNESS: On page 5 of my direct  
18 testimony, line 3, the wording should read, rate case  
19 expenses, new charges become known and measurable and  
20 normalize the total over a three-year period, as is  
21 reflected on line 6, page 22 of my direct. And then on  
22 page 8 of my surrebuttal, line 8 should read, MGE's Case  
23 No. GR-2004-0209 as reflected earlier in my direct and  
24 surrebuttal testimonies.

25 JUDGE PRIDGIN: Any further corrections?

1 THE WITNESS: No, your Honor.

2 JUDGE PRIDGIN: Thank you very much.

3 Is this witness ready for cross,

4 Mr. Thompson?

5 MR. THOMPSON: Judge, I'll go ahead and  
6 move for admission of his direct and surrebuttal testimony  
7 at this time, Exhibits 116 and 117.

8 JUDGE PRIDGIN: Any objections?

9 (No response.)

10 JUDGE PRIDGIN: Hearing none, Exhibits 116  
11 and 117 are admitted.

12 (EXHIBIT NOS. 116 AND 117 WERE RECEIVED  
13 INTO EVIDENCE.)

14 MR. THOMPSON: Pass the witness.

15 JUDGE PRIDGIN: Mr. Thompson, thank you.  
16 Cross-examination, Mr. Finnegan?

17 MR. FINNEGAN: No questions.

18 JUDGE PRIDGIN: Thank you. Mr. Dias, any  
19 questions?

20 MR. DIAS: Not at this time, Judge.

21 JUDGE PRIDGIN: Thank you. Mr. Keevil?

22 MR. KEEVIL: No questions, Judge.

23 JUDGE PRIDGIN: Mr. Phillips?

24 MR. PHILLIPS: No questions, thank you.

25 JUDGE PRIDGIN: Mr. Coffman?

1 MR. COFFMAN: No questions.

2 JUDGE PRIDGIN: Mr. Mills?

3 MR. MILLS: Just briefly.

4 CROSS-EXAMINATION BY MR. MILLS:

5 Q. One of the corrections you made I believe  
6 had to do with rate case expense, but you're not  
7 testifying on this issue right now; is that correct?

8 A. That's correct.

9 MR. MILLS: I'll reserve my question for  
10 when he comes up next. Thank you.

11 JUDGE PRIDGIN: Thank you. Mr. Fischer or  
12 Mr. Riggins, who's questioning for KCPL?

13 MR. STEINER: Yes, your Honor.

14 JUDGE PRIDGIN: Thank you.

15 CROSS-EXAMINATION BY MR. STEINER:

16 Q. Good afternoon, Mr. Harris.

17 A. Good afternoon.

18 Q. Did you investigate or evaluate the past or  
19 current operational performance of KCPL in your evaluation  
20 of KCPL's incentive comp position?

21 A. I'm sorry. I don't know if I understand  
22 your question.

23 Q. When you were looking at whether to approve  
24 KCPL's incentive plan in rates, did you look at factors  
25 such as KCPL's reliability as compared to other companies,

1     their level of customer service as compared to other  
2     companies? Did you look at benchmarks with other  
3     companies?

4             A.       Yes.

5             Q.       What benchmarks did you look at?

6             A.       I looked at all of the benchmarks, both  
7     operational, such as customer service, whether other  
8     companies were using earnings per share as their basis for  
9     their incentive compensation plans.

10            Q.       I was speaking in terms of how KCPL is  
11     doing in regard to customer service or reliability as  
12     compared to other companies. Did you look at that in your  
13     evaluation?

14            A.       No, not specifically.

15            Q.       When you say not specifically, do you mean  
16     that you did look at it?

17            A.       No. I did not look at their customer  
18     service result compared to the results of other companies,  
19     no.

20            Q.       What about reliability?

21            A.       No.

22            Q.       What about any benchmark data concerning  
23     operational performance of KCPL as compared to other  
24     utilities?

25            A.       No.

1           Q.       Would you agree that the purpose of  
2       compensation generally speaking is to pay an employee for  
3       doing his or her job?

4           A.       Generally speaking -- well, to do their job  
5       well, yes.

6           Q.       And would you agree that with respect to  
7       KCPL, that job is to provide safe and reliable utility  
8       service?

9           A.       That's one of the -- one of their  
10       functions, yes.

11          Q.       What are their other functions?

12          A.       Well, they are to provide safe and reliable  
13       service and good customer service.

14          Q.       Anything else?

15          A.       Well, they, of course, have to operate on a  
16       profit. I mean, they have to be a successful company.

17          Q.       Okay. You're not making the claim in your  
18       testimony that KCPL is somehow not providing safe and  
19       reliable electric utility service to its customers, are  
20       you?

21          A.       No, absolutely not. As a matter of fact, I  
22       made the point in my testimony that -- that Staff was  
23       allowing all of those benchmarks that did directly relate  
24       to safe and reliable and customer service. Only the  
25       financial benchmarks are the ones that we're taking issues



1 with.

2 Q. Thank you, Mr. Harris. As far as you know,  
3 KCPL employees are doing their jobs; is that correct?

4 A. Well, as a general rule, I suppose so,  
5 there were some --

6 Q. Thank you, Mr. Harris.

7 A. -- some of those employees that didn't meet  
8 their --

9 JUDGE PRIDGIN: I'm sorry. I think you've  
10 answered his question. Thank you.

11 THE WITNESS: Okay.

12 BY MR. STEINER:

13 Q. Would you agree with me that who a company  
14 hires is a matter left to the discretion of management?

15 A. Absolutely.

16 Q. Would you also agree that what a company  
17 pays its employees is a matter of management prerogative?

18 A. Well, you have to realize that there are  
19 two separate components of pay, and one's the base pay and  
20 one is incentive compensation based upon --

21 Q. I'm talking total compensation.

22 A. What a company is going to totally  
23 compensate their employees is at management's discretion?

24 Q. That's correct.

25 A. Absolutely.

1           Q.     I think you mentioned this before. I want  
2 to clarify. Staff in this case is allowing in rates some  
3 level of incentive compensation, correct?

4           A.     Yes, about 65 percent.

5           Q.     So to the extent Staff is doing this, am I  
6 correct in assuming that Staff believes the company's  
7 incentive compensation program is based on measures that  
8 promote the provision of safe and adequate service?

9           A.     Certain ones, yes. Those are what we  
10 allowed in the case.

11          Q.     But you do oppose rate recovery of any  
12 incentive compensation which is based on or tied to  
13 financial goals or objectives. That's your position,  
14 correct?

15          A.     If it's EPS-driven financial goals that  
16 don't directly benefit ratepayers.

17          Q.     And this is at the top of page 4, I think,  
18 in your surrebuttal. Are you there, sir?

19          A.     Yes.

20          Q.     And I believe I understand -- it's your  
21 understanding or -- or my understanding is that if  
22 incentive compensation plan goals are financially driven,  
23 there's a risk they may be achieved at the expense of  
24 customer service. Is that your testimony?

25          A.     Yes, that's correct. In fact, as I stated

1 in my direct testimony, there were two Commission Orders  
2 that specifically addressed that.

3 Q. Thank you. Would you agree that utilities  
4 should be efficient, Mr. Harris?

5 A. Yes.

6 Q. Would you also agree that this Commission  
7 should encourage utilities under its jurisdiction to be  
8 efficient?

9 A. Yes.

10 Q. And that is because efficiency ultimately  
11 benefits customers, Mr. Harris?

12 A. Yes, it should.

13 Q. And being efficient, that would encompass  
14 financial efficiencies, would it not?

15 A. Yes, it could.

16 Q. Would you agree that KCPL should encourage  
17 its employees to meet the financial objectives of the  
18 company?

19 A. Yes, I would, but the issue here is --

20 Q. Thank you, Mr. Harris. Now, if there's a  
21 problem with respect to the provision of safe and adequate  
22 service by KCPL or any utility under the Commission's  
23 authority, are you aware of anything that Staff could do  
24 to remedy that situation?

25 A. I'm sorry. Could you repeat that?

1           Q.       Let's say there's a problem with respect to  
2     the provision of safe and adequate service -- I think one  
3     of the examples you use was a company might reduce the  
4     level of tree trimming. Do you recall that?

5           A.       Yes.

6           Q.       Is there anything that Staff could do to  
7     remedy that situation?

8           A.       Yes.

9           Q.       What would Staff do?

10          A.       Well, Staff would have discussions with the  
11     company and could, depending upon the severity, as recent  
12     response in St. Louis and Ameren, there could be an  
13     investigation.

14          Q.       So Staff has filed complaints against a  
15     utility for failure to provide safe and adequate service?

16          A.       I don't directly have -- I mean, I wouldn't  
17     know directly which case or what would be involved. I  
18     would certainly think so.

19          Q.       Mr. Harris, does the Staff want the company  
20     to eliminate those portions of its incentive compensation  
21     plan that are tied to financial goals?

22          A.       No, that's never been Staff's contention.  
23     We only want the beneficiary of those --

24          Q.       Thank you, Mr. Harris. You're not saying  
25     that the company has -- you're not saying to the extent

1 the company has compensated its employees under the plan,  
2 that those dollars weren't spent, are you, Mr. Harris?

3 A. I'm not saying that the dollars weren't  
4 spent?

5 Q. Right.

6 A. No, I'm not saying that.

7 Q. Okay. The company paid their employees in  
8 this fashion because that's the way the company decided to  
9 compensate its employees; is that a fair statement?

10 A. That's the way that the company has decided  
11 to compensate their employees, yes.

12 Q. In your work on the incentive compensation  
13 issue, have you reviewed or done any studies that show  
14 that KCPL's compensation rates for its employees are too  
15 high?

16 A. Yes, there's -- well, that their  
17 compensation rates are too high?

18 Q. That's correct.

19 A. No, not that the rates themselves are too  
20 high.

21 Q. Thank you. If the dollars that are at  
22 issue here were not the result of an incentive  
23 compensation plan, but rather were built into the base pay  
24 of KCPL employees, would Staff propose the adjustments  
25 it's proposing in this case?

1           A.       I can't say for sure because Staff goes  
2     into each case on an individual basis and looks at the  
3     components of each expense individually.

4           Q.       But I think you just said you didn't look  
5     at the rate of com-- total compensation that KCPL was  
6     paying its employees, that wasn't something that you did  
7     in this case.

8           MR. THOMPSON: I'm going to object at this  
9     point, Judge. He's asking this witness to speculate.

10          MR. STEINER: I'm asking him what he did  
11     for the basis of his testimony.

12          MR. THOMPSON: You're asking him if the  
13     rates were constructed in a way that, in fact, they're  
14     not, what would he have recommended. That's speculative.

15          JUDGE PRIDGIN: I think the question was --  
16     I think the earlier question was, what would he have done  
17     if the compensation had been rolled into just regular  
18     salary or pay. And I believe his answer was essentially,  
19     I don't know, I'm not sure, which I believe that is  
20     beginning to get into speculation.

21          MR. STEINER: Thank you, your Honor.

22     BY MR. STEINER:

23          Q.       Mr. Harris, does the Staff traditionally  
24     look at pay increases and then recommend a disallowance?

25          A.       For pay increases, no. Then again, if

1 we're getting into payroll, that was Kimberly Bolin, the  
2 Staff witness that did the payroll in this case.

3 Q. So if Staff did look at pay increases, she  
4 would be the person I would talk to?

5 A. Yes. In this case, she handled the entire  
6 payroll adjustment for Staff or base payroll.

7 Q. And base payroll includes incentive  
8 compensation; is that correct?

9 A. No. Base payroll --

10 Q. So who did that? I'm sorry. Go ahead.

11 A. There's two separate components to  
12 compensation. There's the base payroll, which is a fixed  
13 cost, and by fixed cost I don't mean it stays there, but I  
14 mean from week to week until that employee gets a raise or  
15 whatever, then that's the base pay.

16 The incentive comp is an extra component  
17 that is based upon the employee's performance. So if the  
18 employee performs well, then the idea is that they will be  
19 compensated above and beyond the base pay, and if they  
20 don't perform to certain standards, then they shouldn't be  
21 compensated above and beyond the base pay.

22 MR. STEINER: Thank you, Mr. Harris.

23 JUDGE PRIDGIN: All right. Thank you very  
24 much. Let me see if we have any questions from the Bench.  
25 Commissioner Murray?

1 COMMISSIONER MURRAY: Thank you.

2 QUESTIONS BY COMMISSIONER MURRAY:

3 Q. Good afternoon, Mr. Harris.

4 A. Good afternoon, Commissioner.

5 Q. The dollar amount of this disallowance is?

6 A. The dollar amount is -- as far as the  
7 reconciliation is concerned, it's 3 million. That's  
8 broken down into different components. 25 per-- roughly  
9 25 percent of that is based on the fact that KCPL did not  
10 charge any other incentive compensation to construction  
11 but charged 100 percent to expense, inconsistent with the  
12 way that they charged the rest of their payroll. Then the  
13 remaining 75 percent is split between a piece for the  
14 financially driven EPS-type goals and a 20 percent  
15 individual component that was not -- there were no  
16 specific goals identified to Staff.

17 Those two components total company for the  
18 EPS-driven is 1.4 million, which jurisdictionally is  
19 757,000, and the discretionary piece is 1.255 million,  
20 which jurisdictionally is 674,000.

21 Q. Okay. I have trouble finding the  
22 3 million.

23 A. Well, if you look at the reconciliation  
24 that was passed out this morning, it would be on page 2,  
25 line 62.



1           Q.       But I guess what I'm saying is, I have  
2       trouble seeing how you get to that 3 million.

3           A.       Well, the 3 million is the difference  
4       between -- the numbers that I gave you are comparing the  
5       Staff's calculation or the Staff's numbers with test year.  
6       The 3 million indicated in the incentive compensation on  
7       the reconciliation is comparing the Staff's numbers in  
8       this case with the -- or the Staff's adjustment with the  
9       company's adjustment, as opposed to the Staff's adjustment  
10      compared to test year numbers on KCPL's books.

11          Q.       Okay. And I think I heard you say earlier  
12      that your major objection is the benchmark, the use of  
13      benchmark, the EPS being GPE's, Great Plains' EPS rather  
14      than KCP&L's; is that right?

15          A.       That's one of my main concerns, because in  
16      response to several DRs that we put in, not only was GPE's  
17      EPS at the funding -- I mean at the maximum level, whereas  
18      if KCPL's EPS had been used to fund the plan, it would  
19      have been below the threshold level and there would have  
20      been no dollars funded to be paid out to anyone. Then  
21      additionally there's the concern that of GPE's EPS, a good  
22      portion of that was driven by their unregulated company,  
23      Strategic Energy.

24                    If Strategic Energy's results, as I think I  
25      indicated on page 11 of my surrebuttal, lines 11 through

1 15, if -- if strictly the regulated EPS for 2005 had been  
2 used, there would have been -- it would have been below  
3 the threshold level and there wouldn't have been any  
4 funding for the plan.

5                   And then additionally, in response to -- to  
6 the DR 540 -- 544, I believe it is, if GPE's EPS would  
7 have been -- I mean the regulated EPS would have been used  
8 for the 2004 compilation, the regulated EPS was at 204,  
9 whereas the threshold level was at 220, so again in 2004  
10 there wouldn't have been any funding for the plan if it  
11 had been based on regulated operations.

12                   And one of Staff's driving positions in  
13 this case is that it's unfair to hold captive Missouri  
14 ratepayers to an EPS and to an incentive plan that's  
15 funded based solely on unregulated operations that have  
16 nothing to do with providing electric service to Missouri.

17               Q.       What determines the threshold?

18               A.       The company determined the threshold for  
19 its plans. It determined the threshold level, a target  
20 level and a maximum level. It paid out at the maximum  
21 level, and that's another thing I wanted to bring up, too,  
22 was at the -- the company reached the maximum level by  
23 excluding certain costs in its calculation.

24                   There were the -- I'm having a little  
25 difficulty finding that, but the bottom line is, as I

1     stated, the primary concern of Staff on these -- on this  
2     plan is that, No. 1, it was funded based on an EPS-driven  
3     plan, and then to follow up on it, like I say, in addition  
4     to that, the EPS levels that were funded at maximum were  
5     only as a result of using unregulated data or unregulated  
6     earnings.

7                     And then also there's the concern with --  
8     Staff has a concern with the company's June updated  
9     period. In the original filing the company had calculated  
10    its incentive compensation based on 2003-2004-2005 actual  
11    costs, and then for the June updated period they changed  
12    their calculation to reflect 2004-2005 actual cost and  
13    2006 estimated cost, and estimated costs are throughout  
14    the 2006 year.

15                    There's several problems Staff has with  
16    that, one being that the -- the true-up date for this case  
17    is September 30th, 2006, and that's the date where all  
18    expenses, revenues, rate base and all the other items in  
19    the case are cut off. It would be a violation of the  
20    matching principle to extend this one expense beyond the  
21    September 30th true-up date.

22                    Q.     So that was estimated through 2006, you're  
23    saying?

24                    A.     Correct. And then another problem with  
25    using the estimates is that they won't become known and

1 measurable until after the operation of law date on  
2 January 1st, 2007.

3 COMMISSIONER MURRAY: All right. I think  
4 that's all my questions. Thank you.

5 THE WITNESS: Thank you.

6 JUDGE PRIDGIN: Commissioner Murray, thank  
7 you. Commissioner Gaw?

8 COMMISSIONER GAW: Thank you.

9 QUESTIONS BY COMMISSIONER GAW:

10 Q. I just want to follow up a little bit more  
11 on this issue that was raised earlier about the dynamic  
12 between incentive pay and base pay, and whether or not  
13 Staff is drawing any conclusions that if the amount of the  
14 incentive pay plus base pay would have equaled a base pay  
15 plan that was -- that was equal to the total of both the  
16 base pay plus the maximum incentive pay that they could  
17 have been given to an employee, whether or not Staff is  
18 suggesting that because a portion of that is incentive  
19 pay, that it should be disallowed just for that reason?

20 A. No, Commissioner, that's not what Staff's  
21 suggesting at all. Staff is only -- is mainly suggesting  
22 a problem -- or not a problem, but the disbursement of the  
23 pay, not the total amount of the pay, but who should be  
24 responsible for the -- for the cost.

25 And obviously we don't have a problem with

1 the ratepayers being responsible for the costs that relate  
2 directly to customer service, reliability, safety issues,  
3 but we do have a bit of a problem with some of the  
4 financial issues that the shareholders benefit from  
5 directly, especially based on the fact that the dollars  
6 that funded the plan were based on unregulated operations.

7 Q. So in -- and that's what you were  
8 discussing with Commissioner Murray just a minute ago, I  
9 believe; is that correct?

10 A. Yes.

11 Q. So in fact, in your analysis, when you were  
12 looking at the incentive portion, your concern was not  
13 necessarily the concept of incentive pay just in general,  
14 but that there was information that the incentive was tied  
15 to something that did not have ties directly to the normal  
16 activities of someone working for the regulated company?

17 A. Yes, Commissioner, that's right. As a  
18 matter of fact, I've been involved in the last several  
19 cases at another local utility, Aquila. Staff has not  
20 taken issue with any of the incentive compensation plans  
21 there because, since the 1990s, Aquila has not had any  
22 specific goals directly related to financial and EPS-type  
23 driven goals. They've been based on the other standards  
24 of safety, reliability and customer service, and so Staff  
25 has not taken any exception with the incentive

1 compensation plans of Aquila.

2 COMMISSIONER GAW: I'm not sure that I  
3 would point to Aquila as a good example, but nevertheless,  
4 I understand the distinction. Thank you.

5 JUDGE PRIDGIN: Commissioner Gaw, thank  
6 you.

7 COMMISSIONER APPLING: No questions.

8 JUDGE PRIDGIN: Commissioner Appling, thank  
9 you.

10 I don't have any questions for this  
11 witness. Any recross-examination?

12 (No response.)

13 JUDGE PRIDGIN: Seeing none, any redirect?

14 MR. THOMPSON: I have a little bit of  
15 redirect, Judge.

16 JUDGE PRIDGIN: Mr. Thompson, when you're  
17 ready, sir.

18 REDIRECT EXAMINATION BY MR. THOMPSON:

19 Q. You were asked by Mr. Steiner whether or  
20 not the PSC should encourage efficiency by allowing  
21 incentive compensation rewards to employees when the  
22 company operates efficiently. Do you recall that question?

23 A. Yes.

24 JUDGE PRIDGIN: I hate to interrupt,  
25 Mr. Thompson. Is your microphone on?



1 incentive compensation, Mr. Cross, is unavailable 'til  
2 next week; is that correct?

3 MR. STEINER: That's correct.

4 JUDGE PRIDGIN: I see no other witnesses  
5 for this issue, so that would take us on to pensions.  
6 And, Mr. Thompson, please refresh my memory on what the  
7 Staff's position was on pensions.

8 MR. THOMPSON: As we advised you this  
9 morning, Judge, the pensions and other benefits issue has  
10 been settled. There is an agreement in principle. It has  
11 not yet been reduced to writing in the form of a  
12 Stipulation & Agreement, but it is our understanding that  
13 there is no further dispute, at least between the company  
14 and the Staff, on the pension and other benefits issues.

15 JUDGE PRIDGIN: All right. So that  
16 agreement is between KCP&L and Staff only; is that  
17 correct?

18 MR. THOMPSON: That's my understanding.

19 JUDGE PRIDGIN: All right. Well, let me  
20 see first if there are other counsel who wish to  
21 cross-examine on pensions.

22 Mr. Mills?

23 MR. MILLS: I don't have any  
24 cross-examination on pensions, and I -- to the extent that  
25 I understand the agreement, I think Public Counsel is okay



1 with it, but I'm not sure that we are completely up to  
2 speed with what the agreement is. But to the extent that  
3 we have any disagreement with it, we'll discover that  
4 later, but I don't have any cross-examination at this  
5 point.

6 JUDGE PRIDGIN: Okay. Are there any  
7 counsel who believe they would have any cross-examination  
8 for Mr. Bassham on pensions, for Ms. Wright, Mr. Traxler,  
9 merely on the issues of pensions?

10 MR. PHILLIPS: No, your Honor.

11 JUDGE PRIDGIN: All right. Seeing none.  
12 This looks like to be a pretty convenient time to break.  
13 It's about ten after three. Let's try -- on the clock at  
14 the back of the wall. Let's try to resume at 3:25,  
15 please. Thank you. We're off the record.

16 (A BREAK WAS TAKEN.)

17 JUDGE PRIDGIN: It looks like the issue on  
18 the list of issues is Hawthorn 5. Let me go ahead and  
19 alert the parties, we probably will go beyond five o'clock  
20 this evening. I want to make hay while the sun shines  
21 since we're plowing through these issues. I want to keep  
22 going. We will not stay terribly late. No, I won't keep  
23 you where you miss the Cardinals game. I promise. I  
24 probably would want to -- I would rather finish early than  
25 think that we had these evenings set aside and wake up

1 next week and find out that we've got way too much to go.

2 So I do plan to go past five o'clock.

3 I understand that Ms. Wright would be the  
4 next witness to testify.

5 MR. STEINER: That's correct.

6 JUDGE PRIDGIN: And Ms. Wright is at the  
7 stand. If you'll raise your right hand and be sworn,  
8 please.

9 (Witness sworn.)

10 JUDGE PRIDGIN: Will she have any  
11 corrections?

12 MR. STEINER: No, your Honor.

13 JUDGE PRIDGIN: Thank you. I assume she's  
14 ready for cross-examination.

15 MR. STEINER: I'd like to move for the  
16 admission of Exhibit 7 and 8 into evidence.

17 JUDGE PRIDGIN: Okay. KCP&L has moved for  
18 the admission of Exhibit 7 and 8, which are her direct and  
19 rebuttal testimony. Any objections?

20 MR. DOTTHEIM: I would think that we would  
21 take up the admission of the entire exhibits after she  
22 finishes testifying on all the issues in those exhibits,  
23 as opposed to addressing that at this point.

24 MR. STEINER: You mean for other issues  
25 that she testifies to?

1                   MR. DOTTHEIM: Yes. I thought you were  
2 asking that Exhibit 7 and 8 entirely --

3                   MR. STEINER: I was.

4                   MR. DOTTHEIM: -- be received into  
5 evidence, and I think we'd -- I don't know that there will  
6 be any objection.

7                   MR. STEINER: I understand, Steve.

8                   JUDGE PRIDGIN: Did you want to withdraw  
9 your offer then?

10                  MR. STEINER: I will.

11                  JUDGE PRIDGIN: All right. Thank you. May  
12 we proceed to cross-examination?

13                  Mr. Dottheim? I'm sorry.

14                  MR. DOTTHEIM: Judge, are you looking for  
15 any opening statements or anything of that?

16                  JUDGE PRIDGIN: I'm sorry. You certainly  
17 may. I think Mr. Fischer had brought that up, when we got  
18 to certain topics that people may want to make openings,  
19 and I apologize for not giving you that opportunity. And  
20 obviously if I forget to do so, please feel free to jump  
21 in and say, I'd like to address the Commission on this  
22 particular issue.

23                  MR. DOTTHEIM: Okay. Thank you. The  
24 Hawthorn 5 issue that is being heard at this time relates  
25 to the rebuild of the Hawthorn 5 generating plant, at

1     which there was a catastrophic explosion in 1999.

2                     The Staff has proposed two adjustments  
3     relating to the rebuild of Hawthorn 5 and the insurance  
4     recoveries and lawsuit settlements that were received by  
5     KCPL at the time of the reconstruction of Hawthorn 5.  
6     There were during the reconstruction of Hawthorn 5 209 --  
7     210 million in insurance recoveries and \$38 million in  
8     lawsuit settlements.

9                     There are two Staff adjustments, one of  
10    which is a -- an accounting treatment. KCPL booked the  
11    insurance recoveries and lawsuit settlements as an  
12    increase to depreciation reserve as salvage instead of a  
13    reduction of plant in service, which results in the plant  
14    in service balance being overstated.

15                    As a consequence of KCPL's methodology, a  
16    manual adjustment is required for both financial and  
17    regulatory purposes to remove the amount of depreciation  
18    relating to the amounts of plant construction received  
19    from insurance and lawsuit settlements.

20                    KCPL asserts that it is bound by the  
21    Uniform System of Accounts. KCPL asserts that it is bound  
22    by the instructions of Account 108 of the Uniform System  
23    of Accounts to record these transactions as it has. The  
24    Staff asserts that the Hawthorn 5 explosion was an  
25    extraordinary event, not contemplated by the instructions

1 to Account 108 of the Uniform System of Accounts.

2                   Regardless of KCPL not seeking a waiver or  
3 letter of ruling from the FERC, the Commission's own rules  
4 4 CSR 240-20.030(4) have provided for many years that the  
5 Commission in particular is not bound for ratemaking  
6 purposes by the Uniform System of Accounts.

7                   There are two Western District Court of  
8 Appeals decisions that are relevant on this matter.  
9 They're covered in the Staff's Prehearing Brief that was  
10 filed on Thursday, and there was a Supplemental staff  
11 Prehearing brief that was filed on Friday. And again,  
12 both of those cases are cited and addressed in the  
13 Prehearing Brief.

14                   The other Staff adjustment deals with  
15 allowance for funds used during construction, AFUDC. KCPL  
16 has overstated the plant in service as a result of  
17 calculating AFUDC on the entire cost of the construction  
18 of Hawthorn 5 instead of treating the funds received from  
19 the insurance recoveries before and during the  
20 reconstruction as an offset to the cost of reconstruction.

21                   The total insurance proceeds were reduced  
22 by Staff by \$5 million, associated with replacement power  
23 and an additional \$2.2 million relating to administrative  
24 and general cost offsets. These two amounts were not  
25 considered by Staff as capital expenditures like the

1 reconstruction of the Hawthorn 5 costs.

2                   The net amount of insurance recoveries  
3 after the aforementioned reductions was the amount used as  
4 an offset by the Staff as a cost of reconstruction which  
5 is used to calculate the AFUDC. Kansas City Power & Light  
6 used the insurance proceeds on replacement power not  
7 covered by insurance, and also on the cost of removal of  
8 destroyed facilities.

9                   The Staff asserts that KCPL should have  
10 used the insurance recoveries -- should have used the  
11 insurance recoveries received before and during the  
12 reconstruction as an offset to the cost of construction,  
13 which is a capital item, instead of as -- instead of  
14 applying it to replacement power, which is an expense  
15 item, and also instead of using it for cost of removal,  
16 which KCPL had been collecting for 30 years respecting the  
17 Hawthorn 5 unit.

18                   The Staff asserts that the cost of  
19 reconstruction on which AFUDC should have been calculated  
20 again is an amount that is less those insurance  
21 recoveries.

22                   Regarding the matter of replacement power  
23 for which KCPL did not have insurance, the Staff asserts  
24 that was KCPL's own decision regarding coverage, and that  
25 KCPL could have sought an AAO from the Commission. Thank

1     you.

2                     JUDGE PRIDGIN:  Mr. Dottheim, thank you.

3     Anything else from counsel before we proceed to cross?

4                     MR. STEINER:  No, your Honor.

5                     JUDGE PRIDGIN:  In the interest of time,  
6     let me see how this works.  Who has cross-examination for  
7     this witness on Hawthorn 5 only?

8                     (No response.)

9                     JUDGE PRIDGIN:  No cross-examination?  Let  
10    me se if we have any questions from the Bench.  
11    Commissioner Murray?

12                    COMMISSIONER MURRAY:  Thank you.

13    LORI A. WRIGHT testified as follows:

14    QUESTIONS BY COMMISSIONER MURRAY:

15                    Q.     Good afternoon.

16                    A.     Good afternoon.

17                    Q.     In reading the Staff's Supplemental  
18    Prehearing Brief, there was a statement made by the Staff  
19    that KCP&L's customers should not be required to pay the  
20    carrying costs for the funds used during construction that  
21    were covered by insurance proceeds.  My question is, were  
22    the funds received in time to avoid carrying costs?

23                    A.     What happened was we received the funds and  
24    the company doesn't necessarily segregate its cash per se  
25    for different uses.  Those funds weren't restricted in any

1 way for construction costs. So the company received the  
2 proceeds and they managed those proceeds just like they do  
3 any other funds it receives. And on a daily basis they  
4 look at the funds that are available, the sources of funds  
5 that it has and the requirements for cash, and they match  
6 them up.

7 JUDGE PRIDGIN: Ms. Wright, I'm sorry to  
8 interrupt. I know it may be difficult, but if you could  
9 try to speak into the microphone. I know it's hard to do  
10 that and face the Bench.

11 THE WITNESS: Okay. So it wasn't  
12 necessarily such that the company -- the company doesn't  
13 manage its cash in a way that it would establish a  
14 separate fund and have those monies sitting there invested  
15 and receiving interest at a short-term investment rate,  
16 while at the same time it would be borrowing money to pay  
17 other bills that it has to pay, such as bills for, you  
18 know, payroll cost, fuel replacement power and those sorts  
19 of things.

20 BY COMMISSIONER MURRAY:

21 Q. Okay. So when the insurance proceeds were  
22 received, what did KCP&L do with them?

23 A. They went into their general corporate cash  
24 account, just like any other funds it receives, and it  
25 manages its total cash requirements on a total KCP&L



1 basis. It doesn't segregate them at all. So it was used  
2 to pay whatever bills or needs the company had at the  
3 time.

4 Q. Okay. And your -- well, Staff's contention  
5 that the proceeds should have been used to cover capital  
6 expenses versus -- capital items versus expense items, how  
7 do you counter that?

8 A. That the -- the company doesn't manage its  
9 cash that way. If the company were to receive monies,  
10 like in this particular case, if we would have taken the  
11 in total about \$200 million, if we would have taken that  
12 210 million and set that aside in some sort of a cash  
13 account that was designated to pay, you know, Hawthorn 5  
14 construction expenditures, at the same time we would have  
15 done that, we would have been faced with paying  
16 replacement power bills and other types of bills which the  
17 company at that point in time didn't necessarily have the  
18 funds to do. So it's very likely, given that scenario,  
19 that the company would have had to seek a rate increase  
20 during that time.

21 Q. Okay. But in terms of accounting  
22 treatment, you could have accounted for the proceeds  
23 separately, could you not?

24 A. Well, the accounting for those proceeds  
25 is -- as Staff has mentioned, is required by the Uniform

1     System of Accounts to be booked as salvage into  
2     Account 108, and the Uniform System of Accounts is very  
3     clear that in terms of retirement of electric property --  
4     it defines that within the Uniform System of Accounts, and  
5     in the Uniform System of Accounts they define retirement  
6     of electric plant to be electric property that's removed  
7     from service for any reason, and they specifically state  
8     in that definition that includes removal from service  
9     because of sale, abandonment or destruction.

10                     So clearly per the Uniform System of  
11     Accounts, the company was required to retire Hawthorn 5  
12     property and that the insurance proceeds were required  
13     under FERC to be recorded as salvage as a credit to 108.

14             Q.     So you're saying that you accounted for  
15     them as FERC required you to account for them?

16             A.     That's correct. That's correct.

17                     COMMISSIONER MURRAY: I think that's all I  
18     have. Thank you.

19                     JUDGE PRIDGIN: Commissioner Murray, thank  
20     you. Commissioner Appling?

21                     COMMISSIONER APPLING: No questions.

22                     JUDGE PRIDGIN: Thank you. I don't have  
23     any questions. Any recross based on questions from the  
24     Bench?

25                     MR. DOTTHEIM: Yes.

1 JUDGE PRIDGIN: Mr. Dottheim?

2 MR. DOTTHEIM: Yes, just a question or two.

3 MR. STEINER: Would I go before Steve if I  
4 had one or would I go last?

5 JUDGE PRIDGIN: I'll take recross and I'll  
6 have redirect after recross.

7 MR. STEINER: Thank you.

8 RECROSS-EXAMINATION BY MR. DOTTHEIM:

9 Q. Ms. Wright, those insurance proceeds that  
10 we're referring to that are involved in this issue, KCPL  
11 received those insurance proceeds before and during the  
12 reconstruction of Hawthorn 5, did it not?

13 A. Yes, it did.

14 Q. And you're making reference to KCPL  
15 possibly having to have filed for a rate increase in order  
16 to play -- in order to pay for replacement power. Are you  
17 testifying that there would be no other sources of funds  
18 that would have been available to Kansas City Power &  
19 Light at that time, such as financing?

20 A. I'm saying that it's likely that that would  
21 have been a scenario. If you look at my Schedule LAW-2  
22 that's attached to my rebuttal testimony, you can see  
23 that in total the company during that time expended over  
24 295 million in excess of its insurance. So I think, given  
25 that magnitude of dollars, it's likely that the company

1 would have had to look at, you know, some additional  
2 external financing, if they had the ability to issue  
3 additional financing at that time, or it's possible they  
4 would have had to file for a rate increase, and that's  
5 295 million in excess of the insurance proceeds.

6 Q. But you're saying that additional financing  
7 would have been an option?

8 A. I'm saying it would have been something  
9 that they would have had to consider.

10 Q. How did -- how did Kansas City Power &  
11 Light rebuild Hawthorn 5, with what funds, then? Did it  
12 finance the rebuild of Hawthorn 5?

13 A. I don't -- I couldn't tell you the  
14 specifics of what sources of funds they used to finance  
15 that. They don't necessarily track specifically funds for  
16 identified purposes like that.

17 Q. So you couldn't tell me where the funds for  
18 reconstructing Hawthorn 5 came from, what were the sources  
19 of those funds?

20 A. You're saying, excuse me, I can or I can't?

21 Q. I thought you were indicating that you  
22 could not.

23 A. I'm saying that the company manages their  
24 total requirements of funds, they manage them across the  
25 entire company, not segregated in different pools per se.

1           Q.       The company was able to reconstruct  
2 Hawthorn 5 without filing for a rate increase case, was it  
3 not?

4           A.       That's correct.

5                   MR. DOTTHEIM: Thank you.

6                   JUDGE PRIDGIN: Mr. Dottheim, thank you.

7 Any further recross?

8                   (No response.)

9                   JUDGE PRIDGIN: Seeing none, any redirect?

10                  MR. STEINER: Yes, your Honor.

11 REDIRECT EXAMINATION BY MR. STEINER:

12           Q.       Ms. Wright, Commissioner Murray spoke to  
13 you about when the insurance proceeds were received in  
14 this matter.

15                   JUDGE PRIDGIN: I'm sorry. To the best  
16 that you can, can I ask you to use the microphone for the  
17 people that are listening online? I know it's kind of  
18 awkward at first.

19                  MR. STEINER: Sorry about that.

20                   JUDGE PRIDGIN: That's quite all right.

21 Thank you.

22 BY MR. STEINER:

23           Q.       I believe Commissioner Murray asked you  
24 about the insurance proceeds, when they were received by  
25 the company. Do you recall that?

1           A.       Yes, I do.

2           Q.       Were there any restrictions on those  
3 insurance proceeds as to how KCPL had to use those funds?

4           A.       None that I'm aware of, no.

5           Q.       Mr. Dottheim also asked you about insurance  
6 proceeds. He asked you if the funds arrived at KCPL  
7 before and during construction. Did some of the insurance  
8 proceeds arrive after construction was completed?

9           A.       Yes, they did.

10          Q.       Were there any other funds that -- arising  
11 out of the Hawthorn explosion that arrived at KCPL after  
12 construction was completed?

13          A.       Yes, there were some subrogation proceeds.

14                   MR. STEINER: Thank you, your Honor.

15                   JUDGE PRIDGIN: All right. Thank you,  
16 anything further for this witness?

17                   (No response.)

18                   JUDGE PRIDGIN: All right. May this  
19 witness be excused simply for this topic? I realize  
20 she'll be back to testify about others, but anything else  
21 on Hawthorn 5?

22                   (No response.)

23                   JUDGE PRIDGIN: Seeing none, Ms. Wright,  
24 thank you very much.

25                   I understand Mr. Williams will now testify

1 on Hawthorn 5. Mr. Williams, if you'll come forward to be  
2 sworn, please.

3 (Witness sworn.)

4 JUDGE PRIDGIN: Thank you very much. If  
5 you would please have a seat. Did he have any corrections  
6 to his testimony?

7 MR. DOTTHEIM: I believe he did. Are we  
8 dispensing with the other questions?

9 JUDGE PRIDGIN: Yes, we are, but if you  
10 have any corrections, we can --

11 MR. DOTTHEIM: Yes. Yes.

12 PHILLIP K. WILLIAMS testified as follows:

13 DIRECT EXAMINATION BY MR. DOTTHEIM:

14 Q. Mr. Williams, do you have any corrections  
15 to --

16 A. Yes, I do.

17 Q. -- either your direct or surrebuttal  
18 testimony?

19 A. I've got corrections to my surrebuttal.  
20 The first correction is on page 13, line 16, is not used  
21 should have a comma after used. Line 22, the first  
22 reason, and it should after the comma have is as  
23 previously discussed. It needs the word is inserted.

24 Q. Mr. Williams, I think you may have said  
25 that the word is should come after the comma?

1           A.       Yes.

2           Q.       Should the word is come before the comma?

3           A.       Okay. That would work.

4           Q.       Okay. Thank you.

5           A.       Your grammar is better than mine, sir.

6                   MR. PHILLIPS: It would help if you would  
7 identify by exhibit number.

8                   THE WITNESS: It's the surrebuttal  
9 testimony.

10                  JUDGE PRIDGIN: Let me get that number for  
11 you, Mr. Phillips. I believe it would be Exhibit No. 140.

12                  MR. DOTTHEIM: And, of course, the direct  
13 is 139.

14                  MR. PHILLIPS: Thank you.

15                  THE WITNESS: There's also a correction on  
16 the cover sheet on the bottom. It should say October 2006  
17 instead of February 2004.

18                  On page 14, line 1, the word A, the  
19 depreciation reserve instead of the reduction of plant is  
20 the way it should read. Eliminate the A.

21                  There's a heading on line 16 that doesn't  
22 need to be there called the end of the overstatement plant  
23 testimony. Plant repeat that I had in there that didn't  
24 get taken out. I'm sorry. Line 8-- excuse me. Page 18,  
25 line 6, should be, there is not a connection between these



1 events, not an. And page 19, line 2, there's another  
2 A that needs to be taken out. It should read from --  
3 starting from line 1, general cost of removal is incurred  
4 when utility property is retired and removed from service  
5 or, et cetera. And I believe that's all of them.

6 JUDGE PRIDGIN: If there are no further  
7 questions, is this witness ready for cross-examination?

8 BY MR. DOTTHEIM:

9 Q. Mr. Williams, if I could just direct you  
10 back to page 13 again, line 22.

11 A. Yes, sir.

12 Q. And you have the second to last word in  
13 that line rebuttal, should that be surrebuttal?

14 A. Yes, it should. I'm sorry.

15 MR. DOTTHEIM: Thank you. That's all,  
16 Judge.

17 JUDGE PRIDGIN: Mr. Dottheim, thank you.  
18 Will KCPL have cross-examination for this witness?

19 MR. STEINER: Yes, your Honor, but I  
20 would like to object to a portion of this testimony as  
21 containing hearsay at this time. I'd direct you to page 9  
22 of the surrebuttal.

23 JUDGE PRIDGIN: Whenever you're ready.

24 MR. STEINER: Lines 20 to 22, this contains  
25 inadmissible hearsay. The section deals with a meeting

1 between Staff that they had with two FERC employees, John  
2 Okrak and Julie Kuhns. There are two sentences beginning  
3 at line 20 and ending at line 23 where statements made by  
4 Mr. Okrak are recorded in the testimony of Mr. Williams.  
5 They have to do with -- they are not only hearsay, they're  
6 double hearsay. The FERC employee's reporting what he has  
7 heard in the past from unknown sources concerning the  
8 accounting treatment of equipment failures.

9 This is clearly double hearsay. They're  
10 out-of-court statements to prove the truth of the matter  
11 asserted, and KCPL objects to this portion of the  
12 testimony and believes it should be stricken as  
13 inadmissible hearsay.

14 JUDGE PRIDGIN: Mr. Dottheim?

15 MR. DOTTHEIM: Yes. The testimony is being  
16 offered the extent to which Mr. Williams and the Staff  
17 went to attempt to verify the assertions made by  
18 Ms. Wright in her rebuttal testimony respecting Account  
19 108 and Uniform System of Accounts as applied by the FERC.

20 JUDGE PRIDGIN: It sounds like they're  
21 being offered for a reason other than the truth of the  
22 matter asserted and therefore not hearsay. I'll overrule  
23 the objection.

24 Anything else before we proceed to cross?

25 MR. STEINER: No, your Honor.

1 JUDGE PRIDGIN: Any other party besides  
2 KCP&L wish to cross?

3 MR. DOTTHEIM: At this time it would be a  
4 little difficult to offer Mr. Williams' testimony just on  
5 the -- on the Hawthorn 5. He has, I believe, one issue  
6 remaining, ice storm, now he indicates.

7 THE WITNESS: Property taxes, also.

8 MR. DOTTHEIM: Property taxes also. So I  
9 would offer at this time his testimony strictly on the  
10 Hawthorn 5 issue.

11 JUDGE PRIDGIN: And I don't know, it may be  
12 premature, and I don't want to put counsel in a box. I  
13 don't know if counsel would object, and I would let them  
14 object if they wanted to, to object to the admissibility  
15 of the exhibits in their entirety. If counsel already  
16 knows if they don't object, we can -- I can admit those,  
17 but I don't want to preclude you from objecting.

18 MR. STEINER: What were the other issues  
19 that witness addresses?

20 MR. DOTTHEIM: Ice storm and property  
21 taxes.

22 THE WITNESS: Yes.

23 MR. STEINER: I'm not the attorney on  
24 property tax, so consistent with what Mr. Dottheim said  
25 earlier, I don't know, we will just have to see on the

1 other issues if there's objections.

2 MR. PHILLIPS: And, Judge, we will have a  
3 couple of questions on ice storm for this witness.

4 JUDGE PRIDGIN: If I'm understanding you  
5 correctly, Mr. Dottheim, you're only offering certain  
6 pages of those?

7 MR. DOTTHEIM: Right. I'm sorry. And I  
8 haven't written down those pages, but --

9 JUDGE PRIDGIN: All right. Let me --

10 MR. DOTTHEIM: Which I can do for you and  
11 can give the page numbers on the record when the ice storm  
12 issue is heard, so I can -- you can reserve ruling on my  
13 offer of Mr. Williams' testimony on the Hawthorn 5 issue.

14 JUDGE PRIDGIN: Very good. Any further  
15 items to take up before cross-examination of Mr. Williams  
16 on Hawthorn 5?

17 (No response.)

18 JUDGE PRIDGIN: Okay. Any other cross  
19 other than KCP&L?

20

21 JUDGE PRIDGIN: Okay. Mr. Steiner, when  
22 you're ready, sir.

23 MR. STEINER: Thank you.

24 CROSS-EXAMINATION BY MR. STEINER:

25 Q. Mr. Williams, turn to page 39 of your

1 direct.

2 A. Okay.

3 Q. At line 17, there you state Staff  
4 believes the Uniform System of Accounts did not take into  
5 consideration a catastrophic event, then you describe that  
6 the Hawthorn 5 plant was destroyed and rebuilt; is that  
7 correct?

8 A. Yes, sir.

9 Q. Mr. Williams, are you familiar with the  
10 Uniform System of Accounts in the FERC rules?

11 A. Pretty well.

12 MR. STEINER: May I approach the witness?

13 JUDGE PRIDGIN: You may.

14 BY MR. STEINER:

15 Q. Mr. Williams, this is the definition  
16 section for the Uniform System of Accounts, is that  
17 correct, or a portion of it?

18 A. It appears to be, yes.

19 Q. Would you -- page 3 of that attachment,  
20 would you read No. 28 into the record beginning with it  
21 says, property retired?

22 A. Property retired as applied to electric  
23 plant means property which has been removed, sold,  
24 abandoned, destroyed or which for any cause has been  
25 withdrawn from service.

1           Q.       So the FERC definitions do take into  
2   account plant that has been destroyed; is that correct?

3           A.       I don't think it contemplated the  
4   destruction -- in my personal opinion or the opinion of  
5   this Staff, the destruction of a plant that had been in  
6   service for 30 years that was going to be totally rebuilt.

7           Q.       But the definition you've just read of  
8   property retired --

9           A.       It says destroyed, sir, I will grant you  
10   that.

11          Q.       It says more than that, doesn't it?

12          A.       It says for any cause has been withdrawn  
13   from service. Yes, sir, it does.

14          Q.       Okay.

15          A.       But this plant was rebuilt.

16          Q.       If you would go to page 10 of your  
17   surrebuttal, line 3.

18          A.       Yes, sir.

19          Q.       You say, companies can deviate from the  
20   Uniform Standards of Account under unusual circumstances?

21          A.       Yes, sir, I did state that.

22          Q.       Do you have a cite to FERC rules or  
23   regulations for that statement?

24          A.       No, I do not, but --

25          Q.       Thank you, sir. On the next line, you say

1 a company may seek a waiver or letter ruling from the  
2 FERC; is that correct?

3 A. Yes, sir.

4 Q. Do you have a cite to FERC rules or  
5 regulations for that?

6 A. Bill Harris told me that he had seen it  
7 numerous times. He was the Staff auditor with FERC for a  
8 number of years.

9 Q. What about a FERC rule or regulation?

10 A. No, I have not.

11 Q. In your testimony, do you have a cite to  
12 FERC rules or regulations where plant is -- plant in  
13 service is reduced by the amount of insurance proceeds?

14 A. No, I do not have a cite in the USOA that  
15 states that, but --

16 Q. Thank you.

17 A. -- the Commission does not have to follow  
18 the USOA.

19 Q. If you would turn to page 9 of your  
20 surrebuttal, I'd like to talk to you about the meeting  
21 with FERC Staff.

22 A. Okay.

23 Q. When did Staff set up this meeting?

24 A. While we were at the audit site, sir.

25 Q. Who did you contact at FERC to set up the

1 meeting?

2           A.       Originally called FERC and asked to speak  
3 to the chief accountant. The chief accountant's office  
4 was in the process of the chief accountant retiring or  
5 going to another job. A new chief accountant was being  
6 hired, and she was in the process of being trained, and  
7 was told that she did not have the time to talk to us at  
8 that time, that they would have Mr. Okrak and Ms. Kuhns  
9 speak to us.

10           Q.       How long did the meeting last?

11           A.       Less than an hour.

12           Q.       And you indicated you met with John Okrak  
13 and Julie Kuhns. Did the Staff know either of these  
14 people before the meeting?

15           A.       We met with them by telephone, sir. No, we  
16 did not know them ahead of time.

17           Q.       Who are Ms. Kuhns and Mr. Okrak's  
18 supervisors at FERC?

19           A.       That I do not know, sir. The chief  
20 accountant would be my suggestion.

21           Q.       Did you ask Mr. Okrak and Ms. Kuhns if you  
22 could speak with their supervisors to ensure their opinion  
23 was in accordance with FERC policy?

24           A.       We were told that this was their opinion,  
25 that just like if you were to ask me my opinion to this



1 Commission, I would tell you that my opinion is my  
2 opinion, not the Commission's.

3 Q. So their opinion was not the official  
4 opinion of FERC; is that correct?

5 A. You will not get an official opinion of  
6 FERC without a letter ruling, sir.

7 Q. After the meeting took place, did the FERC  
8 employees send you a letter confirming their positions?

9 A. No, sir, they cannot. They're not allowed  
10 to.

11 Q. Did you request such a letter?

12 A. Yes, sir.

13 Q. Mr. Williams, do you supervise auditors at  
14 the Commission?

15 A. Yes, I do.

16 Q. Would you feel that you were bound by a  
17 non-written opinion on the treatment of an accounting  
18 issue that was given to a utility by a junior auditor  
19 without confirming the opinion with you first?

20 A. Excuse me. I don't think that they would  
21 give you an opinion unless they told you that it was their  
22 opinion and not the Commission Staff's opinion.

23 Q. Okay. Let's say an opinion was given.  
24 Would you feel that you were bound to that accounting  
25 treatment that the Staff -- that junior accountant gave

1 the utility, would you have to follow that?

2 A. Would I have to follow it?

3 Q. That's correct.

4 A. No, I would not have to follow it.

5 Q. Do you feel the Public Service Commission's  
6 division directors would feel that they're bound by the  
7 verbal opinion of a junior auditor?

8 A. This Commission is never bound by anything  
9 is my opinion, sir.

10 Q. I'm asking about the division directors,  
11 the ones that set policy.

12 A. The division directors are not bound by my  
13 opinion, sir.

14 Q. I'm asking if a junior auditor gave an  
15 opinion regarding --

16 A. I assume if they're not bound by my  
17 opinion --

18 Q. If I could finish my question.

19 A. -- then they wouldn't be bound by a junior  
20 auditor.

21 JUDGE PRIDGIN: Mr. Williams, would you try  
22 to let counsel finish the question, please?

23 THE WITNESS: Okay.

24 BY MR. STEINER:

25 Q. If a junior auditor gave an opinion on

1     accounting treatment to a utility, do you feel the Public  
2     Service Commission's division directors would feel they  
3     had to abide by that opinion?

4             A.       In the first place, I don't believe a  
5     junior auditor here would give an opinion to a utility.

6             Q.       That wasn't my question.  If they did,  
7     would the division directors feel they were bound by that?

8             A.       I've already told you the answer to that.  
9     It's no, sir.

10            MR. MILLS:  I object, that calls for  
11     speculation.

12            JUDGE PRIDGIN:  I'm going to have him  
13     answer the question if he knows the answer.  I think the  
14     question is something to the extent that would the  
15     division directors be bound by an opinion that a junior  
16     gave.

17            THE WITNESS:  And, once again, sir, the  
18     answer is no.

19            JUDGE PRIDGIN:  Thank you.

20     BY MR. STEINER:

21            Q.       This might be easy to follow given your  
22     last opinion, but do you think the Commission would be  
23     bound by that?

24            A.       I already told you that, sir.  No.

25            Q.       Mr. Williams, have you ever heard of Janice

1 Garrison Nicholas?

2 A. If I'm correct in my memory, I believe  
3 that's the lady who's taking over as the new chief  
4 accountant.

5 Q. Did you speak to her?

6 A. I was not allowed to, sir.

7 Q. Did you speak to anyone named Mark Close?

8 A. No, sir, I did not.

9 Q. Have you ever heard of him?

10 A. No, sir, I have not.

11 Q. Mr. Williams, your contention in this case  
12 is that KCPL should have used the insurance proceeds to  
13 fund the construction of the new Hawthorn plant; is that  
14 correct?

15 A. That's what they were intended for. They  
16 were -- you have insurance, property insurance --

17 Q. That wasn't my question.

18 MR. STEINER: Your Honor, that wasn't my  
19 question.

20 JUDGE PRIDGIN: If you can simply try to  
21 answer the question that you're asked.

22 BY MR. STEINER:

23 Q. Your contention is that KCPL should have  
24 used the insurance proceeds to fund the construction of  
25 the new Hawthorn plant; is that correct?

1           A.       That is correct. That's what the insurance  
2 was for.

3           Q.       Mr. Williams, did you review the insurance  
4 policies which led to those proceeds?

5           A.       No, sir, I did not.

6           Q.       Were there any restrictions from the  
7 insurance companies on how KCPL could use the funds it  
8 received?

9           A.       In the insurance policies I've ever seen,  
10 sir, I've never seen restrictions on it.

11          Q.       Mr. Williams, let's say that after the  
12 Hawthorn explosion KCPL received the insurance claims at  
13 the same pace, the same rate that it actually did, but  
14 let's, as a hypothetical, say that there was a permit  
15 delay.

16          A.       There was a what?

17          Q.       A permit delay. It couldn't get a permit  
18 to build that plant. Let's say it simply couldn't get --  
19 the Environmental Protection Agency wouldn't allow it to  
20 build until five years after it was actually built. Is it  
21 your contention that KCPL needed to segregate those  
22 insurance funds and not spend them until construction on  
23 Hawthorn began?

24          A.       If they wanted to spend them, sir, that's  
25 their prerogative, but those insurance funds could still

1 be -- they could have been put in overnight investments  
2 and earned a return on it and would have even paid for  
3 more of the cost of rebuild if it would have taken five  
4 years.

5 Q. What if KCPL decided not to rebuild  
6 Hawthorn, was going to use purchased power instead, what  
7 would KCPL -- under the opinions you've expressed, what  
8 would KCPL be able to do with those proceeds?

9 A. I guess they'd do whatever they wanted to.

10 Q. Mr. Williams, when was the first time that  
11 Staff told KCPL that it thought KCPL was doing the AFUDC  
12 accounting calculation wrong?

13 A. I believe when we filed.

14 Q. Let's go to page 17 of your surrebuttal,  
15 line 21. I think you state that KCPL should have filed  
16 for an Accounting Authority Order to defer replacement  
17 power costs.

18 A. No, I did not say they should have. I said  
19 they had the opportunity to.

20 Q. Okay. Does Staff always support companies  
21 in their requests for Accounting Authority Orders?

22 A. That's on an individual case-by-case basis,  
23 sir.

24 Q. So they don't always support?

25 A. That's correct, they do not always support

1 it.

2 Q. Does the Commission always grant Accounting  
3 Authority Orders?

4 A. No, sir, they do not.

5 Q. I'm going to switch back to your direct  
6 testimony, page 45, line 6.

7 A. Okay.

8 Q. You say something to the effect that  
9 Staff believes insurance companies -- insurance recoveries  
10 were available to the company to fund the rebuild of  
11 Hawthorn 5. Do you see that?

12 A. Yes, sir, I do.

13 MR. STEINER: May I approach the witness?

14 JUDGE PRIDGIN: You may.

15 BY MR. STEINER:

16 Q. Do you recognize this document?

17 A. Yes, I do.

18 Q. It's a Data Request that you asked KCPL; is  
19 that correct?

20 A. Yes, it is, No. 314.

21 Q. Is it No. 483?

22 A. Excuse me. I read the case number.  
23 It's 483.

24 Q. Could you read the response -- or the  
25 question and the response to question 4A?

1           A.       4A, question is, what did GPE Corporate  
2   and/or KCPL do with the funds received from insurance  
3   recoveries and settlement of lawsuits? The answer to  
4   4A is, the funds received from insurance settlements were  
5   used by KCPL to fund normal day-to-day operations of the  
6   company, which includes capital and operations and  
7   maintenance activities.

8                   However, Staff didn't believe that's what  
9   was appropriate for calculation of the AFUDC.

10          Q.       I just wanted you to read it. That last  
11   sentence wasn't in there.

12          A.       That's still my opinion.

13                   JUDGE PRIDGIN: Did you want that stricken,  
14   Counsel?

15                   MR. STEINER: I'd like that stricken, yes.

16                   JUDGE PRIDGIN: It will be stricken to the  
17   extent that he stopped reading after 4A. Please just try  
18   to answer the question and you can insert your opinion  
19   when you're asked on redirect, Mr. Williams.

20                   THE WITNESS: Okay.

21   BY MR. STEINER:

22          Q.       Mr. Williams, since the insurance proceeds  
23   were not segregated from other KCPL funds, how do you know  
24   the insurance recoveries were available to the company to  
25   fund the rebuild?



1           A.       Because they provided the amount of the  
2 insurance recoveries and the date recovered, and those are  
3 listed on a schedule attached to my testimony.

4           Q.       Yes, I realize that. That's when they were  
5 received, but when they were received, KCPL put them in  
6 their bank accounts with all other receipts.

7           A.       Sir, I don't care what they did with them.  
8 They had the money received in advance of when the  
9 construction started.

10          Q.       When they put the money in the bank  
11 account, then they paid out their normal capital and  
12 day-to-day operations of the company, that's correct,  
13 right?

14          A.       That's correct.

15          Q.       Could you read into the record the question  
16 and answer to No. 5 on this Data Request?

17          A.       No. 5, did GPE Corporate and/or KCPL invest  
18 the funds received from insurance recoveries and  
19 settlements and lawsuits until the monies were needed for  
20 other purposes, i.e., reinvest the funds received until  
21 used for reconstruction of Hawthorn 5?

22                 No. 5, since KCPL deposited the funds in  
23 its general bank accounts, KCPL's normal cash management  
24 practice, which includes the use of temporary short-term  
25 investments when cash balances are warranted, was applied.

1     However, we did not take --

2             Q.       Thank you.  Thank you.

3             A.       -- that into account.

4             MR. STEINER:  I would like the little  
5     rejoinder stricken, your Honor.

6             JUDGE PRIDGIN:  Granted.

7             MR. STEINER:  I have nothing further, your  
8     Honor.

9             JUDGE PRIDGIN:  All right.  Thank you.

10    Let me see if we have any questions from the Bench.

11    Commissioner Murray.

12             COMMISSIONER MURRAY:  Thank you.

13    QUESTIONS BY COMMISSIONER MURRAY:

14             Q.       Good afternoon, Mr. Williams.

15             A.       Yes, Commissioner.

16             Q.       You won't be annoyed if I ask you a few  
17    questions, will you?

18             A.       No, ma'am, I will not.

19             Q.       Good.  I'd like to find out why is it that  
20    you contend that the proceeds from the insurance had to be  
21    used in a certain way?  What do you have to support that?

22             A.       We paid over the life of this plant for  
23    there to be insurance in case it was destroyed or  
24    something happened to it.  The plant was destroyed and  
25    they rebuilt the plant to have that generation.  Those

1 funds were collected from insurance that was paid for by  
2 the ratepayers to cover the cost of rebuilding that plant  
3 if something happened to it. All we've done is taken and  
4 not allowed them to earn a return on funds that they  
5 collected from the insurance companies before they started  
6 construction. We never tried to calculate that they could  
7 have put some of that money in overnight securities and  
8 earned a return on that. We never took that into account.  
9 We did not take into account the lawsuits.

10 Q. Excuse me. I asked you for some authority  
11 for --

12 A. I'm sorry. No, I have no authority.

13 Q. And you said you did not read the policy?

14 A. Not this particular policy, no.

15 Q. And you said you cannot cite to any USOA  
16 rules that support your position?

17 A. No.

18 Q. And you said the Commission doesn't have to  
19 follow USOA?

20 A. The Commission has specifically stated in  
21 the past that there are circumstances in which it doesn't  
22 have to be followed.

23 Q. And that's what you're asking for the  
24 Commission to do, something out of the ordinary; is that  
25 correct?

1           A.       I don't believe that this should be out of  
2 the ordinary. I believe that it's --

3           Q.       But you're asking the Commission not to  
4 follow the established rules?

5           A.       Yes.

6           Q.       And you don't have any support for that,  
7 any authority you can cite for that?

8           A.       Not an authority to cite, no.

9           Q.       And what is the value of this issue, the  
10 dollar value?

11          A.       The dollar value of the issue -- the dollar  
12 value of AFUDC on the issue is in revenue requirement  
13 \$899,421. What it is is it's a disallowance of  
14 approximately \$13 million of AFUDC in rate base which  
15 calculates out to that 899,000.

16          Q.       The disallowance of how much in rate base?

17          A.       It's a disallowance of AFUDC of  
18 approximately 13,009,076.

19                   COMMISSIONER MURRAY: Thank you. That's  
20 all the questions I have.

21                   THE WITNESS: You're welcome.

22                   JUDGE PRIDGIN: Commissioner Murray, thank  
23 you. Commissioner Appling?

24                   COMMISSIONER APPLING: No questions.

25                   JUDGE PRIDGIN: Commissioner Appling, thank

1     you. Do we have any recross-examination? Mr. Mills?

2     RE CROSS-EXAMINATION BY MR. MILLS:

3             Q.     Mr. Williams, I believe you were just  
4     referring to the reconciliation -- or I'm sorry -- the  
5     reconcilement filed in this case?

6             A.     Yes, sir.

7             Q.     What is the effect of line 7?

8             A.     Line 7 is the depreciation that's  
9     associated with the AFUDC. By kicking out the AFUDC, what  
10    I needed to do was go back and restate the depreciation  
11    reserve, and when I restated that and eliminated that  
12    portion of depreciation reserve, that increases the --  
13    that increases the revenue requirement by \$57,883.

14            Q.     So to quantify the dollar value of this  
15    issue, you would add that 57,000?

16            A.     That's correct. It needs to be.

17            Q.     So it's the net of line 6 and 7?

18            A.     Yes, that's correct, sir.

19                   MR. MILLS: Thank you. That's all I have.

20                   JUDGE PRIDGIN: Mr. Mills, thank you. Any  
21    further recross?

22                   (No response.)

23                   JUDGE PRIDGIN: Redirect?

24                   MR. DOTTHEIM: Yes, a few questions.

25                   JUDGE PRIDGIN: Mr. Dottheim?

1 REDIRECT EXAMINATION BY MR. DOTTHEIM:

2 Q. Mr. Williams, do you have the copy of the  
3 definitions?

4 A. Yes, sir.

5 Q. If I could direct you to the definition  
6 that Mr. Steiner asked you about, definition No. 28,  
7 property retired, on the third page.

8 A. Yes, sir.

9 Q. And in particular, if I could refer you to  
10 the reference to electric plant, then the last phrase,  
11 which for any cause has been withdrawn from service. Has  
12 Hawthorn 5 been withdrawn from service?

13 A. No, sir. Hawthorn 5 is up and running, and  
14 it produces more megawatts currently than it did at the  
15 time. At the time of the explosion it produced about  
16 500 megawatts. Now it produces about 563. The plant was  
17 rebuilt with a new boiler.

18 Q. Thank you, Mr. Williams. Mr. Steiner asked  
19 you a question about if a junior auditor on the Staff of  
20 the Commission rendered an opinion, would a division  
21 director or the division directors be bound by that  
22 opinion. Would the division directors be bound by that  
23 opinion if the opinion were correct?

24 A. If the opinion were correct, I -- they  
25 would definitely agree with it.

1           Q.       Mr. Williams, you were asked a question, I  
2 believe, by Mr. Steiner as far as when did the company  
3 become aware of the Staff's Hawthorn 5 adjustments. Did  
4 the Staff have any meetings with Kansas City Power & Light  
5 to discuss the accounting of the Hawthorn 5 proceeds prior  
6 to the Staff filing its direct testimony in this case?

7           A.       We talked to them about when they received  
8 the proceeds. I'm not sure the exact date of that.

9           Q.       I'd like to direct you to the Data Request  
10 response that Mr. Steiner gave you a copy of, question  
11 No. 483 --

12          A.       Yes, sir.

13          Q.       -- and the company's response. And if I  
14 could direct you to question No. 5.

15          A.       Okay.

16          Q.       And the response being, since KCPL  
17 deposited the funds in its general bank accounts, KCPL's  
18 normal cash management practice, which includes the use of  
19 temporary short-term investments when cash balances  
20 warrant, was applied. Did the Staff take into account the  
21 investments indicated by KCPL's data request response?

22          A.       No, we did not. That would have reduced  
23 AFUDC even farther, in all probability.

24          Q.       Mr. Williams, you've been asked any number  
25 of questions, hypothetical questions dealing with the

1 proceeds of the insurance policies respecting Hawthorn 5.  
2 If the company would have built combustion turbines  
3 instead of rebuilding Hawthorn 5, would the Staff  
4 recommend the use of insurance proceeds to construct those  
5 units?

6 A. If they were replacement for Hawthorn 5, we  
7 didn't discuss that, but it would be my personal opinion  
8 that we probably would have considered that.

9 MR. DOTTHEIM: One moment, please.

10 JUDGE PRIDGIN: Yes, sir.

11 MR. DOTTHEIM: Thank you. That's all the  
12 questions I have.

13 JUDGE PRIDGIN: Thank you, Mr. Dottheim.  
14 Anything further for this witness on Hawthorn 5?

15 (No response.)

16 JUDGE PRIDGIN: All right, Mr. Williams,  
17 thank you very much. You may step down.

18 I see as the next issue ice storm costs.  
19 Excuse me. Mr. Dottheim?

20 MR. DOTTHEIM: I believe Mr. Williams is  
21 the -- well, there will be a company witness, so  
22 Mr. Williams will have to step down. Sorry, Judge.

23 JUDGE PRIDGIN: That's quite all right.  
24 And I see as our next witness we have Ms. Wright back on  
25 the stand to address the ice storm costs.



1 MR. STEINER: That's correct.

2 JUDGE PRIDGIN: And, Ms. Wright, you're  
3 still under oath. Anything we need to address before we  
4 proceed to cross-examination?

5 (No response.)

6 JUDGE PRIDGIN: All right. Any parties  
7 wish to cross Ms. Wright on ice storm costs?

8 MR. PHILLIPS: We do, your Honor.

9 JUDGE PRIDGIN: Mr. Phillips. All right.  
10 Any other parties?

11 (No response.)

12 JUDGE PRIDGIN: Mr. Phillips, if you'll  
13 begin your cross.

14 LORI A. WRIGHT testified as follows:

15 CROSS-EXAMINATION BY MR. PHILLIPS:

16 Q. Hello, Ms. Wright. My name is Paul  
17 Phillips, and I'm representing USDOE/NNSA in this case.  
18 Is your testimony relating to ice storm costs, does it  
19 appear in your direct testimony at page 10?

20 A. Do you mean my rebuttal testimony?

21 Q. I believe it is your direct testimony,  
22 Exhibit 7, and I would direct your attention to line 5  
23 through 14.

24 A. Okay. Yes.

25 Q. Did you also file rebuttal testimony on ice

1 storm costs?

2 A. Yes, I did.

3 Q. Can you direct my attention to that  
4 testimony?

5 MR. STEINER: What was your question?

6 MR. PHILLIPS: If she could identify where  
7 in Exhibit 8 she refers to the ice storm amortization.  
8 She said that she filed testimony, rebuttal testimony.

9 MR. STEINER: I don't believe she does.

10 THE WITNESS: It's just in direct. It's  
11 just in my direct.

12 BY MR. PHILLIPS:

13 Q. So you did not file any rebuttal testimony  
14 to Mr. Dittmer; is that correct?

15 A. That's correct.

16 Q. And how about surrebuttal testimony?

17 A. No, I did not.

18 MR. PHILLIPS: That's all the questions I  
19 have.

20 JUDGE PRIDGIN: Mr. Phillips, thank you.  
21 Any further cross-examination?

22 (No response.)

23 JUDGE PRIDGIN: Commissioner Appling, any  
24 questions for this witness?

25 COMMISSIONER APPLING: No questions.

1 JUDGE PRIDGIN: None here. Redirect?

2 MR. STEINER: I have a difficult task. No,  
3 I don't have any.

4 JUDGE PRIDGIN: All right. Thank you,  
5 Ms. Wright. You may step down, if there are no further  
6 questions.

7 And, Mr. Williams, will you be back on for  
8 ice storm costs?

9 MR. THOMPSON: Yes, he will, sir.

10 JUDGE PRIDGIN: If you'll take the stand,  
11 sir, and you're still under oath, sir.

12 THE WITNESS: Yes, sir.

13 JUDGE PRIDGIN: Anything we need to address  
14 before we proceed to cross?

15 MR. THOMPSON: Your Honor, did you receive  
16 the ice storm cost section of his testimony? I think you  
17 received all of his testimony without limitation; isn't  
18 that correct?

19 JUDGE PRIDGIN: Let me double check. I  
20 don't recall receiving it, but I'll double check. I show  
21 that it's been admitted.

22 MR. THOMPSON: It has been.

23 MR. STEINER: I didn't think his testimony  
24 has been admitted because there was a property tax issue.  
25 We weren't admitting until all the issues were done.

1                   MR. THOMPSON: Well, your Honor, we have a  
2 team of people trying these issues, and the same witness  
3 might deal with issues that are being tried by other  
4 lawyers. I think that we run a grave risk of perhaps  
5 getting testimony lost in the shuffle. I would prefer  
6 that we offer it now subject to the right of other parties  
7 to move to strike or object to whatever parts they don't  
8 like when the issue comes up.

9                   MR. STEINER: That's fine. I believe  
10 Mr. Dottheim had -- I tried to do that with my witness and  
11 he had a problem with that, so I don't have a problem with  
12 that.

13                  JUDGE PRIDGIN: I stand corrected. It has  
14 not been offered and admitted. So, Mr. Thompson, do I  
15 understand you're offering?

16                  MR. THOMPSON: I'm offering Exhibits 139  
17 and 140.

18                  JUDGE PRIDGIN: Any objections to those?

19                  MR. STEINER: Just reinsert my hearsay  
20 objection.

21                  JUDGE PRIDGIN: All right. And that is  
22 overruled. If there are no other objections, 139 and 140  
23 are admitted.

24                  (EXHIBIT NOS. 139 AND 140 WERE RECEIVED  
25 INTO EVIDENCE.)

1 JUDGE PRIDGIN: Anything else before we  
2 proceed to cross?

3 MR. THOMPSON: No, your Honor.

4 JUDGE PRIDGIN: Anyone wish to  
5 cross-examine this witness on ice storm costs?  
6 Mr. Phillips?

7 PHILLIP K. WILLIAMS testified as follows:

8 CROSS-EXAMINATION BY MR. PHILLIPS:

9 Q. Good afternoon, Mr. Williams.

10 A. Good afternoon, sir.

11 Q. Do you have in front of you Kansas City  
12 Power & Light Exhibit No. 46?

13 A. Which one is that?

14 Q. This exhibit was marked this morning, and  
15 this is the Reconciliation and Motion for Leave to File  
16 Reconciliation Out of Time.

17 A. I've got it here someplace. Yes, sir, I  
18 have it.

19 Q. If I could just draw your attention to the  
20 last page, and in particular to line 56.

21 A. Okay.

22 Q. Is that the adjustment that the Commission  
23 Staff has made relating to the ice storm of 2002?

24 A. Yes, sir. We kicked out 1.9 million of ice  
25 storm cost. It's the difference between 12 months of

3 Q. Let me ask you this: If I could draw your  
4 attention to line 93, and that line says, DOE eliminate  
5 amortization of ice storm AAO --

7 Q. -- do you see that?

13 Q. And do you know when the rates are to  
14 become effective in this case?

18 A. Of 2007.

1 Any further cross-examination?

2 MR. STEINER: We have none, your Honor.

3 JUDGE PRIDGIN: Hearing none, any questions

4 from the Bench? Commissioner Appling?

5 COMMISSIONER APPLING: No questions.

6 JUDGE PRIDGIN: And I don't have any. Any

7 redirect, Mr. Thompson?

8 MR. THOMPSON: No redirect, Judge.

9 JUDGE PRIDGIN: Thank you. May this

10 witness be excused on this issue?

11 THE WITNESS: Thank you, sir.

12 JUDGE PRIDGIN: Mr. Williams, thank you.

13 MR. STEINER: Your Honor, can I get a

14 clarification? When will Mr. Dittmer be here for

15 cross-examination on this issue?

16 JUDGE PRIDGIN: I was about to ask

17 Mr. Phillips that question.

18 MR. PHILLIPS: We had discussed that via

19 e-mail last week. No one objected to --

20 JUDGE PRIDGIN: I'm sorry. Could you --

21 MR. PHILLIPS: I'm sorry, your Honor. We

22 had asked all the parties last week if he could testify on

23 Wednesday. This morning I asked Mr. Fischer if that was

24 okay with the company, and he had no objection to it. So

25 he will be here Wednesday morning no later than 8:30.

1                   MR. STEINER: That's fine. I just wanted  
2 to know when he was coming.

3                   JUDGE PRIDGIN: And to clarify, Wednesday  
4 the 18th?

5                   MR. PHILLIPS: Correct.

6                   JUDGE PRIDGIN: All right. Thank you. If  
7 there's nothing further, can we go on to EEI dues, the  
8 next issue, seeing no further questions for this witness?

9                   MR. STEINER: Your Honor, I have no further  
10 questions. Could I offer the Exhibit 7 and 8, the direct  
11 and rebuttal testimony of Lori Wright, into evidence at  
12 this time?

13                  JUDGE PRIDGIN: You may. Any objections?

14                  MR. THOMPSON: No objection, your Honor.

15                  JUDGE PRIDGIN: Hearing none, Exhibit 7 and  
16 8 are admitted.

17                  (EXHIBIT NOS. 7 AND 8 WERE RECEIVED INTO  
18 EVIDENCE.)

19                  JUDGE PRIDGIN: And I will recall Ms.  
20 Wright on the issue of EEI dues.

21                  MR. THOMPSON: I understand that there's  
22 been a settlement achieved in principle at least between  
23 Staff and the company on EEI dues; is that true?

24                  MR. STEINER: That's my understanding.

25                  JUDGE PRIDGIN: Then we will have no



1 cross-examination on EEI dues, then?

2 MR. THOMPSON: I'm not planning to have  
3 any.

4 JUDGE PRIDGIN: Are there any parties who  
5 wish to cross-examine either Ms. Wright or Mr. Williams on  
6 EEI dues?

7 (No response.)

8 JUDGE PRIDGIN: I'm not seeing any  
9 volunteers. And I trust that both of these exhibits have  
10 been admitted into evidence -- or excuse me -- the  
11 testimony of Mr. Williams and Ms. Wright has been  
12 admitted. So if there's nothing further from parties on  
13 this issue, let me verify with the Bench and see if there  
14 are any questions on EEI dues of these witnesses. I  
15 certainly don't have any.

16 Okay. If Ms. Wright is ready to come  
17 forward and testify on severance costs.

18 MR. THOMPSON: I have to go get another  
19 lawyer.

20 JUDGE PRIDGIN: Do you need a few minutes?  
21 Are you looking for Mr. Meyer? Is he here?

22 MR. THOMPSON: Great.

23 JUDGE PRIDGIN: All right. Ms. Wright,  
24 I'll remind you you're still under oath. Anything we need  
25 to address before we proceed to cross-examination?

1 (No response.)

2 JUDGE PRIDGIN: All right. Any counsel  
3 wish to cross-examine Ms. Wright on severance costs?

4 MR. MEYER: Yes, please.

5 JUDGE PRIDGIN: Mr. Meyer, when you're  
6 ready, go ahead.

7 LORI A. WRIGHT testified as follows:

8 CROSS-EXAMINATION BY MR. MEYER:

9 Q. Good afternoon. I'm David Meyer with the  
10 Staff of the Commission.

11 A. Good afternoon.

12 Q. Ms. Wright, in the rebuttal testimony  
13 round, KCP&L changed its severance adjustment to remove  
14 severance payments to two former company executives; is  
15 that correct?

16 A. That's correct.

17 Q. Both severance payments that were excluded  
18 in that round -- I believe this is nonconfidential --  
19 exceeded about a million dollars each; is that correct?

20 A. That's correct.

21 Q. Now, your recommendation in this case still  
22 includes other severance payments that are in excess of  
23 that amount in the three-year average that you proposed;  
24 is that correct?

25 A. That's correct.

1           Q.       And are there specific names of individuals  
2       that you could mention that are included in that amount?

3           A.       I believe there is one in the report,  
4       Mr. Vern Bodens.

5           Q.       And what was his relationship to KCPL and  
6       Great Plains?

7           A.       He was the Chairman and CEO of Great Plains  
8       Energy.

9           Q.       And was there a reason why you chose not to  
10       remove that severance cost from your three-year average?

11          A.       When we put together the proposal, we  
12       looked at what was a normal level of severance cost over  
13       the three-year period. We didn't look at specific  
14       severance payments per se. I think it's been demonstrated  
15       by Data Request that the company has incurred severance  
16       costs every year at least since 2001 forward. So when we  
17       put together the proposal, we went with what we believed  
18       to be a normal level of severance, and then we removed the  
19       two individuals in response to Staff's concerns in their  
20       direct testimony.

21          Q.       But if I then follow you correctly, is it  
22       that you're saying that it's not that Mr. Bodens was a  
23       normal cost, it was just that one you included to create a  
24       normal average?

25          A.       We looked at the -- I looked at the average

1 of the three-year, and then excluded the costs that Staff  
2 had mentioned they had a concern with. We didn't focus at  
3 all on individual severance payments per se, other than  
4 the two that Staff indicated they had a concern with in  
5 their direct testimony.

6 Q. Okay. I see. In 2005, did Great Plains  
7 pay its executive officers incentive compensation?

8 A. They did.

9 Q. Do you agree that KCPL's incentive  
10 compensation plan is based in part on earnings per share?

11 A. It is.

12 Q. In 2005, do you know if severance expense  
13 the company incurred was included in earnings per share  
14 which drives the amount of incentive compensation?

15 A. It was excluded.

16 Q. And could you explain why that was  
17 excluded?

18 A. That was a decision that was made by the  
19 compensation committee of the board of directors.

20 Q. Do you have any insights on -- that you  
21 could tell us why that decision might have been made?

22 A. I do not.

23 MR. MEYER: That's all I have. Thank you.

24 JUDGE PRIDGIN: Mr. Meyer, thank you. Any  
25 further cross on severance costs for this witness?

1 (No response.)

2 JUDGE PRIDGIN: All right. Seeing none,  
3 any questions from the Bench? Commissioner Murray?

4 COMMISSIONER MURRAY: No questions, thank  
5 you.

6 JUDGE PRIDGIN: Commissioner Appling?

7 COMMISSIONER APPLING: No questions.

8 JUDGE PRIDGIN: I don't have any questions.  
9 Redirect?

10 MR. STEINER: Yes, your Honor.

11 JUDGE PRIDGIN: When you're ready, sir.

12 REDIRECT EXAMINATION BY MR. STEINER:

13 Q. Ms. Wright, you were asked by Staff counsel  
14 regarding the 2005 Great Plains incentive compensation  
15 program. Do you recall that question?

16 A. Yes.

17 Q. I believe the question was, for the 2005  
18 plan, was severance expense excluded in the calculation;  
19 is that correct?

20 A. It was.

21 Q. Was it excluded in any other years?

22 A. No, it was not.

23 MR. STEINER: Thank you.

24 JUDGE PRIDGIN: Mr. Steiner, thank you.

25 Any further questions for this witness on severance costs?

1 (No response.)

2 JUDGE PRIDGIN: All right. Thank you,  
3 Ms. Wright. You may step down.

4 And I understand Mr. Hyneman's going to be  
5 the severance cost witness for Staff?

6 MR. MEYER: That's correct.

7 JUDGE PRIDGIN: If you'd come forward to be  
8 sworn, please, sir.

9 (Witness sworn.)

10 JUDGE PRIDGIN: Thank you very much, sir.  
11 Mr. Meyer?

12 MR. MEYER: I believe Mr. Hyneman had both  
13 direct and surrebuttal testimony, but I'm not sure that  
14 his direct testimony necessarily related to this issue.  
15 Do you want us to go ahead and offer both at this time?

16 JUDGE PRIDGIN: We've had this discussion  
17 with other counsel. Subject to other counsel's objection,  
18 if you wanted to go ahead and offer those into evidence.  
19 Obviously if we don't have any objection, we don't have  
20 any problem. If we have an objection, we'll fly by the  
21 seat of our pants. Mr. Steiner is wanting to speak.

22 MR. STEINER: I don't believe I have an  
23 objection. I just -- I'm just trying to see what other  
24 issues he might be up for.

25 JUDGE PRIDGIN: Fuel and purchased power.

1                   MR. STEINER: I'm not the attorney on  
2 those.

3                   MR. MEYER: And neither am I, so that's  
4 fine. If there are objections, I'll roll with it.

5                   MR. STEINER: I'd have to reserve  
6 objections because I'm not sure what they might be.

7                   JUDGE PRIDGIN: Mr. Meyer, if you want  
8 to -- it's up to you if you want to offer those, and I  
9 understand that there may not be objections related to  
10 this issue, but there may be objections related to other  
11 issues; is that correct?

12                  MR. STEINER: That's correct, your Honor.  
13 I don't have any objections related to severance cost  
14 issue.

15                  MR. MILLS: To short circuit some of this,  
16 can we just sort of have a practice of offering the  
17 witness's testimony the last time they come up so we don't  
18 have to do this with every witness?

19                  JUDGE PRIDGIN: That's fine with me, but  
20 I've had counsel say, can we go ahead and get this in?

21                  MR. MILLS: They can discuss it before it's  
22 been admitted.

23                  JUDGE PRIDGIN: That's true.

24                  MR. MILLS: That way we don't have to worry  
25 about when they're coming up again and who's

1 cross-examining them. If we do it that way, I think it  
2 would be a lot quicker.

3 MR. PHILLIPS: Judge, I think I would echo  
4 Lewis Mills in that regard. Secondly, what are the  
5 exhibit numbers for Mr. Hyneman, is it 118 and 119?

6 JUDGE PRIDGIN: Yes, Exhibit 118 and 119  
7 are his prefiled testimony.

8 MR. PHILLIPS: Thank you.

9 JUDGE PRIDGIN: Anything further before  
10 cross-examination?

11 (No response.)

12 JUDGE PRIDGIN: All right. And who wishes  
13 cross of this witness?

14 MR. STEINER: KCPL does, your Honor.

15 JUDGE PRIDGIN: Any other parties?

16 (No response.)

17 JUDGE PRIDGIN: Mr. Steiner, when you're  
18 ready.

19 CHARLES R. HYNEMAN testified as follows:

20 CROSS-EXAMINATION BY MR. STEINER:

21 Q. Good afternoon, Mr. Hyneman.

22 A. Good afternoon.

23 Q. Please turn to page 10 of your surrebuttal.  
24 There at about line 11 and 12, 13, you state that  
25 regulated customers should not pay for protection against



1 claims of improper conduct on the part of KCPL management.

2 Do you see that?

3 A. Yes.

4 Q. Mr. Hyneman, are all claims contained in a  
5 lawsuit necessarily valid?

6 A. No.

7 Q. Have you ever heard of a frivolous lawsuit,  
8 Mr. Hyneman?

9 A. I've heard the term.

10 Q. Do plaintiffs always prevail on claims  
11 alleging illegal actions of management that they bring  
12 against companies such as KCPL?

13 A. No.

14 Q. Mr. Hyneman, even if a lawsuit has no  
15 merit, KCPL must still defend itself in that litigation;  
16 is that correct?

17 A. Yes.

18 Q. If you'd flip the page to page 9 of your  
19 surrebuttal, I want to explore regulatory lag, your  
20 hypothetical example.

21 A. Certainly.

22 Q. I'd like to use my own hypothetical here.  
23 Let's say we have employee Jane Doe. Her salary is the  
24 same and benefits are the same as in your example,  
25 150,000.

1           A.       Uh-huh.

2           Q.       She's been with the company for 20 years.  
3       She's not a bad employee. It's just that her skills don't  
4       match what KCPL needs. You can assume that it would take  
5       time and money to train the employee to meet these needs.  
6       Let's assume that KCPL terminates Ms. Doe and provides  
7       severance benefits in the amount of \$100,000.

8                     After the termination, immediately after,  
9       KCPL hires Ms. Smith at the same salary and she does have  
10      the skills necessary, the skills needed, the skills that  
11      KCPL needs to serve its customers. In my example, the  
12      company doesn't gain from the positive regulatory lag,  
13      does it?

14          A.       If they would rehire a person right away to  
15      fill that position, then no, they would not.

16          Q.       They would not benefit from regulatory lag?

17          A.       That's correct.

18          Q.       KCPL would not recover those severance  
19      costs in rates either, would it, Mr. Hyneman?

20          A.       Now, you're asking a hypothetical. Had  
21      there been severance costs in rates determine in the prior  
22      rate case? I have no idea. I mean --

23          Q.       But I think your example was in the next  
24      12 months.

25          A.       Okay. If you're talking about my

1 example --

2 Q. Right.

3 A. -- where there is no severance in rates and  
4 they pay severance benefits and have no payroll savings,  
5 no, they would not recover that in rates.

6 Q. And how is that different than my example?  
7 Would they recover the severance cost in rates in my  
8 example?

9 A. No. Under your example where they hire a  
10 person right away to replace a person, and there's no  
11 severance currently in rates --

12 Q. No. They paid this employee severance.

13 A. Right.

14 Q. Right.

15 A. But you're asking -- I think you're asking  
16 would they recover it in rates.

17 Q. That's correct.

18 A. If there's no severance in rates, no, they  
19 cannot recover it in rates.

20 Q. Thanks.

21 JUDGE PRIDGIN: Any further  
22 cross-examination of this witness?

23 MR. STEINER: Yes. I was just pausing.

24 JUDGE PRIDGIN: Excuse me. I'm sorry.

25 BY MR. STEINER:

1           Q.       Mr. Hyneman, this is a Data Request that I  
2 believe Staff asked the company. I'd like you to look at  
3 it. Mr. Hyneman, are you familiar with this Data Request?

4           A.       I've previously looked at this Data Request  
5 in the past, yes, but I haven't studied all the numerical  
6 data that's included.

7           Q.       Okay. Could I ask you to read into the  
8 record the second heading entitled compensation other than  
9 base salary and overtime included in A above? Do you see  
10 the line entitled severance pay?

11          A.       Yes, I do.

12          Q.       What is those -- what are those figures for  
13 2001 to 2005 telling you?

14          A.       I'm going to have to back up just a minute.

15          Q.       That's fine.

16          A.       It's telling me that in those years that  
17 the company paid or made severance payments.

18          Q.       Could you read those amounts for each year  
19 in the record?

20          A.       For 2001, it's \$354,596; for 2002, it's  
21 \$1,128,482; for 2003, it's \$2,047,356; and for 2004, it's  
22 \$688,219.

23          Q.       One more year.

24          A.       Okay. I didn't know if you wanted the  
25 whole -- and for 2005, it's \$2,383,662.

1                   MR. STEINER: Thank you. I have no further  
2 questions.

3                   JUDGE PRIDGIN: Mr. Steiner, thank you.  
4 Any further cross?

5                   (No response.)

6                   JUDGE PRIDGIN: Questions from the Bench?  
7 Commissioner Murray?

8                   COMMISSIONER MURRAY: Thank you.

9 QUESTIONS BY COMMISSIONER MURRAY:

10               Q.       Good afternoon.

11               A.       Good afternoon.

12               Q.       Are you recommending disallowance of the  
13 entire amount of severance pay?

14               A.       Yes.

15               JUDGE PRIDGIN: I'm sorry, Commissioner.  
16 Is your microphone on?

17               COMMISSIONER MURRAY: No, it wasn't. Thank  
18 you.

19 BY COMMISSIONER MURRAY:

20               Q.       Are you recommending the disallowance of  
21 the entire amount of severance pay?

22               A.       Yes.

23               Q.       And is it your position that the company  
24 should never have to pay severance pay or what is -- how  
25 are you arriving at the conclusion that the total amount

1     should be disallowed?

2             A.       Well, I looked at several aspects of KCPL's  
3     severance pay. They had several instances where they made  
4     severance pay in excess of a million dollars, so it was --  
5     they had questions to that concern. They made severance  
6     payments to CEOs at the date of retirement, which to me  
7     just didn't make any sense. They had made --

8             Q.       Let me stop you there and ask you, is that  
9     out of the ordinary that severance pay be made to a CEO at  
10    time of retirement?

11            A.       From my experience, yes. I've never seen  
12    it before.

13            Q.       All right. Go ahead.

14            A.       And I struggle in making this adjustment to  
15    come up with a reason to make a severance payment to a CEO  
16    who's retiring with very healthy compensation benefits,  
17    and I think I outline that in my testimony, what would be  
18    the reason to make a severance payment? I've asked KCPL  
19    for a reason and they could not provide one.

20            Q.       How much of the total did that amount to?

21            A.       Well, KCPL is proposing a three-year  
22    average, but if you put an amount in excess of a million  
23    dollars, it's a significant piece. By including that,  
24    KCPL's proposal is significantly higher than it would  
25    otherwise be.

1 Q. Okay. Go ahead.

2 A. Okay. I also have other examples in my  
3 testimony where KCPL would hire an executive officer or an  
4 officer and do a nationwide search, spend a lot of money,  
5 and the officer is only with KCPL for, like, a two-year  
6 period and left the company for some reason, and they  
7 would pay out hundreds of thousands of dollars in  
8 severance payment. To me, that just didn't make any  
9 sense.

10 Q. To one employee?

11 A. Yes.

12 Q. Who had been there two years?

13 A. Yes.

14 Q. Okay. Any others?

15 A. Well, I mean, there are other examples I  
16 didn't get into specifically. In my direct testimony I  
17 explained that in 2005 two senior executive officers who  
18 had been with the company for over 20 years left the  
19 company, and they paid severance payments in excess of a  
20 million dollars.

21 And exploring the reason behind the  
22 severance payments, one of the questions I asked in a Data  
23 Request was to please give me a detailed explanation of  
24 why you make severance payments. And KCPL said there are  
25 different reasons, but overall the main reason is --

1 basically I'm going to paraphrase here, but I could read  
2 you the quote, is that it's protection against further  
3 claims that these employees may make after they leave the  
4 company, whether it was harassment, age discrimination or  
5 any kind of -- it's basically a -- it's protecting the  
6 company against those claims.

7 Q. In your opinion, should -- does that mean  
8 only protecting shareholders?

9 A. And basically that's what it's doing. I  
10 mean, if the company had to pay out a claim in a sexual  
11 harassment case, that claim, the payment would definitely  
12 be -- not be recoverable in rates, the shareholders would  
13 have to absorb that. And as protection against that, they  
14 pay severance so the employee will not file such a claim  
15 or would disparage the company, just say negative things  
16 about the company. It's that kind of agreement. We won't  
17 say anything bad about you, you won't say anything bad  
18 against us if you sign this agreement.

19 Q. Now, did you examine all of the severance  
20 pay and determine that none of it was recoverable?

21 A. Well, I mean, there's a list of employees.  
22 They're proposing a three-year average, so that would be  
23 severance agreements, I think, in the neighborhood of 50,  
24 60 or 70 that they made severance payments over that  
25 period of time. I looked through several severance



1 agreements, and they all had those similar  
2 characteristics. They were basically, we'll pay you this  
3 money if you don't, you know, make any claims.

4 Q. And I think that's usually what a severance  
5 agreement has in it, so would that translate into the  
6 Staff always being opposed to severance?

7 A. No. In fact, I point out in my testimony  
8 the Staff is not always opposed to severance. In fact, a  
9 lot of times the company will have a reorganization and  
10 have an employee downsizing and make severance payments,  
11 and those severance payments will result in actually a  
12 payroll savings that will benefit both the company in the  
13 immediate period and the ratepayers through rates. And  
14 the Staff has proposed, as recently as the last Aquila  
15 rate case has supported recovery of severance payments  
16 that it incurred during its acquisition of St. Joe Light &  
17 Power.

18 Q. Even though there might have been  
19 agreements in place that would have -- the severance pay  
20 would be offsetting any potential claims later?

21 A. Well, the purpose of the severance in this  
22 case was to accrue payroll savings, and that is not the  
23 purpose of KCPL. They've never made that claim. The  
24 purpose was that we can get by with a lower -- a smaller  
25 work force, and because of that, we're going to have to

1 pay severance, so we said -- we looked at that and said  
2 there are savings that will benefit both the company and  
3 the ratepayers, and we included that in their rate, a  
4 recovery of that.

5 COMMISSIONER MURRAY: Okay. Thank you.

6 JUDGE PRIDGIN: Commissioner Murray, thank  
7 you. Commissioner Appling?

8 QUESTIONS BY COMMISSIONER APPLING:

9 Q. How you doing, Charles?

10 A. Good, sir.

11 Q. Did you, by any chance, in your comparison  
12 have you looked at other companies in the state of  
13 Missouri and see how their severance pay compared to this  
14 example?

15 A. I didn't do that in this case. I have  
16 worked on severance in prior cases. I know in the Empire  
17 District I looked at it, and that was years ago. Most  
18 utility companies have a small level of severance  
19 payments, that my experience has been. It's not a big  
20 dollar unless they have a corporate reorganization, a  
21 downsizing or that type of thing.

22 Q. You think a million dollars is a -- large?

23 A. Yes, I do. I do. I don't understand why  
24 it would need -- a severance payment would be needed in  
25 that range. And we did a lot of exploration on the two

1 individuals that that payment was made to in 2005. We  
2 looked back, we had meetings with the company's president,  
3 we reviewed their personnel files. We could not make a  
4 determination whatsoever of any justification for those  
5 payments.

6 Q. What was your largest number that was  
7 given?

8 A. In severance? I can get you the exact  
9 number, but it's 1.2, 1.3, in that area.

10 COMMISSIONER APPLING: Thank you.

11 JUDGE PRIDGIN: Commissioner, thank you. I  
12 don't believe I have any questions. Any recross for this  
13 witness? Excuse me. Commissioner Murray?

14 COMMISSIONER MURRAY: I'm sorry. I have  
15 another one.

16 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

17 Q. The dollar amount of this item?

18 A. Yes. I've outlined that in my surrebuttal  
19 testimony. And I went into the dollar amount of the  
20 initial, their initial proposal, and this is coming  
21 from -- not directly from the reconciliation, but under  
22 Missouri jurisdictional basis, I believe the dollar amount  
23 is approximately \$512,000. That's on a Missouri  
24 jurisdictional basis.

25 COMMISSIONER MURRAY: Okay. Thank you.

1 JUDGE PRIDGIN: All right. Thank you. Any  
2 further questions from the Bench?

3 Recross, Mr. Mills?

4 MR. MILLS: Well, I didn't, but now I do.

5 RE CROSS-EXAMINATION BY MR. MILLS:

6 Q. How does that 512,000 compare with line 49  
7 of the reconciliation?

8 A. Again, I didn't look at the reconciliation.  
9 I put that dollar amount in my testimony as explaining  
10 what the differences between the original proposal and the  
11 revised proposal. I didn't compare it to the  
12 reconciliation. I'll have to get with Mr. Traxler and get  
13 the rates on that.

14 Q. Well, I know what the answer is in the  
15 reconciliation. You don't dispute what that is?

16 A. No.

17 Q. Okay.

18 A. No.

19 Q. Thank you.

20 A. This is just informative.

21 MR. MILLS: Just for the record, it's  
22 481,817 on the reconciliation. Thank you. That's all I  
23 have.

24 THE WITNESS: And that's pretty close to  
25 what my number was.

1 JUDGE PRIDGIN: All right. Mr. Mills,  
2 thank you. Any further recross?

3 MR. STEINER: Yes, your Honor.

4 JUDGE PRIDGIN: Mr. Steiner?

5 RE CROSS-EXAMINATION BY MR. STEINER:

6 Q. Mr. Hyneman, I believe Commissioner Murray  
7 asked you a question and you indicated that you had  
8 reviewed severance agreements in the Aquila rate case; is  
9 that correct?

10 A. While I may have reviewed severance  
11 agreements in the actual merger, I was the Staff witness  
12 supporting recovery of severance payments in Aquila's last  
13 rate case.

14 Q. And in that role, did you review the  
15 severance agreements, Aquila's severance agreements?

16 A. You're going back a year or two. I don't  
17 remember if I did it in that rate case or if I did it in a  
18 pre-- I was involved in the merger case.

19 Q. In either case, did you review these  
20 severance agreements?

21 A. And I can't give a specific answer to that  
22 now. I can't remember the active, so I can't say yes or  
23 no. I don't remember.

24 MR. STEINER: Thank you.

25 JUDGE PRIDGIN: Mr. Steiner, thank you.

1 Any further recross?

2 MR. PHILLIPS: Yes, Judge.

3 RECROSS-EXAMINATION BY MR. PHILLIPS:

4 Q. To follow on to what Lewis Mills was asking  
5 about, and I'm kind of confused, you talked about a  
6 million a year and 1.2 million in response to some  
7 questions from the Bench, and yet in the reconciliation  
8 exhibit, 46, which Mr. Mills referred to at line 49, your  
9 adjustment there is only \$481,817, and then I think you  
10 said something about you, what, trued it up to 512,000?

11 A. No. The million dollar payment, there was  
12 one payment of over a million dollars to an executive in  
13 2003. That is included in their proposal. KCPL removed  
14 the two million-dollar payments in 2005. That's no longer  
15 included in their proposal. What they did is a three-year  
16 average. So they'll take an average of the three years  
17 and then you come up with the jurisdictional allocation  
18 factor.

19 Q. And so you adjusted the three years  
20 average; is that right?

21 A. We -- no. We didn't make any adjustments.  
22 We're proposing zero recovery of severance costs.

23 Q. So the total three year is the 481?

24 A. Again, the number I have is -- and I  
25 didn't -- I didn't compare it to the reconcilment, but

1 roughly speaking, the value of the issue -- the total  
2 company is 897,000, and when you multiply that on a  
3 Missouri basis, it's 512. Now, that's not exactly, I  
4 guess, what the reconciliation has, and there may be  
5 reasons for that, but when I filed this testimony, that  
6 was the numbers I had.

7 MR. PHILLIPS: Thank you.

8 JUDGE PRIDGIN: Mr. Phillips, thank you.  
9 Any further recross?

10 (No response.)

11 JUDGE PRIDGIN: Redirect?

12 MR. MEYER: (Shook head.)

13 JUDGE PRIDGIN: All right. Let us take a  
14 break quick.

15 I'm sorry. Mr. Fischer?

16 MR. FISCHER: Yes, Judge. Maybe I can  
17 raise a question on scheduling. We are proceeding at a  
18 pace that we did not expect. We're actually making very  
19 good progress, it seems to me. Our next witness,  
20 Mr. Frerking, as a matter of fact, is in Kansas City and  
21 he's not available yet today.

22 JUDGE PRIDGIN: Okay.

23 MR. FISCHER: I did want to inquire of  
24 counsel whether there were some people that are likely to  
25 be on the list of at least company witnesses that might

1 not have cross tomorrow. Particularly Burton Crawford I  
2 think might not have cross. I was just curious whether  
3 anybody had anything on the fuel issue for Burton. He is  
4 the guy that runs the fuel model and explains the fuel  
5 model.

6 JUDGE PRIDGIN: Unless it's something we  
7 immediately need to take up, let me give my court reporter  
8 a break before she falls over, and we come back on the  
9 record and certainly discuss any type of scheduling  
10 matters and --

11 MR. FISCHER: These don't have to be on the  
12 record as far as I'm concerned.

13 JUDGE PRIDGIN: Correct. I was going to  
14 say, if you want to talk with counsel and then we can go  
15 back on the record. Anything else before we go off?

16 (No response.)

17 JUDGE PRIDGIN: All right. Let's go off.  
18 Let's take roughly a ten-minute break and we will  
19 reconvene and see what Mr. Fischer and other parties have  
20 come up with as far as witness availability.

21 (A BREAK WAS TAKEN.)

22 JUDGE PRIDGIN: We're back on the record,  
23 and Kimberly Bolin has taken the stand. If you would  
24 raise your right hand to be sworn.

25 (Witness sworn.)



1 JUDGE PRIDGIN: Thank you very much.  
2 Anything that we need to address before cross-examination?

3 MR. THOMPSON: Well, we'd like to offer her  
4 testimony. We would offer Exhibits 106 and 107 at this  
5 time.

6 JUDGE PRIDGIN: 106 and 107 have been  
7 offered. Any objections?

8 (No response.)

9 JUDGE PRIDGIN: Hearing none, 106 and 107  
10 are admitted.

11 (EXHIBIT NOS. 106 AND 107 WERE RECEIVED  
12 INTO EVIDENCE.)

13 JUDGE PRIDGIN: Anything else before  
14 cross-examination?

15 (No response.)

16 JUDGE PRIDGIN: All right. Hearing  
17 nothing, any parties wish to cross Ms. Bolin on bad debts?  
18 KCP&L, yes, sir. Whenever you're ready.

19 KIMBERLY BOLIN testified as follows:

20 CROSS-EXAMINATION BY MR. BLANC:

21 Q. Good evening.

22 A. Good evening.

23 Q. Did KCP&L and Staff agree to use a bad debt  
24 writeoff percentage?

25 A. Yes, we agreed on .6.1 percent.

1           Q.       Did KCP&L and Staff agree to apply that  
2 percentage to Missouri jurisdictional revenue?

3           A.       Yes, we did.

4           Q.       And what was the dollar amount after you  
5 applied that factor to Missouri jurisdictional revenue?  
6 What's the amount we're talking about?

7           A.       I believe it was \$1,408,673.

8           Q.       So roughly 1.4 million --

9           A.       Yes.

10          Q.       -- is that safe to say?

11                   Is it true that the Commission could  
12 ultimately conclude that a different revenue requirement  
13 is appropriate for KCP&L in this case than the revenue  
14 requirement that was used to derive the \$1.4 million?

15          A.       Yes, they could.

16          Q.       And is your position that the .6.1 percent  
17 factor, that it shouldn't be applied to a revenue  
18 requirement deemed appropriate by the Commission in this  
19 proceeding?

20          A.       I do not believe it should be applied to  
21 the revenue requirement that may be decided. I believe it  
22 should be applied to the normalized and annualized  
23 revenues that are in this case.

24          Q.       And your reasoning is that there is  
25 insufficient evidence to support a .6.1 percent factor

1     that would be -- sorry -- that there would be insufficient  
2     evidence to support applying that factor to the revenue  
3     requirement different from the one KCP&L and Staff used to  
4     arrive at the 1.4 million?

5             A.     I believe that the net writeoffs versus  
6     retail sales do not go hand in hand.  There's no  
7     correlation between the two.  In the company's past, I've  
8     been provided a Data Request that shows retail sales one  
9     year may increase to over the last year, the previous year  
10    and then the next year.  They -- the -- excuse me.  The  
11    retail sales may increase from one year to the next, but  
12    the bad debt expense may decrease from one year to the  
13    next.  As an example, the company's retail sales in the  
14    year 2001 decreased by 2.3 --

15            Q.     Thank you, Ms. Bolin.  Thank you.  I guess  
16    one final question, and I think you kind of touched upon  
17    it.  Is there any evidence in the record that would  
18    indicate that \$1.4 million would be the appropriate  
19    writeoff amount if the Commission did permit KCPL to  
20    increase its revenue requirement as it's suggested in this  
21    case?

22            A.     Yes, I believe my testimony provides that  
23    evidence.

24                   MR. BLANC:  No further questions.

25                   JUDGE PRIDGIN:  All right.  Thank you, any

1 further cross-examination?

2 (No response.)

3 JUDGE PRIDGIN: No questions from the  
4 Bench. Any redirect, Mr. Thompson?

5 MR. THOMPSON: Why, yes. Yes, there is. I  
6 have an exhibit I'd like to get marked. This will be  
7 Staff Exhibit 144.

8 (EXHIBIT NO. 144 WAS MARKED FOR  
9 IDENTIFICATION BY THE REPORTER.)

10 REDIRECT EXAMINATION BY MR. THOMPSON:

11 Q. Ms. Bolin, Mr. Blank was asking you about  
12 why you did not want to agree to apply the .6.1 factor to  
13 any kind of revenue increase. Do you recall that  
14 question?

15 A. Yes, I do.

16 Q. And you began an explanation on how there  
17 is, in fact, no correlation between revenue increases and  
18 bad debt writeoffs. Do you recall that?

19 A. Yes, I do.

20 Q. Now, you mentioned that there had been a DR  
21 supplied to you, and this is what you were basing your  
22 testimony on. Do you recall that?

23 A. That's correct.

24 Q. Was this by any chance DR 237?

25 A. Yes, it was.

1           Q.       And you have prepared a chart, have you  
2 not, that's been marked as Staff Exhibit 144 that reflects  
3 what you learned from DR 237?

4           A.       Yes, I have prepared.

5           Q.       And you have that in front of you?

6           A.       Yes, I do.

7           Q.       And as I look at this chart, does the chart  
8 show that, in fact, where revenues increased, that  
9 writeoffs may move in the opposite direction?

10          A.       Yes, it does.

11          Q.       Could you show us where exactly on the  
12 chart that's reflected?

13          A.       From the year 2001 to 2002, retail sales  
14 increased by 1.78 percent. In the same year, the net  
15 writeoffs decreased by 36.55 percent from the previous  
16 year.

17          Q.       So is it your conclusion that if the  
18 Commission were to do what the company is urging them to  
19 do in this situation, that, in fact, the ratepayers might  
20 wind up providing money to the company for cost of service  
21 for something it does not need?

22          A.       That is correct.

23                   MR. THOMPSON: At this time, I would offer  
24 Exhibit 144.

25                   JUDGE PRIDGIN: Any objections?

1 MR. BLANC: No objections.

2 JUDGE PRIDGIN: 144 is admitted.

3 (EXHIBIT NO. 144 WAS RECEIVED INTO  
4 EVIDENCE.)

5 MR. THOMPSON: And that concludes my  
6 redirect. Thank you.

7 JUDGE PRIDGIN: Mr. Thompson, thank you.  
8 Any further cross?

9 (No response.)

10 JUDGE PRIDGIN: If not, this witness can be  
11 excused. Ms. Bolin, thank you.

12 Do I understand from counsel we would go on  
13 in the morning -- and I've lost my list -- with fuel and  
14 purchased power expense, that would be the next issue?

15 MR. THOMPSON: That is correct.

16 JUDGE PRIDGIN: And we will have -- I have  
17 on my list that Mr. Blunk is only available today and  
18 Wednesday, but has that changed?

19 MR. FISCHER: Yes. He can be available  
20 tomorrow morning for the next three issues actually. I'm  
21 not sure that there's much of an issue here, but he will  
22 be here.

23 JUDGE PRIDGIN: Obviously also here for  
24 Surface Transportation Board. Does counsel see anything  
25 that would prevent us from going ahead in the morning with

1 the case in the order that has been presented in Staff's  
2 issue list, fuel and purchased power, Surface  
3 Transportation, SO2 premiums, et cetera?

4 MR. THOMPSON: That's what we're expecting  
5 to do.

6 JUDGE PRIDGIN: All right. Anything  
7 further from counsel before we go off the record for the  
8 evening?

9 MR. THOMPSON: Fine job, Judge.

10 JUDGE PRIDGIN: Thank you, Mr. Thompson.

11 MR. PHILLIPS: Judge Pridgin, I just wanted  
12 to advise the parties that we have available all the  
13 prefiled testimony of our witnesses. We understand from  
14 talking to a couple of counsel they're not interested in  
15 any more paper. I have advised everyone that one piece of  
16 testimony does have corrections, which was not filed, so  
17 therefore, they do need the direct testimony of  
18 Mr. Woolridge. Whether they want the other testimony is  
19 up to them.

20 Obviously not all counsel are here at this  
21 point in time, but whoever wants that testimony, it's  
22 available. I'd like you to take it so we don't have to  
23 store as much. Thank you.

24 JUDGE PRIDGIN: That's perfectly fine.  
25 We're glad to do that. Thank you, Mr. Phillips.

1                   Anything further from counsel?

2                   MR. THOMPSON: 8:30 tomorrow, Judge?

3                   JUDGE PRIDGIN: 8:30 in the morning. Thank  
4   you very much. We're off the record.

5                   WHEREUPON, the hearing of this case was  
6   recessed until October 17, 2006.

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## 1 C E R T I F I C A T E

2 STATE OF MISSOURI )  
3 COUNTY OF COLE ) ss.

4 I, Kellene K. Feddersen, Certified  
5 Shorthand Reporter with the firm of Midwest Litigation  
6 Services, and Notary Public within and for the State of  
7 Missouri, do hereby certify that I was personally present  
8 at the proceedings had in the above-entitled cause at the  
9 time and place set forth in the caption sheet thereof;  
10 that I then and there took down in Stenotype the  
11 proceedings had; and that the foregoing is a full, true  
12 and correct transcript of such Stenotype notes so made at  
13 such time and place.

14 Given at my office in the City of  
15 Jefferson, County of Cole, State of Missouri.

16

17 Kellene K. Feddersen, RPR, CSR, CCR  
18 Notary Public (County of Cole)  
My commission expires March 28, 2009.

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