Exhibit No.:
Issues: *Iatan 2 Advanced Coal Credit*
Crossroads
Capacity Planning
Witness: *Cary G. Featherstone*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *ER-2012-0175*
Date Testimony Prepared: *October 10, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Great Plains Energy, Incorporated

CASE NO. ER-2012-0175

Jefferson City, Missouri
October 2012

** **Denotes Highly Confidential Information** **

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TABLE OF CONTENTS OF

SURREBUTTAL TESTIMONY OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Great Plains Energy, Incorporated

CASE NO. ER-2012-0175

SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Great Plains Energy, Incorporated

CASE NO. ER-2012-0175

Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Cary G. Featherstone who filed direct and rebuttal testimony in this proceeding?

A. Yes, I am. I filed direct testimony on August 9, 2012 sponsoring Staff's Cost of Service Report ("Staff Report" or "COS Report") for KCP&L Greater Missouri Operations Company's ("GMO" or "Company") rate case filed on February 27, 2012 designated as Case No. ER-2012-0175. I also filed rebuttal testimony in the GMO rate case on September 12, 2012.

I filed direct testimony in this case on August 2, 2012 sponsoring Staff Report for Kansas City Power & Light Company's ("KCPL") rate case filed on February 27, 2012. I filed rebuttal testimony in that case on September 5, 2012 and surrebuttal on October 8, 2012.

Executive Summary

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address the rebuttal testimony of the following KCPL witnesses for the areas of the Iatan 2 Advanced Coal Credits, Hawthorn 5 Costs:

Iatan 2 Advanced Coal Credit

Melissa K. Hardesty— KCPL's & GMO's Senior Director of Taxes

Salvatore P. Montalbano— Partner PricewaterhouseCoopers, LLP, Consultant

Darrin Ives-- KCPL's & GMO's Senior Director of Regulatory Affairs

Crossroads and GMO's Capacity Planning

Wm. Edward Blunk--- KCPL's & GMO's Supply Planning Manager

Burton L. Crawford— Director, Energy Resource Management

Melissa K. Hardesty— KCPL's & GMO's Senior Director of Taxes

Specifically, Ms. Hardesty, testifying on behalf of KCPL and GMO states at page 6 of her rebuttal that KCPL "...did not engage in improper conduct or imprudent decision-making with regard to the Qualifying Advanced Coal Project Credits (Advanced Coal Credits or Coal Credits) for Iatan 2 Generating Unit ("Iatan 2")." KCPL attempts to refute any misconduct on the part of either KCPL or its parent, Great Plains Energy with respect to the Iatan 2 Coal Credits in Ms. Hardesty's rebuttal testimony appearing at pages 6 through 12. Staff disagrees with KCPL contention that it acted honorably with respect to the Coal Credits and stands by its criticism supported in the Cost of Service Report at pages 201through 220. Staff continues to believe that KCPL and its parent, Great Plains Energy, through the officers and employees of these two companies engaged in misconduct and improper and imprudent decision-making by not including GMO for the Iatan 2 Coal Credits. The behavior of KCPL and Great Plains Energy to

SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Great Plains Energy, Incorporated

CASE NO. ER-2012-0175

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exclude GMO from seeking GMO's proper and rightful share of the coal credits as an 18% owner of Iatan 2 is tantamount to affiliate abuse. KCPL is the sole agent of GMO having the duty and responsibility to act on behalf of GMO as agreed in the Iatan 2 Joint Operating Agreement (see Appendix 3, Schedule CGF 12 to Staff Report). Since GMO has no employees, KCPL is GMO's only voice. KCPL did not speak up to represent GMO's interest with regard to the tax benefits to which GMO was entitled because of its ownership participation in the Iatan 2 Project.

I am also addressing the rebuttal testimony of GMO witnesses Wm. Edward Blunk and Burton L. Crawford the rate base valuation and costs relating to Crossroads, a combustion turbine production facility located in Clarksdale, Mississippi over five hundred miles from GMO's load centers, that was originally built by the former Aquila Inc.'s wholly-owned subsidiary, Aquila Merchant as a non-regulated merchant plant.

Staff continues to support the rate base values for Crossroads determined by the Commission in GMO's last rate case, Case No. ER-2010-0356. In addition, Staff continues to support the Commission's decision to exclude the excessive transmission expenses incurred to transport electricity the 525 miles from Mississippi to western Missouri to meet load of GMO's customers. No other power plant on either the KCPL or GMO system incurs such transmission costs to supply power to KCPL and GMO customers.

If the Commission believes GMO should receive some type of consideration for these excessive transmission costs, then the Commission should reconsider its rate base value of Crossroads determined in the last case. If GMO customers should pay for transmission costs of Crossroads then the rate base value determined by the Commission is overstated and should be reduced to reflect a further distressed value of Crossroads—a plant that Aquila was unable to sell

on several occasions. The rate base value of Crossroads would have to be further discounted to compensate for any additional transmission costs that customers would have to pay in rates to get electricity to GMO's customers.

In effect, GMO is requesting the full value of Crossroads in rates even though the facility is located over 500 miles from GMO's customers requiring very expensive annual transmission costs. GMO wants recovery of all the annual transmission costs. And finally, GMO does not want to reflect all the accumulated deferred income taxes generated since Crossroads became operational.

Staff contends that any one purchasing Crossroads would have factored in the location of this generating facility in relation to where the power was to be used—in this case western Missouri requiring transmission of the power over 500 miles from the generating source. No one including Great Plains Energy would have paid full valued for this facility considering the transmission costs. The Commission recognized this at page 94 of its May 24, 2011 Order in the last case when it said:

> When conducting its due diligence review of Aquila's assets for determining its offer price for Aquila, GPE would have considered the transmission constraints and other problems associated with Crossroads. It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And, it is a virtual certainly that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years. Further, it is equally likely that GPE was in as good a position to negotiate a price for Crossroads as AmerenUE was when it negotiated the purchases of Raccoon Creek and Goose Creek, both located in Illinois, from Aquila Merchant in 2006.
> [footnotes omitted]

Finally, Staff supports determining Crossroads accumulated deferred income taxes (deferred taxes) based on the findings of the Commission in this case for the plant in service values. This need to synchronize the plant values with deferred taxes was discussed in my rebuttal testimony.

Iatan 2 Advanced Coal Credit

Q. Please summarize the position of KCPL regarding the Iatan 2 Coal Credits.

A. The summary of KCPL witness Hardesty's rebuttal testimony is that KCPL, and its parent company Great Plains Energy, did nothing wrong regarding the Qualifying Advanced Coal Project Credit approved by the Department of Energy (DOE) and Internal Revenue Service (IRS) for the Iatan 2 Generating Unit ("Iatan 2"). Ms. Hardesty remarkably presents in her rebuttal that KCPL never acted imprudently nor acted improperly regarding GMO's share of the Iatan 2 Advanced Coal Credits. Ms Hardesty states in her rebuttal at page 6 that KCPL "...did not engage in improper conduct or imprudent decision-making with regard to the Qualifying Advanced Coal Project Credits ("Advanced Coal Credits") for Iatan 2 Generating Unit ("Iatan 2")." KCPL takes this position despite the findings on December 30, 2009 by the Iatan 2 Arbitration Panel that:

> **The actions of KCPL constituted "willful misconduct" in that KCPL acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits [the Advanced Coal Credits] for itself** while billing the other Owners for their share of certain costs incurred in qualifying the project for such credits and thereafter applying for the credits (at the same time it was sharing its plan with co-Owner GMO, with whom it would soon be affiliated). **KCPL's actions also clearly constituted a breach of the implied duty of good faith and fair dealing imposed by Missouri contract law.**
>
> * * *

> Based on the foregoing, it is the **unanimous opinion of the Arbitration Panel** that:
>
> (1) **KCPL breached Sections 4.1, 5.3(a), 6.5(d) and 21.1 of the Ownership Agreement**, and also the implied duty of good faith and fair dealing, by evaluating the project's eligibility for, and applying for, Section 48A credits without bringing these matters to the attention of the other Owners;
>
> (2) **Empire sustained damages as result of KCPL's breach** of Sections 4.1, 5.3(a), 6.5(d) and 21.1 of the Ownership Agreement (and also the implied duty of good faith and fair dealing), **due to the fact that such breach prevented Empire from successfully applying for its fair share of Section 48A credits allocated to the project.** [emphasis added; Appendix 3 to Staff Report, Schedule CGF 8]

While the Arbitration Panel found that KCPL engaged in "willful conduct" and "breach of the implied duty of good faith and fair dealing imposed by Missouri contract law," KCPL simply ignores such findings and continues to present to this Commission its view that it did nothing wrong, did not engage in any misconduct or imprudent decision-making-- despite the clear and plain language of the Arbitration Panel's findings. KCPL also takes this position despite the findings of the Commission in an Order in Case No. ER-2010-0355 dated March 16, 2011 where it stated:

> Although the Commission is not bound by the decision of the arbitration panel, the Commission accepts the findings of the arbitration panel. Even though each party under the Iatan 2 Agreement was responsible for paying and filing its own taxes, as the operator of Iatan KCPL owed a special duty to its co-owners. KCPL should have advised GMO and the other co-owners of its intent to request the availability of Section 48A credits and of its lobbying efforts to amend the law so that Iatan 2 qualified for the tax credits. The tax credits in the amount of $125 million were certainly significant to the operation and construction of the facility, and were obviously part of KCPL's operations strategy.
>
> In addition, once arbitration proceedings had begun, **GMO should have been involved, in order to protect its own interest.** It is clear that even though KCPL may not have realized it at the time,

> KCPL could not adequately represent the interest of GMO in the arbitration proceedings.
>
> [emphasis added; see attached Schedule CGF-SUR-1, Schedule CGF-SUR-2 and Schedule CGF-SUR-3 for the Commission's March 16, 2011, March 30, 2011 and partial April 12, 2011 Orders]

The findings of the Arbitration Panel ultimately led to The Empire District Electric Company (Empire) getting its proper share of the Iatan 2 Coal Credits. Even though those findings related to Empire, they can equally be applied to GMO despite what KCPL and its parent, Great Plains Energy, Incorporated (Great Plains Energy), would have the Commission believe.

Q. Does Staff agree with KCPL's assessment of its performance regarding the treatment of GMO?

A. No. All evidence surrounding the events and circumstances respecting the Iatan 2 Advanced Coal Credit indicate that KCPL did engage in "willful misconduct" as decided by the December 30, 2009 Final Arbitration Award. Ms. Hardesty also ignores that the Commission accepted the findings of the Arbitration Panel's decision regarding KCPL's behavior in its March 16, 2011 Report and Order (Order) in KCPL and GMO's last rate cases—Case Nos. ER-2010-0355 and ER-2010-0356.

Q. What were the findings of Staff's review of the Iatan 2 Advanced Coal Credits relating to GMO?

A. Staff presented its findings beginning at pages 195 and 201 respectively of the Cost of Service Reports (Staff Report) filed in the current KCPL and GMO rate cases—Case Nos. ER-2012-0174 and ER-2012-0175. KCPL and Great Plains Energy attempted to exclude Empire from receiving the coal credits, but because KCPL and Great Plains Energy could

not silence or control the decision-making of Empire, that company was able to defend itself against the self-serving Great Plains Energy entities – unlike GMO, which was and is controlled by KCPL.

Staff identified in the Staff Report (page 203) the instances when Great Plains entities and Aquila had the opportunity to seek to provide GMO its claim to its rightful share of the Iatan 2 coal credits as:

1. When Aquila learned of KCPL's plan to apply for the Iatan 2 Qualifying Advanced Coal Project Credit in 2007, prior to the July 14, 2008 acquisition of Aquila by Great Plains Energy, Aquila should have exercised its claim to these tax benefits by applying to the Department of Energy and the Internal Revenue Service.

2. When Great Plains Energy and KCPL learned of the dispute with Empire in the fall of 2008, shortly after the Aquila acquisition, and Empire made its claim to the Iatan 2 qualifying advanced coal Project credit, Great Plains Energy and KCPL should have included GMO in the resolution of this dispute.

3. When Great Plains Energy and KCPL learned that the IRS considered the Coal Credits for Iatan 2 as being awarded on an Iatan 2 Project basis, rather than on an individual owner basis, Great Plains Energy and KCPL should have included GMO (and Empire) in the allocation of Tax Credits.

4. Great Plains Energy and KCPL should have included GMO in the Arbitration process with Empire in the fall of 2009.

5. After the Arbitration decision on December 30, 2009, Great Plains Energy and KCPL should have included GMO in the request made to the IRS for reallocation of the Iatan 2 Coal Credits.

6. During the discussions with the IRS regarding the request to allocate the Iatan 2 Tax Credits to Empire in early 2010, Great Plains Energy and KCPL should have included GMO in this reallocation process and not signed away GMO's rights to these tax benefits.

Ms. Hardesty summarized the above Staff criticisms of KCPL's involvement in keeping the Iatan 2 Coal Credits from GMO at page 7 of her rebuttal and at pages 8 to 12 of that rebuttal she makes an attempt to discredit Staff's assertions regarding each of these specific instances where KCPL had the ability to correct the exclusion of GMO from the benefits of these coal credits. I will address each of Ms. Hardesty's comments to Staff's criticisms of KCPL not permitting GMO to pursue GMO's right to Iatan 2 Coal Credits.

Q. What were KCPL's comments on Staff's first criticism of KCPL's behavior regarding the Iatan 2 Coal Credits?

A. At page 8 of her rebuttal, Ms. Hardesty paraphrases Staff's criticism 1 as follows: "Aquila (name changed to GMO after the acquisition in July 2008 by GPE) should have applied for Advanced Coal Credits with the IRS and DOE in 2007 once it became aware of KCP&L's application." Regarding Staff's Criticism 1, Ms. Hardesty states:

> • Aquila only became aware of the Advanced Coal Credits a few weeks prior to the deadline to file on October 31, 2007. It would have been extremely difficult to prepare an application in such a short timeframe. Both of KCP&L's applications were several hundred pages in length. In October of 2008, GMO (after the acquisition of Aquila by GPE) did file an application for Advanced Coal Credits which was subsequently denied.

Staff Response:

KCPL, as the operating owner of Iatan 2, knew much sooner than "a few weeks prior to the deadline" about these credits and could have very easily informed Aquila, and Empire for that matter, about these important tax benefits. KCPL had a duty to each of its joint owners as the only entity of the Iatan 2 ownership group who had the knowledge and ability to file an application with the DOE and IRS for these credits.

KCPL had to supply significant amounts of material and documents for both GMO and Empire's unsuccessful applications for the Iatan 2 Coal Credits.

In the arbitration hearings Empire indicated it could not have filed the application with DOE and the IRS without KCPL's assistance as the operating owner of Iatan 2. KCPL has control of all plant specific information needed for the Coal Credit application process.

The IRS indicated to both GMO and Empire in separate letters that the $125 million authorized for Iatan 2 was for the entire project and was the maximum amount awarded.

KCPL's Rebuttal--

Ms. Hardesty's rebuttal at page 8 further addresses this criticism as follows:

> - It is also uncertain if Aquila would have ever been able to utilize advanced coal tax credits to offset federal tax liabilities if it had applied, if its application had been accepted, and if it had been allocated Advanced Coal Credits. At December 31, 2007, Aquila had over $1.2 billion in net operating losses for tax purposes and had a significant valuation allowance against these net operating losses. This indicated that Aquila had no reason to believe that it would generate enough taxable income in future years to use the net operating losses before they expire. This would also have been the case for any advanced coal tax credits if they had been allocated any credits as well.

Staff Response:

KCPL claims Aquila would not have been able to use the coal credits because of the very substantial losses it had experienced in its non-regulated operations. KCPL is engaging in hindsight speculation of Aquila's ability to use any of these coal credits. Aquila's utility operating divisions were all profitable with the majority of its regulated utility operations residing in Missouri as MPS and L&P electric and natural gas utility services. Thus, it is likely these coal credits would be used-- just as likely as these credits will be eventually used by Great Plains Energy, who has made a decision to not presently use the coal credits due to the taxable

losses created by the non-regulated losses of Aquila which resulted from the acquisition by Great Plains Energy of Aquila. Because of this decision to use the Aquila tax losses Great Plains Energy is not using the coal credits on a consolidated tax basis and has not been able to use any of those credits since tax year 2009 and won't be able to use the credits for several years. Great Plains Energy files a consolidated tax return for the KCPL and GMO operations and the coal credits can only be used when Great Plains Energy has sufficient tax liability. When the consolidated tax return results in a tax liability—an amount is owed the IRS-- the coal credits will reduce the amount of the overall taxes owed the IRS.

During the time of Aquila's corporate operating losses from its non-regulated ventures that produced the operating losses currently being claimed by Great Plains Energy, both Aquila and Staff went to great lengths in the rate cases to remove any costs relating to the non-regulated operations, including isolating any adverse effects of Aquila's non-regulated failures from rates. Aquila did not recover any costs of the non-regulated operations in rates. Both Aquila and Staff used different capital structures as well as reduced cost of debt to ensure that the regulated operations did not reflect any of the costs in rates for Aquila's non-regulated operations' losses. Any increased costs of doing business as a non-investment grade utility such as increased cost for fuel inventories and fuel and purchased power costs were excluded from rates. Just as none of the effects of non-regulated operations were included in rates, Staff would not have recommended not reflecting benefits of the coal credits when there were operating profits for the Aquila regulated divisions.

KCPL's Rebuttal--

Ms. Hardesty concludes at page 9 of her rebuttal "therefore, Aquila did nothing improper in 2007. Aquila's action could not have been deemed imprudent given their financial situation at the time and the substantial effort required to apply for credits."

Staff Response:

Aquila, acting as a stand-alone entity, had an obligation to seek these coal credits as soon as it learned of them. It had a duty to MPS and L&P and to each of those entities' customers for whose benefit Iatan 2 was being built. The acquisition of Aquila by Great Plains Energy was announced in February 2007, some 9 months prior to the October 2007 deadline. Indeed, KCPL had already applied in October 2006 for these coal credits which is the time Great Plains Energy was in discussions with Aquila about combining Aquila with itself. So KCPL had plenty of opportunities to discuss the coal credits with its future affiliate and partner in the Iatan 2 project.

As noted above, Aquila's financial condition was the result solely of Aquila's non-regulated operations and had nothing whatsoever to do with MPS and L&P or any of the other regulated operations of Aquila. All negative impacts of those non-regulated failures were excluded from the regulated operations.

Aquila had a responsibility for itself and its customers to seek the coal credits when it learned of such and the IRS would have granted such request as it did other applications and in the ultimate reallocation to Empire in 2010. KCPL failed to timely notify Aquila and Empire of these coal credits that would have allowed both of these taxpaying Iatan 2 owners to apply within the 2007 deadline. Both the Commission and the Arbitration Panel recognized the responsibility of KCPL and Great Plains Energy to inform the other owners of these coal credits. The Commission stated in Case No. ER-2010-0355:

> Although the Commission is not bound by the decision of the arbitration panel, the Commission accepts the findings of the arbitration panel. Even though each party under the Iatan 2 Agreement was responsible for paying and filing its own taxes, as the operator of Iatan KCPL owed a special duty to its co-owners. KCPL should have advised GMO and the other co-owners of its intent to request the availability of Section 48A credits and of its lobbying efforts to amend the law so that Iatan 2 qualified for the tax credits.

The Arbitration Panel stated in its findings:

> Once KCPL's initial application for the Section 48A tax credits was denied, KCPL lobbied for an amendment to Section 48A to allow Iatan 2 to qualify for such credits. KCPL did not tell any of the other Owners that it was doing so nor did KCPL tell any of the other Owners that it had hired a contractor and, in turn, a subcontractor to assist in determining whether Iatan 2 qualified under the amended statute. **As Operator, KCPL had a duty to inform the other Owners of its efforts to determine whether Iatan 2 qualified for the Section 48A credits and what impact that would have on the construction of Iatan 2. Again, these actions of KCPL constituted willful misconduct.**
> [emphasis added]

KCPL's argument to exclude GMO and Empire from the application requesting the Iatan 2 Coal Credit should not be taken as anything more than an attempt to justify Aquila's and ultimately KCPL's improper decision not to seek an allocation of these credits to GMO.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 1, Staff continues to believe that KCPL, Great Plains Energy and Aquila acted imprudently:

> When Aquila learned of KCPL's plan to apply for the Iatan 2 Qualifying Advanced Coal Project Credit in 2007, prior to the July 14, 2008 acquisition of Aquila by Great Plains Energy, Aquila should have exercised its claim to these tax benefits by applying to the Department of Energy and the Internal Revenue Service.
>
> [Staff Report, page 196]

To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded "the actions of KCPL constituted "willful misconduct" in that KCPL acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases.

Q. What is KCPL's response relating to Staff's second criticism presented in Ms. Hardesty's rebuttal testimony?

A. At page 9, Ms. Hardesty paraphrases Staff's criticism 2 as "GPE and KCP&L should have included GMO in the resolution of any dispute once it became aware of Empire's claim to the Advanced Coal Credits in the fall 2008."

KCPL's Rebuttal--

Regarding this criticism, Ms. Hardesty states at page 9 of her rebuttal:

- In the fall of 2008, GPE and KCP&L believed that each joint owner in Iatan 2 was responsible for its own income tax items, including income tax credits, due to the language provided in the Joint Operating Agreement.

- GPE and KCP&L also believed in 2008 that in order to qualify for the advanced coal tax credit, a taxpayer had to have a minimum of 400 megawatts or more of nameplate capacity for a facility to qualify for the advanced coal tax credits, per the requirements listed in Internal Revenue Code Section 48A(e)(1)(C). Neither Empire nor GMO, as a taxpayer, owned more than 400 megawatts or more of nameplate capacity of Iatan 2.

- Plus, GPE and KCP&L assisted GMO and Empire in preparing a subsequent application for advanced coal tax credits for each owner that was filed in October of 2008.

Ms. Hardesty concludes, not surprisingly, "GPE and KCP&L did not act imprudently in the fall of 2008."

Staff Response:

This matter has already been decided. The Commission accepted the findings of the Arbitration Panel's decision that KCPL engaged in not only imprudent behavior but "willful misconduct" regarding the Iatan 2 Coal Credits. The Arbitration Panel rejected the argument that KCPL was the only entity who could qualify based on the minimum of ownership of 400 megawatts -- the Commission rejected this argument as well. In fact, even the IRS rejected this argument, as shown by its agreement to Empire receiving a share of the Coal Credits (see August 19, 2010 Memorandum of Understanding reallocation of coal credits to Empire-- Appendix 3 to Staff Report, Schedule CGF 10).

The fact of the matter is, KCPL was not building a 400 megawatt generating facility—KCPL was not even building an 850 megawatt generating facility. The facility that the DOE and IRS qualified for the Coal Credits and awarded the full $125 million amount of these credits was an 850 megawatt generating facility built by five other partners which included GMO and KCPL.

The original August 26, 2008 Memorandum of Understanding with the IRS identified the Project as Iatan 2 which "...will have a nameplate generating capacity (as defined in section 3.02 of Notice 2007-52) of at least 914 megawatts (gross); 850 megawatts (net)..." (see Appendix 3, to Staff Report, Highly Confidential Schedule CGF 5, pages 6 and 7). In other words, the IRS granted the Iatan 2 Coal Credits to the full project of which KCPL was not the sole owner.

KCPL needed partners to build this generating facility. Without these important co-owners, Iatan 2 would likely not have been built. KCPL likely could not have built this unit on its own. It certainly could not have built the unit at the size of Iatan 2. From the very beginning of Iatan 2 planning, and throughout the approval phase for this unit, there were always

going to be other owners of the facility. Ultimately, KCPL owned 54% (465 megawatts) of Iatan 2 with other partners owning the remaining 46% (385 megawatts).

With respect to the matter of KCPL not being responsible for other owners' taxes as indicated in the Iatan 2 Joint Operating Agreement, the Commission addressed this very issue in its March 16, 2011 Order in ER-2010-0355 stating:

> Even though each party under the Iatan 2 Agreement was responsible for paying and filing its own taxes, **as the operator of Iatan KCPL owed a special duty to its co-owners. KCPL should have advised GMO and the other co-owners of its intent to request the availability of Section 48A credits** and of its lobbying efforts to amend the law so that Iatan 2 qualified for the tax credits. [emphasis added]

Thus, the Commission simply did not accept the argument made by KCPL that, despite not having any responsibility for the other Iatan 2 owners' taxes, it did not have to notify these owners about the coal credits.

While GMO was not included as a party in the arbitration process, GMO was included in the findings of the Arbitration Panel which the Commission agreed with in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded that "asOperator, KCPL had a duty to inform the other Owners of its efforts to determine whether Iatan 2 qualified for the Section 48A credits and what impact that would have on the construction of Iatan 2." As a member of the ownership group, GMO had a right to be informed of the existence of the Coal Credits and KCPL's action to apply for these credits as much as any other owner.

Each Iatan 2 owner has separate responsibility for determining the amount of taxes owed the various taxing authorities. While the Iatan 2 Ownership Agreement requires each owner to take care of their own taxes, the allocation of the Iatan 2 Coal Credits had nothing whatsoever to

do with this requirement. Both KCPL (through Great Plains Energy) and Empire have responsibility for income taxes separately despite having a portion of the Iatan 2 Coal Credits allocated to these two entities.

As to KCPL assisting both GMO and Empire in their applications in October 2008, KCPL learned that there was additional funding for coal credits. KCPL had no choice but to assist both entities. It was required to do so for GMO as part of the Joint Operating Agreement between KCPL and GMO wherein KCPL acts as GMO's agent. KCPL was required to provide information necessary to apply for the coal credits to both GMO and Empire because KCPL was the only entity that had the information in its possession.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 2, Staff continues to believe that KCPL and Great Plains Energy acted imprudently:

> When Great Plains Energy and KCPL learned of the dispute with Empire in the fall of 2008, shortly after the Aquila acquisition, and Empire made its claim to the Iatan 2 qualifying advanced coal Project credit, Great Plains Energy and KCPL should have included GMO in the resolution of this dispute.
>
> [Staff Report, page 196]

To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded "the actions of KCPL constituted "willful misconduct" in that KCPL "acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases.

Q. What was KCPL's response relating to Staff's third criticism of KCPL's handling of the Iatan 2 Coal Credits presented in Ms. Hardesty's rebuttal testimony?

A. At page 9, Ms. Hardesty paraphrases Staff's criticism 3 as "once GPE and KCP&L became aware of the IRS's interpretation that the allocation of Advanced Coal Credits was on a project (or plant) basis versus a taxpayer basis, it should have included Empire and GMO in the allocation of credits."

KCPL's Rebuttal--

Ms. Hardesty states at page 9 of her rebuttal:

- In January of 2009, the Company received the IRS's denial of GMO's application for Advanced Coal Credits. The denial simply stated that KCP&L had already been allocated $125 million in Advanced Coal Credits for the facility. This is the first indication that the IRS had interpreted that the maximum of $125 million in credits was on a total plant basis and not on a taxpayer basis. By this time, KCP&L had already entered into a memorandum of understanding ("MOU") with the IRS regarding the allocation of the credits to KCP&L.

- IRS guidance available at the time indicated that a new MOU was possible with the IRS if a facility was sold to another taxpayer. There was no guidance available stating that GPE and KCP&L could ask for a revised MOU with the IRS for any other reason.

- Therefore, in January of 2009, GPE and KCP&L did not have any indication that it could request a reallocation to Empire or to GMO. Failing to seek a reallocation, when the Company had no reason to believe allocation was possible, was not imprudent.

Staff Response:

The question must be asked why KCPL did not know the Iatan 2 Coal Credits were for the entire Iatan 2 Project. In fact, KCPL had no other basis than to assume the Coal Credits were for the entire Iatan 2 Project-- or KCPL should have known these credits were for the entire Iatan 2 Project. Throughout the original August 26, 2008 Memorandum of Understanding with the IRS the term "Project" was used, which referred to the Iatan 2 Project. And the application for

the credits with DOE and the IRS held the unit out as an 850 megawatt unit. Nowhere in KCPL's application or in the Memorandum of Understanding is it identified that the Coal Credits were for only KCPL's 54% share of Iatan 2. Thus, Iatan 2 qualified for the coal credits as an 850 megawatt unit—a unit that included two other taxpaying investor-owned utilities — Empire's 12% share and GMO's 18% share.

In fact, KCPL itself thought the owners might take issue with KCPL claiming all the $125 million Coal Credits for itself. In a May 29, 2008 email from Steve Easley, then KCPL's Vice President of Supply, he prepared some draft statements regarding the Advanced Coal Tax Credit as follows:

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[emphasis added; see attached Highly Confidential Schedule CGF-SUR-4)]

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On the same May 29, 2008 date, another KCPL employee wrote an email to Melissa Hardesty stating much the same information as above and also referenced that ** _____ _____

_____
_____
_____
_____
_____ **

[emphasis added; see attached Highly Confidential Schedule CGF-SUR-5]

It is noteworthy that this May 29, 2008 communication indicates ** _____ _____

_____
_____
_____
_____ **

The question must also be asked why, at a minimum, didn't KCPL go to the IRS and inquire if a revised MOU was necessary for a reallocation to GMO and Empire when it received the January 2009 notice that GMO's application was rejected because the Iatan 2 Project was already awarded the maximum $125 million.

After the July 2008 acquisition of Aquila, Great Plains Energy sought additional coal credits for the newly acquired GMO. KCPL informed Empire that it was pursuing additional coal credits for GMO and suggested Empire file an application also. Both GMO and Empire filed such an application and were denied any allocation of credits, being told by the IRS that the maximum allowed level of $125 million had already been given to the Iatan 2 Project. At the time that KCPL, GMO, and Empire learned that the Iatan 2 Project had already received the full

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amount of credits allowed, clearly there is no justification for not requesting a reallocation to include GMO and Empire. But of course, that is not what happened. KCPL was able to ensure GMO did not make such a request. However, KCPL could not control Empire, who pursued its share of the coal credits through arbitration. On December 30, 2009, the Arbitration Panel agreed with Empire's position that it should have been notified earlier of the existence of the coal credits and should have been included in KCPL's successful request for credits. Had GMO been permitted to participate in the Arbitration process, GMO would have been awarded its share of the credits as well.

Both the original August 26, 2008 Memorandum of Understanding and the revised August, 19, 2010 MOU contains language that requires a new MOU (see Appendix 3 to Staff Report, Highly Confidential Schedule CGF 5 and Schedule CGF 10). Under 3 – Successor in Interest of the MOU:

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> [Appendix 3, to Staff Report, Schedule CGF 10, page 8]

Section 4—Amendment of MOU states that ** _____

_____

_____ ** Thus, the MOU process contemplates the potential for revisions and changes in circumstances and ownership. Staff believes the changed circumstances relates to the

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need to allocate a share of these credits to GMO just as the need occurred to change the MOU for Empire in August 2010.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 3, Staff continues to believe that KCPL and Great Plains Energy acted imprudently:

> When Great Plains Energy and KCPL learned that the IRS considered the Coal Credits for Iatan 2 as being awarded on an Iatan 2 Project basis, rather than on an individual owner basis, Great Plains Energy and KCPL should have included GMO (and Empire) in the allocation of Tax Credits.
>
> [Staff Report, page 196]

To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded "the actions of KCPL constituted "willful misconduct" in that KCPL acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases.

Q. What was KCPL's response relating to Staff's fourth criticism of KCPL's handling of the Iatan 2 Coal Credits presented in Ms. Hardesty's rebuttal testimony?

A. At page 10, Ms. Hardesty paraphrases Staff's criticism 4 as "GPE and KCP&L should have included GMO in the arbitration process with Empire in the fall of 2009."

KCPL's Rebuttal--

Ms. Hardesty states at page 10 of her rebuttal:

- As indicated before, based on the language provided in the Iatan 2 Joint Operating Agreement, each joint owner in Iatan 2 was

responsible for its own income tax items, including income tax credits. In the fall of 2009, there was no reason to believe otherwise.

- At no other time in the Company's history has an income tax item been the responsibility of another joint owner for any of the jointly owned plants it operates or in which it is a minority partner.

- Therefore, GPE and KCP&L did not act imprudently when not including GMO in the arbitration.

Staff Response:

Ms. Hardesty completely ignores the Commission findings in its March 16, 2011 Order:

> In addition, **once arbitration proceedings had begun, GMO should have been involved, in order to protect its own interest.** It is clear that even though KCPL may not have realized it at the time, KCPL could not adequately represent the interest of GMO in the arbitration proceedings. [emphasis added]

While it may be true that that KCPL has never had the responsibility for taxes "of another joint owner for any of the jointly owned plants it operates or in which it is a minority partner," KCPL has never attempted to keep all the tax benefits of any of its jointly owned power plants. Even if it tried, KCPL could not take any of the investment tax credits associated with the Wolf Creek, LaCygne I or II generating units from its joint owner Westar Energy (the former Kansas Gas & Electric Company). KCPL never attempted to keep all the tax benefits from Empire and Aquila L&P (the former St. Joseph Light & Power Company) with respect to those companies' ownership in Iatan 1. All the benefits of ownership, including any tax advantages, were fully recognized by KCPL as well as by Westar, Empire and Aquila for each of these power plants. This is "a first" for the partners of KCPL in Iatan 2 to be placed in a position where the lead operator tries to keep all the tax benefits for itself to the detriment of the other owners.

KCPL simply did not want to include GMO in the arbitration process because it had no intention of sharing any of the Coal Credits with anyone else, including its affiliate GMO. While

Empire could control its own destiny, GMO had no such fortune. Empire was able to act independently from KCPL to serve its own interest regarding the Coal Credits. KCPL, acting as the sole agent representing GMO, was able to prohibit GMO from being involved in the arbitration process. In fact, GMO was the only Iatan 2 owner who did not participate in the Arbitration hearings held November 2009. No one representing GMO presented testimony, testified at depositions, presented evidence before the Arbitration Panel, or wrote briefs. GMO was the only owner who did not participate in any aspect in these proceedings.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 4, Staff continues to believe that KCPL and Great Plains Energy acted imprudently when:

> Great Plains Energy and KCPL should have included GMO in the Arbitration process with Empire in the fall of 2009.
>
> [Staff Report, page 196]

To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded "the actions of KCPL constituted "willful misconduct" in that KCPL "acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases as stated in its Orders in Case Nos. ER-2010-0355 and ER-2010-0356.

Q. What was KCPL's response relating to Staff's fifth criticism of KCPL's handling of the Iatan 2 Coal Credits presented in Ms. Hardesty's rebuttal testimony?

A. At page 11 of her rebuttal, Ms. Hardesty paraphrases Staff's criticism 5 as "after the Empire arbitration decision on December 30, 2009, GPE and KCP&L should have included GMO in the request for reallocation with the IRS."

KCPL's Rebuttal--

Ms. Hardesty states at page 11 of her rebuttal:

- When KCP&L and Empire requested a reallocation of Advanced Coal Credits in 2010, no one knew if it was even possible under the tax laws to reallocate the tax credits to another tax payer. KCP&L and GPE believed, based on advice from counsel, that including a taxpayer who was not a party to the arbitration would have made the request for reallocation more difficult for the IRS.

- If the request for reallocation to Empire was unsuccessful, KCP&L would have had to pay Empire for its portion of the Advanced Coal Credits as indicated in the arbitration order. A payment to another taxpayer for ITC credits could have been a "normalization violation," and the penalties associated with a violation may have been imposed. Therefore, it was imperative that KCP&L and GPE take any action to make the request as attractive as possible for the IRS to accept the reallocation of Empire. And, in this case, it meant that GPE and KCP&L did not ask for GMO to be included in the request for reallocation.

- Therefore, GPE and KCP&L did not act imprudently in not including GMO in its request for reallocation.

Staff Response:

Given Ms. Hardesty's view that any request for reallocation of Coal Credits would be difficult from the IRS for a taxpayer that was not a party to the arbitration, this makes the decision not to include GMO in the arbitration process even more important. To suggest as justification for not including GMO in the allocation process because it would be difficult to ask the IRS to include a non-party to the arbitration process (GMO)—an entity controlled by KCPL by virtue of its agent relationship to GMO--- is simply unreasonable. KCPL and Great Plains Energy made the decision to not include GMO in the arbitration process. To now take the

position that GMO was excluded from the reallocation request with Empire because GMO wasn't a party to the arbitration process—a decision made by KCPL to exclude GMO from getting its ownership share—is simply indefensible and unconscionable. It certainly is an example of affiliate abuse.

During the discussion about reallocation of the Coal Credits to Empire, **_____ _____ _____ _____ _____ _____ ** (see Appendix 3 to Staff Report, Schedule CGF 11). Mr. Bassham is now Chief Executive Officer of Great Plains Energy, KCPL and GMO.

Finally, if KCPL is unsuccessful in convincing the IRS to reallocate Coal Credits to GMO, then Staff recommends the same remedy be imposed on KCPL as it was for Empire in that KCPL be required to pay the monetary equivalent to GMO for the Iatan 2 Coal Credits.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 5, Staff continues to believe that KCPL and Great Plains Energy acted imprudently:

> After the Arbitration decision on December 30, 2009, Great Plains Energy and KCPL should have included GMO in the request made to the IRS for reallocation of the Iatan 2 Coal Credits.
>
> [Staff Report, page 196]

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To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded "the actions of KCPL constituted "willful misconduct" in that KCPL "acted willfully and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases.

Q. What was KCPL's response relating to Staff's sixth criticism of KCPL's handling of the Iatan 2 Coal Credits presented in Ms. Hardesty's rebuttal testimony?

A. At page 11 of her rebuttal testimony, Ms. Hardesty paraphrases Staff's criticism 6 as "GPE and KCP&L should not have signed the document sent to the IRS with the first request for reallocation of credits to Empire stating that GMO was aware of the request reallocation and that it would not request a separate reallocation in the future."

KCPL's Rebuttal--

Specifically, Ms. Hardesty states at page 12 of her rebuttal:

- As stated in the previous explanation, GPE and KCP&L believed that it was imperative to take any action to make the request as attractive as possible for the IRS to accept the reallocation of advanced coal tax credits to Empire in order to avoid a potential normalization violation and the penalties that could have been imposed on KCP&L.

- As part of the process for the reallocation to Empire, the IRS requested that GMO sign a statement that GMO was aware of KCP&L's and Empire's request for reallocation of advanced coal credits and GMO would not request another reallocation in the future. KCP&L and GPE felt that if it denied the IRS's request that it would harm its chances of getting a reallocation of credits to Empire. As a result, GMO signed the necessary document.

- And, despite the document signed by GMO, GPE KCP&L, and GMO did go back and request a reallocation of Advanced Coal Credits to GMO from the IRS when it was ordered to do so by the Commission in Case No. ER-2010-0355.

- Therefore, GMO did not act imprudently when it signed the document stating it would not request a reallocation of Advanced Coal Credits to GMO in the future.

Staff Response:

It would have been far more attractive to the IRS (and this Commission) to have the reallocation done once and for all by including each and every taxpaying Iatan 2 owner in a "final" allocation of the Coal Credits by including not only Empire but the KCPL affiliate GMO in the arbitration process and, once the Arbitration Panel reached its decision, in the revised 2010 Memorandum of Understanding. This would have been not only attractive to the IRS but would have solved the dilemma that has been before the Commission the last two KCPL and GMO rate cases. If GMO had been included in the reallocation in 2010, the IRS would not have had to expend time and resources to address this issue in 2011 when KCPL and GMO requested the reallocation of the Coal Credits in response to the Commission's March 16, 2011 Order.

Ms. Hardesty states KCPL believed it was imperative to fix the allocation of the Coal Credits to Empire with the IRS because of the Arbitration Panel's findings that required KCPL to either allocate these credits to Empire or pay Empire the cash equivalent. Equally imperative was the inclusion of GMO in the arbitration process. If KCPL would have fulfilled its obligation as GMO's operating agent and pursued the Coal Credits for GMO along with Empire through arbitration, GMO would have most certainly received its share through the 2010 reallocation process with the IRS. Had the IRS been presented with a request that included GMO it would not have needed to ask Great Plains Energy and GMO for a written commitment not to request any future reallocation to GMO. It was Great Plains Energy and KCPL's decision-making to completely ignore GMO's share of the Coal Credits that caused the problem with the IRS at every stage of this long, convoluted process.

It was imperative to not only take all actions necessary "to make the request as attractive as possible for the IRS to accept the reallocation of advanced coal tax credits to Empire in order to avoid a potential normalization violation and the penalties that could have been imposed on KCP&L" but it was equally imperative that GMO be treated on the same basis as the other two taxpaying Iatan 2 partners. KCPL had responsibility as GMO's agent and sole representative to ensure its affiliate was treated fairly with respect to the Coal Credits. Failing to do so, KCPL engaged in willful misconduct and acted improperly representing GMO's interests and the interests of its customers.

Either separately or together, KCPL and GMO have gone to the IRS a total of five separate times requesting allocation of the Iatan 2 Coal Credits and Empire made a further request. No wonder the IRS is tired of this issue—and who could blame them. If KCPL would not have engaged in willful misconduct in the first place, none of this would have happened. The following identifies the number of times the IRS has had to deal with the Iatan 2 Coal Credits for KCPL and GMO:

1. In 2006, KCPL requested allocation of Coal Credits in 2006—was rejected
2. October 30, 2007, KCPL again requested allocation of Coal Credits
3. October 2008, GMO requested allocation of Coal Credits, which request was rejected because the April 2008 award of credits was for the entire Iatan 2 Project
4. In 2010 KCPL and Empire requested reallocation of Coal Credits to include Empire after the Arbitration Order
5. On April 5, 2011 KCPL and GMO requested reallocation of Coal Credits to include GMO after the March 16, 2011 Order of the Commission

In addition to the times KCPL and GMO went to the IRS, Empire made an application for Iatan 2 Coal Credits in October 2008, as did GMO. That request was denied on June 23, 2009 because the April 2008 award of these credits was for the entire Iatan 2 Project and was the

maximum allowed of $125 million (see Highly Confidential Schedule CGF-REB-1 attached to my Rebuttal testimony).

In Ms. Hardesty's rebuttal testimony at page 12, line 12 she states "...despite the document signed by GMO, **GPE**, KCP&L, and GMO did go back and request a reallocation of Advanced Coal Credits to GMO from the IRS when it was ordered to do so by the Commission in Case No. ER-2010-0355." Ms. Hardesty claims Great Plains Energy went to the IRS and requested a reallocation of the Coal Credit to GMO. That is simply not the case. KCPL and GMO went to the IRS. Great Plains Energy did not "...go back and request a reallocation of Advanced Coal Credits to GMO from the IRS...".

But requiring Great Plains Energy to go the IRS is exactly what Staff is recommending in this case—requesting the Commission order Great Plains Energy, along with its wholly-owned subsidiaries KCPL and GMO, to make the request for reallocation of credits to GMO as the parent of both KCPL and GMO and as the only true taxpaying Great Plains Energy entity who can actually take tax benefits of the Coal Credit through the corporate consolidated tax return. Only Great Plains Energy can take advantage of the Coal Credits when it has sufficient tax liabilities. Neither, KCPL nor GMO could take the benefit of the Coal Credit on a stand-alone basis.

But to be clear, Great Plains Energy <u>did not</u> reapply for the Coal Credits as indicated by Ms. Hardesty on page 12, line 12 of her rebuttal. Only KCPL and GMO made the request to the IRS on April 5, 2011 (see Appendix 3 to Staff Report, Schedule CGF 1). Referencing Schedule CGF 1, Great Plains Energy was not referenced in the April 5, 2011 letter sent to the IRS (page 3).

While Great Plains Energy did not make any such request to the IRS regarding a reallocation of the Coal Credits, ironically the IRS did indicate during the discussion with Staff and KCPL on September 21, 2011 that it would reconsider its August 2011 rejection of KCPL's and GMO's April 5, 2011 request if Great Plains Energy made such a request along with KCPL and GMO. The IRS agent made it clear that although others at the IRS would have to be involved in any further request, the IRS would reconsider its decision regarding the reallocation question if Great Plains Energy was part of such request. See Appendix 3 to Staff Report, Schedule CGF 3, page 5.

Q. Does Staff continue to believe KCPL and Great Plains Energy acted imprudently regarding the allocation of Iatan 2 Advanced Coal Credits for GMO?

A. Yes. Despite KCPL's position to the contrary respecting KCPL's criticism 6, Staff continues to believe that KCPL and Great Plains Energy acted imprudently.

> During the discussions with the IRS regarding the request to allocate the Iatan 2 Tax Credits to Empire in early 2010, Great Plains Energy and KCPL should have included GMO in this reallocation process and not signed away GMO's rights to these tax benefits.
>
> [Staff Report, page 197]

During the discussions with the IRS regarding the request to allocate the Iatan 2 Tax Credits to Empire in early 2010, Great Plains Energy and KCPL should have included GMO in this reallocation process and not have signed away GMO's rights to these tax benefits. To conclude otherwise would require a complete disregard for the Arbitration Panel's findings that KCPL engaged in willful misconduct and the findings of the Commission in Case Nos. ER-2010-0355 and ER-2010-0356. The Arbitration Panel unanimously concluded in its December 30, 2009 decision "the actions of KCPL constituted "willful misconduct" in that KCPL "acted willfully

and in an opportunistic manner to garner all of the benefits of the Section 48A credits for itself..." The Commission agreed with the Panel's findings in KCPL and GMO's last rate cases.

Income Tax Normalization

Q. Both KCPL and GMO witnesses discuss the matter of a tax normalization violation in rebuttal testimony. Do the normalization rules apply to the allocation of Iatan 2 Coal Credits to GMO?

A. The tax normalization rules should not apply to such an allocation of benefits to GMO. This issue of GMO getting its proper and rightful share of these tax benefits is not what triggered normalization violation issues in the past. As explained in my rebuttal testimony (page 9) the normalization rules do not fit the characteristics of a typical normalization violation—that is, making sure tax benefits are not greater than intended nor accelerated faster than permitted. Allocating the coal credits to GMO reduces the amount for KCPL from $107.3 to $80.7 million. GMO's share would be approximately $26.5 million. The end result is that, between KCPL and GMO, as entities paying income taxes on a consolidated Great Plains Energy basis, they will not take a greater tax benefit than the amount currently allocated to KCPL. When the amount allocated to Empire is considered, the total Coal Credits for Empire and the Great Plains Energy entities will equal the $125 million amount that the IRS awarded for the Iatan 2 Project.

The normalization rules would not normally apply to the allocation of GMO receiving its equitable share of the coal credits if Great Plains Energy and KCPL (or Aquila, prior to the July 2008 acquisition) had simply included GMO. KCPL had an absolute duty as GMO's agent to ensure GMO's interest was represented. Both Great Plains Energy and KCPL's officers completely failed to provide such oversight function regarding the coal credits. Had Great Plains

Energy and KCPL included GMO in requests before either the Arbitration Panel or in the many interactions with the IRS, the question of violating the normalization rules would never have been an issue.

Q. Did the reallocation of coal credits to Empire create a normalization violation?

A. No. Working with the IRS, KCPL and Empire requested and received a reallocation of Empire's ownership share of coal credits. There was no normalization violation or threat of such from the IRS when Empire received its ownership share in August 2010. The normalization issue was not used to keep Empire from its rightful allocation of these significant benefits. There is absolutely no reason to believe that had GMO been included in the process to receive its share of the Iatan 2 Coal Credits that GMO would not have received its share as well as Empire, with no threat of violating any of the normalization rules.

Q. Why does Staff believe GMO would have been successful in getting its allocated ownership share of the Coal Credits?

A. The better question is why would anyone believe otherwise? GMO, with its 18% ownership share of Iatan 2, has a larger share of this unit than any other partner except KCPL—larger than Empire's 12% share. The IRS would not and does not care if GMO received a share of these coal credits, had KCPL conducted itself in the manner required as agent of GMO and included GMO in all discussions regarding these credits. The IRS is not in the business of "choosing winners" as the IRS agent told Staff during the September 21, 2011 conference call. The IRS was not created to discriminate against GMO—it is charged with applying the tax law fairly to all taxpayers. There is simply no question the IRS would have included GMO in the allocation if anyone spoke up and said there is one other entity needing to be addressed. Of course, GMO didn't have a voice like Empire—that voice had been silenced by Great Plains

Energy when it acquired Aquila in July 2008. The IRS would have authorized (allowed) GMO its proportionate share of the Iatan 2 Project credits of the $125 million, the maximum allowed on any one coal project. GMO's share of the credits is approximately $26.6 million.

Q. Why do you believe the IRS would have supported the inclusion of GMO at the time of the reallocation of the Coal Credit to Empire?

A. There are many reasons the IRS would have supported the allocation of the Coal Credit to GMO.

- The IRS would had no basis to dispute including GMO in the allocation of the Coal Credit with GMO's 18% ownership position of Iatan 2
- The IRS allocated the Coal Credit to Empire on a 12% ownership of Iatan 2
- GMO was the last tax-paying entity left that hadn't been considered
- No Iatan 2 owner could have challenged including GMO in the allocation of the Coal Credits with GMO's 18% ownership of Iatan 2
- Based on GMO's ownership share of Iatan 2, no state commission or FERC could have challenged including GMO in the allocation of the Coal Credits
- There would have been no justification not to include GMO as a taxpaying owner of Iatan 2 in the allocation of the Coal Credit

Q. Is there any reason to exclude GMO from the allocation of the Coal Credit?

A. No, other than KCPL wanting to have the entire amount of the Coal Credit allocated to it which was its initial position. Of course, after the Arbitration Panel's decision KCPL was forced to share the credits with Empire. There certainly is no ratemaking justification not allowing GMO a share of the Coal Credit. A fundamental tenet of ratemaking is matching benefits to costs— or those who pay the costs are entitled to the benefits. In this instance, the Coal Credit came about for Iatan 2 because the unit met stringent environmental emission standards that were very costly for the owners. The plant would not have been built without the commitment of the ownership group to meet those stringent standards. GMO, as one of the

owners had to invest at a proportionate level just as every other owner to participate in this unit. Simply, GMO is entitled to the Coal Credit benefits by virtue of its ownership position of Iatan 2— GMO and its customers paid for all the costs of Iatan 2 and is entitled to the full benefits of the plant including the credits resulting from the unit qualifying for them. From a ratemaking perspective, there simply would be no justification for any state commission to deny GMO's share of the Coal Credit—not from a fairness perspective, not from an ownership perspective and certainly not from a test of reasonableness perspective.

Q. If the issue regarding these coal credits is not a normalization matter, then what is the issue?

A. The issue with the IRS relating to these coal credits can be thought of as nothing more than an administrative matter regarding the application and review process of the coal credits-- not a tax normalization issue. This issue focused on the process in which the IRS has chosen to review, approve and authorize the use of these credits. As noted earlier, KCPL and GMO have gone back to the IRS five times over a period from 2006 to 2011. The IRS has had to expend time and energy dealing with the improper approach KCPL took to secure these credits for the Iatan 2 facility. KCPL went about it all wrong when it attempted to take all the credits for itself to the disadvantage of the other owners. All non-KCPL owners but GMO eventually either received benefit from the Coal Credits, as in the case of Empire or, in the case of non-taxpaying partners, received reimbursement from KCPL for costs relating to the Coal Credits initially charged to those partners.

Q. Does KCPL or GMO file a tax return?

A. Neither KCPL nor GMO file tax returns with the IRS. In identifying the results of operations, both KCPL and GMO prepare individual tax returns internally which are used by

Great Plains Energy to assist in the preparation of the consolidated income tax return actually filed with the IRS. Both KCPL and GMO pay their taxes on a consolidated basis as Great Plains Energy. Because of this consolidation of income taxes, and the decision by Great Plains Energy to use the non-regulated Aquila tax losses, Great Plains Energy has not generated sufficient taxable income to have to pay any income taxes where it could take the Iatan 2 Advanced Coal Credits as an offset (reduction). Attached as Highly Confidential Schedule CGF-SUR-6 is a Tax Allocation Agreement for Great Plains Energy and its subsidiaries that addresses the tax consolidation of filing with the IRS.

Great Plains Energy does not currently and has not for the last several years had tax liability requiring it to pay any taxes because of tax losses generated by Aquila prior to the July 2008 acquisition (when Aquila incurred massive net operating losses from non-regulated failures). Because it is taking these old Aquila tax losses, Great Plains Energy does not presently take the tax benefits of the Iatan 2 Coal Credits due to filing a consolidated income tax return for the corporation, which includes all the profitable operating results of KCPL and GMO.

Q. What impact does this have on the revenue requirement of KCPL and GMO?

A. Even though utility rates for KCPL and GMO are set using stand-alone results, including income taxes, neither will be able to take the Coal Credits until Great Plains Energy generates enough taxable income to create tax liabilities because Great Plains Energy has chosen to use the tax losses from Aquila's non-regulated operations, rather than take the Coal Credits. The Coal Credits will, when used, reduce Great Plains Energy's tax liabilities. When Great Plains Energy starts to use the Coal Credits, KCPL and GMO would be able to reduce their income tax expense through an amortization reduction over the period of the life of the Iatan 2 generating facility. This amortization reduction to income tax expense over life of the asset

giving rise to the credits is used to set utility rates to be compliant with normalization rules. To flow the tax benefits faster than over the life of the plant facility would clearly violate normalization rules. Staff witness Charles R. Hyneman also addresses the issue of using stand-alone versus consolidated tax returns.

Despite KCPL and GMO on a stand-alone basis being profitable and each revenue requirement being determined on a stand-alone basis, use of the Coal Credits to reduce KCPL's and GMO's income tax expense are attached to the ability of Great Plains Energy being able to use the credits due to the consolidated tax filing. The revenue requirement in this case and in future cases will be higher until the credits are reflected in the income tax calculation in rate determination. But that will not happen until Great Plains Energy starts to use the credits again. Once Great Plains Energy starts reflecting the impacts for the Coal Credit, the amortization would reduce income tax expense thereby lowering the revenue requirement for both KCPL and GMO. Of course, if KCPL's Coal Credit is reduced for the reallocation for GMO's share, then there is a corresponding reduction to KCPL's amortization of the Coal Credits. While KCPL's Coal Credit will still reduce its revenue requirement, it will not be at the same level because of GMO getting its proper portion of those credits.

Q. Has Great Plains Energy taken any of the Coal Credits as a reduction to its taxes owed to the IRS?

A. Yes. In tax years 2007 and 2008, Great Plains Energy took some of the Coal Credits the IRS authorized for the Iatan 2 Project based on the reduced allocation considering Empire's share of the credits. Attached as Highly Confidential Schedules CGF-SUR- 7 and CGF-SUR-8 are selected pages from the 2008 Great Plains Energy tax returns Form 3468- Investment Credit and Form 3800- General Business Credit. These forms reflect the amount of

Coal Credits taken in Tax Year 2008. Note these tax forms relate to Great Plains Energy corporate taxes on a consolidated basis which includes the income of both KCPL and GMO jointly.

State Jurisdictional Allocation of Iatan 2 Coal Credits

Q. Does the allocation of Coal Credits to GMO impact the level of credits available to KCPL?

A. Yes. If the Iatan 2 Coal Credits are properly allocated to both KCPL and GMO as recommended by Staff, then the amount allocated to KCPL is reduced. While the total $107.3 million amount of Coal Credits allocated to Great Plains Energy entities will not change, that total amount is allocated between KCPL's 54.71% and GMO's 18% proportionate ownership share of Iatan 2. Because each taxpaying owner received a portion of the non-taxpaying owners' interests, the allocation of the Coal Credits will be higher than their respective ownership shares.

In a table originally included in direct testimony, if GMO had been included in the reallocation of the $125 million amount of Coal Credits based on its 18% ownership share, Empire's allocated amount would remain the same but KCPL's share would be further reduced as follows:

Utility—Iatan 2 ownership	Original Memorandum of Understating August 2008	Revised Memorandum of Understanding August 2010	Reallocation including GMO	Percentage of distribution of reallocated Coal Credit
KCPL 54.71%	$125,000,000	$107,287,500	$80,725,000	64.58%
Empire 12%	$0	$17,712,500	$17,712,500	14.17%

GMO 18%	$0	$0	$26,562,500	21.25%
Total	$125,000,000	$125,000,000	$125,000,000	100%

Q. Is there a jurisdictional allocation impact relating to the Iatan 2 Coal Credits concerning the states in which KCPL operates?

A. Yes. Since KCPL provides electric utility service to the states of Kansas and Missouri, the Company uses an allocation method to assign plant investment and costs. Just as it is necessary to allocate all costs to the state jurisdictions, it is necessary to allocate the Coal Credits to each state. Missouri has a little more than 50% of KCPL's business, therefore, the Coal Credits allocated to Missouri are slightly more than 50%.

Q. If the Coal Credits are allocated to GMO, will that affect the amount allocated to KCPL on a state jurisdictional basis?

A. Yes. To the extent KCPL's share of the Coal Credits are reduced to allocate some to GMO, which Staff is recommending, the amount of KCPL's credits allocated to both Missouri and Kansas with decrease. Since GMO has no Kansas operations, the amount allocated to GMO will only be for Missouri. There is a need to allocate the Coal Credits between MPS and L&P, but both those rate districts are in Missouri.

Q. When Empire received its share of the Coal Credit in August 2010 was there an impact on the state jurisdictions?

A. Yes. However, the impact was not as great. Empire has a small portion of its operations in Kansas, Arkansas and Oklahoma. Each of Empire's jurisdictions would be allocated some portion of the Coal Credits through the income tax expense component of rates.

KCPL's share of the Coal Credits was reduced when Empire received its share of the credits affecting KCPL's Kansas customers, but Empire's Kansas customers benefited.

In the case of allocating the Coal Credit to GMO, since there are no Kansas operations for GMO, the amount of Coal Credit for Kansas is reduced.

Qualifying Advanced Coal Project Credits of Other Utilities

Q. Is there an example where the IRS awarded coal credits to related entities?

A. Yes. In 2006 the IRS allocated the maximum $125 million amount to two regulated utilities who jointly applied in their initial application. Kentucky Utilities Company (Kentucky Utilities or KU) and Louisville Gas and Electric Company (Louisville Gas or LG&E) built Trimble County Unit 2 (Trimble 2). This unit is a super-critical, pulverized coal-fired generating unit similar to Iatan 2. Trimble 2 qualified for the maximum $125 million coal credit with Kentucky Utilities and Louisville Gas receiving an allocation of the $125 million coal credits based on their ownership share of Trimble 2. Attached as Schedule CGF-SUR-9 is the June 28, 2006 Application of Kentucky Utilities and Louisville Gas which contains material relating to the Trimble 2 application process for coal credits made to the DOE and the IRS for that generating unit. Also attached as Schedule CGF-SUR-10 is the application of the Section 48A credits made to the IRS. It should be noted that while some of the material is marked as confidential, this information was taken from the internet so it is being treated as public information.

Q. Does Trimble 2 only have two owners?

A. No. There are two other owners of Trimble 2. Illinois Municipal Electric Agency and Indiana Municipal Power Agency own a percentage of this coal-fired generating unit.

Because these two owners of Trimble 2 are non-taxpaying entities they did not receive any allocation of the unit's coal credits. Kentucky Utilities was allocated 81 percent of $125 million, or $101,250,000 (rounded $101.2 million) and Louisville Gas was allocated the remaining amount, or $23,750,000 (rounded $23.8 million).

Q. Is the ownership of Trimble 2 similar to the ownership of Iatan 2?

A. Yes. Both units have multiple owners that are grouped between regulated and non-regulated not for profit entities. Both units qualified for the coal credits and both units received the maximum allowed amount of $125 million. Both units had to have approval of the requests for the coal credits by the DOE and the IRS.

Q. What distinguishes these two generating units relating to the coal credits?

A. The behavior of the owners, in particular the operating owner. The Trimble 2 ownership jointly filed the application with DOE and the IRS and shared in the benefits of those credits. This is not the case with Iatan 2. KCPL secretly filed its initial application, in October 2006, which was rejected, without informing any of the other owners. KCPL re-filed its application in October 2007 after lobbying Congress to change the law to allow Iatan 2 to qualify for Advanced Coal Credits. At some point Aquila became aware of KCPL's request for the coal credits but no other owner was informed. Empire became aware that KCPL had been approved for the coal credits after reading a Securities and Exchange Commission quarterly filing in August 2008, the time KCPL entered into the first Memorandum of Understanding (MOU) with the IRS. Empire sent letters to KCPL requesting its ownership share of the coal credits, in response to which KCPL said Empire was not entitled. Empire had to go to the arbitration process to receive its allocation of the credits. Contrast the approach taken by KCPL to that of

Kentucky Utilities, which included its affiliate, Louisville Gas, in the tax benefits generated by Trimble 2.

Q. What are the similarities between Iatan 2 and Trimble 2 with regard to the Advanced Coal Credits?

A. There are many similarities between the two generating units and ownership regarding the coal credits. Both sets of utilities (Kentucky Utilities and Louisville Gas and KCPL and GMO) have common ownership. Kentucky Utilities and Louisville Gas are wholly-owned by E.ON U.S. While KCPL and GMO are wholly-owned by Great Plains Energy. The following table identifies some of the similarities:

Categories	**IATAN 2**	**TRIMBLE 2**
Net Megawatts	850 MWs	750 MWs
In-Service Date	August 26, 2010	2010
Number of Owners	5	4
Number of Regulated Utility Ownership	3	2
Number of Affiliated Regulated Utilities	2	2
Name of Affiliated Regulated Utilities and Ownership Share	Kansas City Power & Light- (54.71%) and KCP&L Greater Missouri Operations- (18%)	Kentucky Utilities Company (60.75%) and Louisville Gas and Electric Company (14.25%)
Number of Non-Regulated Non-Taxpaying Utilities	2	2
Maximum Amount of Coal Credits Approved	$125 million	$125 million
Date of Application to DOE	Original October 2006 Second October 2007	June 28, 2006
Date Coal Credits Approved	April 26, 2008	October 27, 2006

Source: Kentucky Utilities and Louisville Gas Joint Application to DOE and Application to the Kentucky Commission

Q. Who are the owners of Iatan 2 and Trimble 2?

A. The following table identifies the ownership of these two coal-fired generating stations. Both Iatan 2 and Trimble 2 have a combination of regulated utilities and non-taxpaying municipal utilities:

Iatan 2 Utility	Iatan 2 Ownership Share	Trimble 2 Utility	Trimble 2 Ownership Share
Kansas City Power & Light Company	54.71% -- 465 MW	Kentucky Utilities Company	60.75% -- 455.7 MW
KCP&L Greater Missouri Operations (former Aquila)	18% -- 153 MW	Louisville Gas and Electric Company	14.25% --106.8 MW
Empire District Electric	12% -- 102 MW		
Missouri Joint Municipal Electric Utility Commission	11.76% -- 100 MW	Illinois Municipal Electric Agency	Remaining 25% -- 187.5 MW
Kansas Electric Power Cooperative, Inc.	3.53% -- 30 MW	Indiana Municipal Power Agency	Remaining 25% --- 187.5 MW
Total	100% -- 850 MW		100% -- 750 MW

Q. What amounts of coal credits were allocated for the two generating units?

A. The following table identifies the amount of the Advanced Coal Credits allocated between the various ownerships of Iatan 2 and Trimble 2:

Iatan 2 Utility	Revised August 2010 Memorandum of Understanding	Trimble 2 Utility	Closing Agreement (Memorandum of Understanding)
Kansas City Power & Light Company	$107,287,500	Kentucky Utilities	$101,250,000
Empire District Electric Company	$17,712,5000	Louisville Gas	$23,750,000
KCP&L Greater Missouri Operations	--$0--		
Missouri Joint Municipal Electric Utility Commission	--$0--	Illinois Municipal Electric Agency	--$0--
Kansas Electric Power Cooperative, Inc.	--$0--	Indiana Municipal Power Agency	--$0--
Total	$125,000,000		$125,000,000

As can be seen from the above table, GMO is the only regulated utility who did not receive an allocated share of Advanced Coal Credits. The only reason Empire received any allocation of the coal credits was because it had to go through an arbitration process in 2009. In December 30, 2009 Empire won its arbitration against KCPL, and the IRS agreed to an allocation of coal credits to Empire based on its 12% ownership share.

Q. Does KCPL make the point that it was the only Iatan 2 owner that could qualify for the Coal Credits because of the 400 megawatt minimum?

A. Yes. However, one of the owners of Trimble 2 qualifying for the Coal Credits is Louisville Gas who has a 14.25%, or 106.8 megawatt share of this unit. Certainly, if Empire's 12% -- 102 megawatt ownership share and Louisville Gas qualify for the Coal Credits then GMO would have no problem qualifying for these credits.

Q. Why is the comparison of the Trimble 2 unit for the Coal Credits important?

A. How the two regulated affiliated Kentucky utilities treated the Coal Credit for Trimble 2 is substantially different than how KCPL approached the Iatan 2 Coal Credit. The approach taken for Trimble 2 was to request upfront a sharing of Coal Credits with its taxpaying ownership. Louisville Gas, as the minority owner and affiliate of the lead owner of Trimble 2, Kentucky Utilities, had an opportunity to share in the benefits of the Coal Credits associated with the plant from the beginning.

- Louisville Gas did not have to request from Kentucky Utilities to share in the Coal Credit as Empire did with KCPL (see Appendix 3, to Staff Report, Highly Confidential Schedule CGF 7)

- Louisville Gas did not have to issue a notice of controversy for its share of Trimble 2 Coal Credit with Kentucky Utilities as Empire did with KCPL (see Appendix 3, to Staff Report, Highly Confidential Schedule CGF 7)

- Louisville Gas did not have to issue a Notice to Arbitrate for its share of Trimble 2 Coal Credit with Kentucky Utilities as Empire did with KCPL (see Appendix 3, to Staff Report, Highly Confidential Schedule CGF 7)

- Louisville Gas did not have to receive an order from an Arbitration Panel for its share of Trimble 2 Coal Credit with Kentucky Utilities as Empire did with KCPL (see Appendix 3, to Staff Report, Highly Confidential Schedule CGF 7 December 30, 2009 Arbitration decision, Appendix 3, Schedule CGF 8)

- Louisville Gas did not have to separately request a share of the Trimble 2 Coal Credit from the DOE and IRS as GMO and Empire both had to do in October 2008

- Louisville Gas did not have to go to the IRS to request a reallocation of Trimble 2 Coal Credit as Empire had to do in 2010.

- Louisville Gas did not have to have a regulatory staff of a public utility commission represent the interests of the company because its affiliate either was unable or refused to represent its interests regarding the Coal Credits

- Louisville Gas did not have to go to the IRS to request a reallocation of Trimble 2 on April 5, 2011 as GMO has had to do

- Louisville Gas has not repeatedly been denied its proper ownership share of the Trimble 2 Coal Credits

In fact, Louisville Gas and Kentucky Utilities did not have to go before the IRS on six different occasions to get the Coal Credit for Trimble 2 properly allocated between the two regulated, affiliated utilities as KCPL, Empire and GMO have had to do. It makes all the difference if the affiliate is dealing with a joint owner that is transparent, upfront, honest, fair minded and willing to share in all the benefits of the power plant including the Coal Credit.

Contacts with Internal Revenue Service

Q. Ms. Hardesty discusses a conference call held with the IRS at page 12 of her rebuttal testimony. Has she provided an accurate account of this meeting with the IRS?

A. No. Ms. Hardesty claims that Staff mischaracterized the contents of the conference call with the IRS agent that took place on September 21, 2011. In Staff's Report, I identify an excerpt from notes taken from the meeting with the IRS agent relating to the opportunity of requesting the allocation of Coal Credits to GMO if Great Plains Energy, the taxpayer of the consolidated operations and parent of KCPL and GMO, would request a reallocation as follows:

Staff asked ** _____
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Q. How does KCPL represent this part of the meeting with the IRS?

A. Ms. Hardesty states at page 13 of her rebuttal that KCPL believes the statement above that I included in the direct testimony on this issue is "misleading." I take strong exception to KCPL's characterization of the September 21, 2011 conference call with the IRS. It was clear from my perspective that the IRS agent was sympathetic to what Staff was trying to do by getting the Coal Credit allocated to GMO. As noted in the notes attached as Appendix 3, to Staff Report, Schedule CGF 3 the IRS agent indicated:

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Staff does agree with KCPL that the IRS agent indicated the ** _____ _____ ** This is what the August 2011 letter to KCPL stated as the reason it rejected the request to reallocate the Coal Credit to GMO. Staff also agrees that during the September 21, 2011 conference call the IRS agent discussed how the reallocation of the Coal Credit to GMO was a ** _____ _____ ** In fact, Staff's notes to this meeting reflect the nature of the IRS agent's concerns identified at page 13, lines 16 through 23 of Ms. Hardesty's rebuttal testimony. The IRS agent did indicate all the parties involved in the reallocation matter ** _____ _____ uld _____ ** These points were discussed throughout the meeting. However, these points were not brought up by the IRS agent to directly respond to the question of ** _____ ** which is the basis of the above statement. In fact, this above question and the IRS agent's answer was made at the very end of the meeting and the agent responded that the IRS ** _____ _____ _____ **

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It was clear to me that the opportunity existed for a ** _____ ** by the IRS regarding these credits. Obviously, I am not as pessimistic about the ability of GMO getting its rightful share of the Coal Credit as KCPL.

Q. Was KCPL in contact with the IRS for the reallocation request?

A. Yes. KCPL's response to Data Request 314 identified the times KCPL contacted the IRS regarding the reallocation of the Coal Credit to GMO (see attached Highly Confidential Schedule CGF-SUR-11.

Q. Has Great Plains Energy made a request to the IRS for a reallocation of the Iatan 2 Coal Credits as discussed with the IRS agent on September 21, 2011?

A. No. Great Plains Energy has made no such request. From Staff's perspective this option has not been fully and properly explored and as such, Great Plains Energy, as the only Great Plains Energy entity (taxpayer) who can actually take advantage of the Coal Credit based on its level of taxes owed to the federal government, has not exhausted all options to request an allocation of these Credits to GMO.

Q. Does Staff still support Great Plains Energy requesting the reallocation of Coal Credit to GMO from the IRS?

A. Yes. This continues to be one of solutions to getting this matter resolved with respect to GMO's share of the Coal Credit. Staff believes if properly explained to the IRS, it would agree to an allocation of the Coal Credit to GMO. The IRS is indifferent as to who gets the Coal Credit among the Iatan 2 taxpaying owners. The IRS certainly had no problem allocating the Trimble 2 Coal Credit to Louisville Gas and Kentucky Utilities when they jointly sought approval in 2006. Ultimately, the IRS agreed to allocate the Coal Credit to Empire.

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If GMO had been included in the original request, or any subsequent request, there is no reason to believe GMO would have been denied.

Q. How did Staff treat the Coal Credit in the income tax calculation in this case?

A. Staff reduced the amount allocated to KCPL to recognize GMO's allocated share of the Iatan 2 Coal Credit. It is incorrect to reflect GMO's share of the Coal Credit as though it was KCPL's, therefore, Staff reduced the $107.3 million amount to only KCPL's ownership share of the Coal Credit in this case (Case No. ER-2012-0174).

Because of the controversy of allocation of a share of the Coal Credit to GMO, Staff did not reflect any of GMO's share in GMO's case (Case No. ER-2012-0175) until the matter gets resolved.

Q. Does KCPL address what it believes are Staff's reasons for allocating the Coal Credit to GMO?

A. Yes. At pages 14 through 16 of Ms. Hardesty's rebuttal she identifies what she refers to as three other reasons Staff proposes to allocate the Coal Credit to GMO. KCPL cites:

1. That GMO shared in the cost of building Iatan 2, therefore it should share in any tax benefits generated by Iatan 2.

2. That KCP&L has not fulfilled its obligations to GMO under the Joint Operating Agreement between the two companies.

3. That the Iatan 2 coal credits are a detriment of the Aquila acquisition and that the ratepayers have been harmed.

With respect to reason 1, Ms. Hardesty testifies at page 14 of her rebuttal that KCPL agrees that since GMO had to pay the costs of Iatan 2 it deserves to share in the Coal Credit so long as no harm occurs to both KCPL and GMO. She states further that "KCP& L and GPE are convinced that any action taken to reallocate the credits to the other joint owners without a revised MOU would create a normalization violation."

Q. Does Staff agree that any attempt to reallocate the Coal Credit to GMO would violate normalization rules?

A. I discuss this in my rebuttal testimony. The normalization rules were not created for a situation where a corporate entity—Great Plains Energy—files a consolidated tax return and is the only entity that can take the tax credit allocated to one of its subsidiaries—KCPL—while another subsidiary--- GMO – has none of the credits allocated to it. If both wholly-owned subsidiaries are allocated a share of the credit—in this case the Iatan 2 Coal Credit— then the allocation would not exceed the total credit—in this case $107.3 million. The total credit is what the consolidated tax return of Great Plains Energy would reflect.

Another element of the normalization rules is taking the tax benefits faster than over the life of the plant. Staff is not proposing that either a greater tax benefit is taken—only up to the $107.3 million maximum amount—and no tax benefit is accelerated greater than the life of the investment.

Therefore, since the taxes paid by KCPL and GMO are on a Great Plains Energy consolidated tax basis, KCPL and GMO, and ultimately the IRS, should not consider allocating the GMO credit a normalization violation.

Private Letter Ruling Request

Q. KCPL discusses that it has prepared a private letter ruling request relating to the Iatan 2 advanced coal credit issue at page 17 of its rebuttal testimony. Is Staff aware of this request?

A. Yes. KCPL advised Staff in May of this year of KCPL's intent of requesting from the IRS an opinion to see if allocating the Coal Credit for GMO would

violate normalization rules. This request is made from the IRS in what is known as a "private letter ruling."

Q. Is the "private letter ruling" process the same thing as requesting a reallocation in the manner you discuss above in regard to the September 21, 2011 conference call with the IRS agent?

A. No. KCPL's request for a private letter ruling has as its sole intent to address the normalization rules issue. I understand that the private letter ruling process is handled by a completely different part of the IRS, with different IRS personnel located in Washington, D.C.

The request to reallocate the Coal Credit to GMO is handled by IRS personnel located in Austin, Texas who managed the advanced coal credits project for the IRS and have administered the coal credits project from the time the coal credits were authorized by Congress. This part of the IRS determined if utilities qualified for the coal credits, along with DOE. It is this part of the IRS which would handle any request for reallocation if Great Plains Energy, KCPL, and GMO were to do what they should.

Q. When did Staff become aware KCPL planned on requesting a private letter ruling from the IRS?

A. Staff received an e-mail notice on May 3, 2012 from KCPL's Regulatory Affairs Manager, John Weisensee that indicated for the first time KCPL's intent regarding the draft of the private letter ruling (see attached Schedule CGF-SUR-12). Staff was provided KCPL's actual draft of this private letter ruling request on May 9, 2012 (see attached Schedule CGF-SUR-13). Through discussion with KCPL personnel during May and June, Staff became aware that KCPL believed it was necessary for Staff to issue a letter to the IRS regarding knowledge of KCPL's private letter ruling request.

Q. Is Staff working on a letter to submit to the IRS?

A. Yes. Staff has expended a significant amount of its very limited resources to create a letter that meets the requirements explained to us that are necessary for the private letter ruling process. During a conference call in June of this year, Ms. Hardesty explained that Staff had to ensure three standards had to be met. The first was that we were made aware of the request for the private letter ruling. This requirement was met when KCPL told us in May 2012 that KCPL was going to make such a request.

The second requirement stated that Staff had to indicate we wanted to participate in the private letter ruling process. Staff informed KCPL immediately that we wanted to participate.

The third requirement was the most difficult to meet and has caused the delay in being able to complete the process. The letter is to inform the IRS that Staff has reviewed the request and "determined that it is adequate and complete." It is this "adequate and complete" standard that is making the drafting of the letter very time consuming. As part of the private letter ruling request, KCPL has to provide a checklist to the IRS stating certain facts. One of the items addressed the adequacy question as follows:

> k. The MPSC has reviewed this request and determined that it is adequate and complete. See Exhibit F. GPE, KCPL and GMO will permit the MPSC to participate in any Associate office conference concerning the request.

Unlike KCPL, Staff has not used outside consultants or outside legal counsel to work on the private letter ruling. Primarily one Staff member and one Staff Counsel have been working on this project when time permits. Staff informed KCPL of difficulties it was having, in particular regarding aspects about the draft private letter ruling that it did not agree with. Staff's letter outlines its disagreements.

Q. Did KCPL provide a proposed draft letter for Staff?

A. Yes. In May 2012, KCPL provided a one page draft letter to both the Kansas Commission Staff and the Missouri Commission Staff. This letter was inadequate from Staff's perspective when we learned that we had to inform the IRS of our assessment that the private letter ruling request was "adequate and complete" (see attached Schedule CGF-SUR-14). The Staff of the Kansas Commission was requested to sign a similar letter. The Kansas Staff returned a signed copy of the letter on May 17, 2012 (see attached Highly Confidential Schedule CGF-SUR-15).

Q. Is the Missouri Staff letter complete?

A. No. Staff continues to work on this letter and hopes to complete it when certain discovery matters are resolved. KCPL has withheld numerous documents relating to the Coal Credit issue. The Commission recently issued an order regarding the discovery dispute. Staff is awaiting the resolution of this dispute before it can finalize its letter.

Q. Has KCPL seen Staff's draft letter?

A. Yes. KCPL requested a copy of Staff's letter in a data request issued to Staff. A current copy of this draft letter to the IRS is attached as Highly Confidential Schedule CGF-SUR-16. This multi-paged draft letter is being developed based on Staff's understanding of the requirement that we reviewed the private letter ruling and provided the IRS with our concerns as to its adequacy and completeness. Also, attached as Highly Confidential Schedule CGF-SUR-17 is the latest draft version of the private letter ruling created by KCPL.

Q. When did KCPL decide to request a private letter ruling regarding GMO's Coal Credit?

A. While Staff does not know the exact date of this decision, we do know it was at least as of October 24, 2011. In a letter to the Audit Committee of the Board of Directors of

Great Plains Energy, Lori Wright, Great Plains Energy Vice President – Controller, indentified the decision to request the private letter ruling. Ms. Wright stated:

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> [emphasis added; see attached Highly Confidential Schedule CGF-SUR-18]

From at least October 2011 to May 2012, a period of 7 months, KCPL worked on drafting the private letter ruling that was provided in May 2012 without Staff's knowledge. KCPL used outside counsel and outside consultants to develop this draft private letter ruling.

Q. Ms. Hardesty states at page 15, line 15 that "every action taken by GPE and KCP&L has been to maximize the amount of advanced coal credits for all affected ratepayers." Do you agree with this statement?

A. I agree that Great Plains and KCPL did do everything in their power to seek all of the Coal Credits for KCPL and its customers. As Ms. Hardesty indicates, KCPL was the only owner who pursued the Coal Credit with DOE and the IRS. Ms. Hardesty concludes that "KCP&L and GPE have taken any action deemed necessary to prevent a normalization violation

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even if it meant that KCP&L did not reallocate credits to GMO" which she then claims "preserved the maximum amount of credits for all ratepayers."

However, KCPL fails to consider the findings of the Arbitration Panel that KCPL engaged in willful misconduct respecting its actions to all of its co-owners relating to the Coal Credits which clearly demonstrates that both Great Plains Energy and KCPL did not take "every action" to ensure that the taxpaying owners of Iatan 2 received the benefits of these credits.

It is simply disingenuous for Great Plains Energy and KCPL to suggest that they both took "every action" to preserve the credits for "all of the affected ratepayers." It took Empire pursuing the Coal Credits on behalf of its customers. KCPL fought vigorously to keep these credits from Empire and for itself. KCPL never once considered GMO and its customers. Without a voice to defend itself against the self-serving KCPL, GMO didn't have a chance when its parent, Great Plains Energy decided to allow KCPL to dominate GMO and keep all the Coal Credits not allocated to Empire in 2010. This has certainly not "preserved the maximum amount of credits for all ratepayers" taking service from GMO.

The facts are that KCPL, with the concurrence of its parent Great Plains Energy, took all actions these entities deemed necessary to keep the credits for the sole benefit of KCPL. It took outside intervention for Empire "to maximize the amount of advanced coal tax credits" for its customers. Staff believes it will require the outside intervention of the Commission to ensure GMO is treated fairly so its customers will have the opportunity to enjoy the benefit of these credits.

When KCPL made the decision to exclude all the owners from the Coal Credits, it did so without any consideration of the normalization rules. In fact, had the taxpaying owners been

included in the allocation process for the Coal Credits as was the case with the Kentucky utilities regarding the Trimble 2 unit, there would be no hint of a normalization violation. KCPL and Great Plains Energy are completely responsible for the situation where they are dependent on the IRS to reallocate the Coal Credits to GMO. KCPL and Great Plains Energy are completely to blame for the situation where the normalization rules even come into play regarding the reallocation of the Coal Credits to GMO.

Q. Does Staff continue to believe that KCPL violated its responsibility to GMO which it agreed to in the Joint Operating Agreement?

A. Yes. As I stated in direct testimony, the Joint Operating Agreement provides that "KCP&L will seek to maximize the aggregate synergies to both companies, and shall not take any action that would unduly prefer either party." To suggest as Ms. Hardesty does in her rebuttal testimony at page 26 that KCPL has fulfilled its obligation to GMO simply ignores the facts surrounding the Coal Credits. KCPL had all the power and complete control over GMO to exclude GMO from requesting its ownership share of the Coal Credits authorized to the Iatan 2 Project before the arbitration process, during and after. Furthermore, Great Plains Energy and KCPL had the power to make a request to the IRS for a reallocation of the Iatan 2 Coal Credits as discussed with the IRS agent on September 21, 2011, yet have failed to do so. At any time after the July 14, 2008 acquisition KCPL had every opportunity to protect the interests of GMO and its customers but failed to do so because KCPL simply could not put its interest aside—("unduly prefer either party")—to pursue for GMO its ownership share of the Coal Credits.

Q. KCPL identifies the amount of investment tax credits for itself and GMO. Are those credits relevant to the Iatan 2 Coal Credits?

A. No. At page 26 of Ms. Hardesty's rebuttal and in the direct testimony of both Ms. Hardesty and Mr. Montalbano, both discuss amounts of investment tax credits left on both KCPL and GMO's books. The inference is that allocating the Coal Credit to GMO, a credit that belongs to GMO by virtue of its ownership participation in the Iatan 2 Project, will jeopardize the existing investment tax credits. This position by KCPL is intended to ensure that the Commission will take no action which will spoil KCPL's position that no Coal Credit goes to GMO and GMO's customers, thereby requiring those customers to pay higher costs for power taken from Iatan 2 than either KCPL or Empire customers. That is simply an unfair position.

While Staff does not in any way want the recapture of the existing investment tax credits, it also does not believe that in the end that would be the position of the IRS. The IRS does not want to inflict such a harsh penalty of paying back the investment tax credits simply because of the allocation of Coal Credits to GMO. As discussed earlier, Great Plains Energy takes the Coal Credits when it has sufficient tax liability on a consolidated basis. Therefore, the Coal Credits allocated to KCPL and GMO based on each ownership share would not be greater than the $107.3 million amount approved in April 2008 for the Iatan 2 Project.

Acquisition Detriment

Q. Does KCPL's rebuttal testimony address acquisition detriments?

A. Yes. KCPL witnesses Ives at pages 19 through 21 and Hardesty at page 16 of their rebuttal testimony attempt to respond to Staff's view that the failure by Great Plains Energy and KCPL to properly allocate the Iatan 2 Coal Credit to GMO constitutes an acquisition detriment. I address this at page 219 of the Staff Report.

Consistent with the theme of Ms. Hardesty's rebuttal that neither KCPL nor Great Plains Energy did anything wrong by refusing to allocate any of the Coal Credit to GMO, both

Ms. Hardesty and Mr. Ives take the position there was nothing wrong with a newly acquired entity having no say whatsoever to defend its interest and in essence being taken advantage of. That is, GMO simply was in no position to pursue the Coal Credit through arbitration as Empire was, or be able to represent itself before the IRS when the reallocation was made for the revised Memorandum of Understanding in August 2010. But for the acquisition, Aquila, as a stand-alone company, could and would have pursued these credits—clearly an acquisition detriment.

Q. Both Ms. Hardesty at page 16 and Mr. Ives at pages 19 and 20 state that since "synergy savings have exceeded any alleged acquisition detriments" customers must not have been harmed. Do you agree with this assertion?

A. No. The absence of any attempt to include GMO in the benefits of the Iatan 2 Coal Credit by KCPL and Great Plains Energy results in harm regardless of any perceived level of acquisition synergy savings. The detriment exists because Great Plains Energy allowed KCPL to control any decision-making to keep GMO from its rightful share of the Coal Credit. The harm of this imprudent action is that GMO customers will suffer by paying higher rates than if the Coal Credit is allocated to GMO.

The Coal Credit matter should be viewed without any regard to any savings arising from the acquisition. The right of GMO to receive a portion of the Coal Credit is directly related to GMO's participation and ownership in the Iatan 2 Project. The requirement to allocate the Coal Credit to GMO has nothing whatsoever to do with the acquisition, and therefore the synergy savings, other than GMO losing its ability to make independent decisions as a result of the July 14, 2008 acquisition.

KCPL asserts that since the acquisition savings exceed any loss of Coal Credit benefits to GMO there can't possibly be a detriment. Regardless of the amount of savings generated by the

acquisition of Aquila, it is simply incorrect to assume there is no acquisition detriment if GMO does not receive any portion of the Coal Credit. The detriment is inability of GMO to be able to take positions in its interest that may be contrary to the interests of KCPL. KCPL having complete control over GMO's decision-making would not permit any decision regarding the allocation the Coal Credit to GMO that would not be in KCPL's interest. Furthermore, there is a clear detriment to GMO's ratepayers in GMO's not having the ratemaking benefits of the credits.

Q. Does the fact that the Commission found the Aquila acquisition was not detrimental to the public interest affect Staff's contention that the acquisition was detrimental to GMO's ability to seek the Coal Credit?

A. No. One doesn't have anything to do with the other. The Commission was completely unaware of the Iatan 2 Coal Credit at the time of its July 2008 decision in Case No. EM-2007-0374. But KCPL was keenly aware of such credit having just received notice from the IRS on April 26, 2008 – less than two months before the July 14 closing date-- that the Iatan 2 Project was approved for the maximum $125 million Coal Credit. Of course, as discovered later, KCPL never informed any of its Iatan 2 partners of the existence of these credits — a condition the Arbitration Panel found was behavior that constituted in willful misconduct on the part of KCPL.

Q. Mr. Ives states at page 20 of his rebuttal that there is a "jurisdictional difference depending on which Company is eligible to utilize the Coal Credits, but there is no reduction of Coal Credits for the combined company as a result of the acquisition – or in other words, no acquisition detriment." Do you agree?

A. No. Using Mr. Ives' logic, if all the Coal Credits were allocated to GMO with none going to KCPL, there would be no detriment as long as the combined company at the

Great Plains Energy received the full credit. However, I would suspect that KCPL would view this as harm and I know for certain that KCPL customers would be harmed regardless of the amount of credits available at the combined Great Plains Energy level. In other words, a total allocation of the Coal Credit to GMO would result in a detriment to both KCPL and its customers.

But Mr. Ives does unintentionally make a point worth considering. There appears from Mr. Ives rebuttal (at page 20) on this point to be a recognition of what Staff has been saying all along – that as long as it is the combined Great Plains Energy entities which receive the $107.3 million in Coal Credits, that should not create an issue with the IRS and should not result in a normalization violation, nor should it create an issue for Great Plains Energy.

Crossroads

Q. What is the purpose of your surrebuttal testimony relating to GMO's Crossroads Energy Center that is located near Clarksdale, Mississippi?

A. The purpose of this portion of my surrebuttal testimony is to address the inclusion of certain plant assets in the direct filing made by GMO for its MPS rate district. This plant relates to combustion turbine generating units known as Crossroads Energy Center ("Crossroads").

Staff has not reflected in its case the value of Crossroads costs requested by GMO but has instead included the rate base value determined by the Commission in GMO's last rate case, Case No. ER-2010-0356.

Specifically, I address the rebuttal testimony of GMO's witness Burton L. Crawford, concerning the inclusion of the costs of Crossroads in rate base for MPS by the Company.

I respond to the rebuttal testimony of GMO witness Wm. Edward Blunk on the subject of natural gas prices for Crossroads.

It is Staff's position that Crossroads is the wrong plant (a merchant plant), built at the wrong location (Mississippi), that was built at the wrong time (in 2002 when combustion turbines costs were high).

Q. How will you refer to the Company in this testimony?

A. At various places in this surrebuttal testimony when I discuss historical aspects of GMO capacity planning I will use the name GMO was using at the time, Aquila (Aquila, Inc.) during the period early 2002 to mid 2008 and UtiliCorp (UtiliCorp United, Inc.) before early 2002. I refer to the former operating divisions of Aquila-Aquila Networks-MPS and Aquila Networks-L&P, as MPS and L&P, respectively, when discussing GMO when it was named Aquila, i.e., before it was acquired by Great Plains Energy Incorporation (Great Plains Energy) on July 14, 2008.

Q. Please summarize GMO's position on Crossroads.

A. GMO is requesting that the revenue requirement for its MPS rate district include the full net book value of the merchant plant Crossroads, all transmission costs which GMO had to contract to have the necessary transmission path to get power from Clarksdale, Mississippi to the Kansas City and surrounding areas in western Missouri. Also, GMO is requesting less than the full value of deferred taxes that have accumulated since 2002 for Crossroads be used as an offset to GMO's rate base.

Q. Would you please summarize your surrebuttal testimony on the area of the capacity planning of Aquila and the related costs of the Crossroads combustion turbines?

A. The following summarizes my testimony on this topic.

GMO presents in its rebuttal testimony what it believes is justification for its inclusion of Crossroads in its rate base for MPS in this filing. GMO believes that Crossroads is the least cost generation and, therefore, represents the best option that the Company had in the 2008 time period to meet its system load requirements. Staff does not agree with this assessment. Staff has been examining capacity planning issues at GMO (Aquila) since 1999, and has concluded that the replacement of a major purchased power agreement that terminated in May 2005 was never been completely addressed by GMO (Aquila) until 2008, when the Company moved Crossroads from an unregulated affiliate into its regulated plant investment. Staff opposes the inclusion of the cost of Crossroads at the values in rate base proposed by GMO, as it was not a least-cost planning decision, and the plant is located in the state of Mississippi, several hundred miles and over nine (9) hours from GMO's service territory.

The least cost planning decision for ratemaking in this case should be focused on the events surrounding the time period of 2004 and 2005 when GMO (Aquila) was deciding how to replace the full 500 megawatt capacity need it was meeting with a purchased power agreement that expired before the summer of 2005. GMO is misdirecting the Commission to the wrong time horizon.

Staff witness Lena M. Mantle provides testimony in this case supporting that GMO (Aquila) should have built its own generation to meet its growing electric needs, and should have been doing so since at least the late 1990s.

The 2005 South Harper facility was the first regulated generating capacity that GMO (Aquila) built since 1983. Between 1983 and 2005 GMO relied on purchased power agreements to meet the growing demand for electricity in its MPS rate district. In previous rate cases starting in the 2005 Aquila rate case (Case No. ER-2005-0436) Staff imputed two combustion turbines

plus the existing South Harper combustion turbines to MPS because GMO (Aquila) did not build generating assets for MPS, or L&P, for a substantial period of years, and whether the existing South Harper combustion turbines would not be torn down was in litigation.

Since the 2005 Aquila rate case Staff imputed two additional combustion turbines in addition to the 3 actual installed 2005 combustion turbines. Staff relied on costs at the South Harper site which is a six turbine site to calculate the costs for Prudent Turbines 4 and 5. These turbines were imputed in the last four cases (MPS rate cases - Case No. ER-2005-0436, Case No. ER-2007-0004, Case No. ER-2009-0090 and Case No. ER-2010-0356). Staff took the position that Aquila did not adequately plan and pursue building generating assets to meet its system load requirements. Because of this imprudent behavior, Staff proposed adjustments to remove the costs of purchased power contracts and replace those costs with rate base treatment of the imputed turbines. The Commission rejected Staff's recommended treatment and include Crossroads at reduced values in rate base and excluded all transmission costs.

GMO (Aquila), with Calpine, originally built the Aries Combined Cycle Generating Station (Aries), then a 585 megawatt power plant. That power plant went into service in early 2002. At that time, GMO, then known as UtiliCorp United, Inc., had a corporate policy not to build generating assets for its regulated utility operations. The Aries power plant was conceived, planned, designed, engineered and cost determined by UtiliCorp's regulated operations, but UtiliCorp turned the project over to its unregulated subsidiary, Aquila Merchant Inc. (Aquila Merchant) to build. Aries (now called Dogwood, and owned by a non-affiliate of GMO) became operational January 2002.

GMO (Aquila) signed a five-year purchased power agreement with Aquila Merchant to supply power from the Aries power plant to MPS operations that ended May 31, 2005, (the Aries

Agreement). Before it began imputing generating assets, Staff took the position in GMO's prior rate cases that the Aries Agreement was not an arms' length transaction, and made adjustments in both GMO's (Aquila) 2001 (Case No. ER-2001-672) and 2004 (Case No. ER-2004-0034) rate cases to exclude the full value of the capacity agreements between MPS and its affiliate, Aquila Merchant.

Planning for the expiration of the May 31, 2005, Aries Agreement, MPS developed a least cost plan in early 2004 to meet MPS' capacity needs for the summer of 2005. This capacity plan, the least cost plan, was to build five (5) combustion turbines having a total capacity of 525 megawatts. However, in the summer of 2005 Aquila MPS installed only three combustion turbines totaling 315 megawatts at its South Harper site, a site designed for six such combustion turbines, following what it referred to as its "preferred plan." The remaining capacity to replace Aries was to be met by purchased power agreements. South Harper was the subject of extensive litigation. Originally, the three turbines GMO (Aquila) installed at South Harper were held in storage from 2002 to 2005 after GMO (Aquila) no longer planned for them to be used by GMO's non-regulated subsidiary, Aquila Merchant, who had planned to install them at its then owned Aries generating site, as Aries II. GMO (Aquila) unsuccessfully attempted to sell these turbines before putting them in long-term storage. Rather than building additional capacity, GMO (Aquila) subjected itself to the volatile market conditions of the energy power markets. After installing the combustion turbines at South Harper in 2005, year-after-year GMO (Aquila) continued to rely on short-term purchased power agreements to meet its remaining capacity needs. GMO (Aquila) did so until it decided to transfer Crossroads from its non-regulated affiliate Aquila Merchant to an Aquila non-regulated subsidiary in 2007, and ultimately to the regulated MPS in August 2008, after it was acquired by Great Plains Energy July 14, 2008.

Up until January 2004, GMO's (Aquila) resource planning analyses only considered capacity agreements. Since January 2004, GMO (Aquila) performed resource planning analyses year-after-year, identifying a need to build generating units to make up for the lost Aries capacity that terminated May 31, 2005. Other than South Harper, GMO (Aquila) never built any of these units. Even though GMO (Aquila) expressed to Staff from 2004 until 2008, prior to it being acquired by Great Plains Energy, its intent to build generating facilities, it failed to do so. GMO (Aquila) made no plans to build future generating plant, other than its participation in the Iatan 2 coal-fired project—a unit that went into service on August 26, 2010.

The value of Crossroads is substantially overstated by GMO because the four combustion turbines installed at that facility were purchased at a time when turbine manufactures were selling those units in what was referred to as a sellers' market with very high prices. GMO (Aquila) had many opportunities to acquire turbine capacity for installation in and around its load center at greatly reduced prices relative to the prices paid for the turbines installed at the Crossroads facility. If the Commission allows Crossroads in rate base, it should do so at a substantially reduced amount compared to what GMO is requesting in this case. This is discussed in my direct and rebuttal testimony.

The four Crossroads turbines have a book value of approximately ** ___ ** million each, or a total of ** ___ ** million. Based on GMO's imprudence in not acquiring owned capacity in 2004-2005, Staff believes those values should be significantly reduced to in the range of ** _____ _** million each or total range of ** _____ ** million, based on sales and offers to other utilities for the same turbine model.

In addition to the turbine values being overstated, the cost of the transmission plant at Crossroads is higher than it would be if GMO (Aquila) had installed the turbines at an existing

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Kansas City site, such as South Harper or Greenwood or new sites located in GMO's service area such as Sedalia, Missouri. There are also existing sites where combustion turbines could be located in KCPL's generating fleet. Staff believes that the there was a ** ___ ** million amount that was estimated for transmission upgrades at the Aries site where those three South Harper turbines were originally planned to be installed in 2002. Crossroads annual transmission costs are substantially higher than this one-time cost estimate for that transmission upgrade.

The annual transmission expenses are higher for the Crossroads units because of the units are located in a congested site far from GMO's service area. If the turbines had been installed in the Kansas City area at existing GMO or KCPL sites, or even in the Sedalia site, there would be no transmission costs because of GMO's membership in the Southwest Power Pool (SPP).

Staff contends that anyone purchasing Crossroads would have factored in the location of this generating facility in relation to where the power was to be used—in this case western Missouri requiring transmission of the power over 500 miles from the generating source. No one, including Great Plains Energy, would have paid full value for this facility, considering the transmission costs to get energy from it to the load being served. The Commission recognized this at page 94 of its May 24, 2011 Order in GMO's 2010 Rate Case when it said

> When conducting its due diligence review of Aquila's assets for determining its offer price for Aquila, GPE would have considered the transmission constraints and other problems associated with Crossroads. It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And, it is a virtual certainly that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years. Further, it is equally likely that GPE was in as good a position to negotiate a price for Crossroads as AmerenUE was when it negotiated the purchases of Raccoon Creek and Goose Creek, both located in Illinois, from Aquila Merchant in 2006.

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[footnotes omitted]

Staff believes that natural gas costs are generally higher at Crossroads than they are in the Kansas City area, especially at GMO's Greenwood facility.

Staff also believes it is more difficult to provide the kind of management oversight of the Crossroads plant by virtue of its location in Clarkdale, Mississippi.

Crossroads is located over 525 miles from Great Plains corporate headquarters in downtown Kansas City, Missouri. According to Mapquest, a trip to Clarksdale, Mississippi from Great Plains' offices takes 9 hours- one way (see Surrebuttal Schedule CGF-SUR-19).

To it put succinctly, Crossroads is the wrong plant (a merchant plant), built at the wrong place (Mississippi) and built at the wrong time (in 2002 when combustion turbine costs were high).

Q. Mr. Crawford identifies at pages 2 and 3 of his rebuttal testimony the value of Crossroads that Great Plains Energy determined prior to the Aquila acquisition as "dismantling the plant and selling it as scrap." Does this mean that Great Plains Energy paid something more for Crossroads?

A. It does not mean Great Plains Energy paid net book value for Crossroads. Regardless of the basis of the valuation used by Great Plains when it disclosed its valuation of Crossroads to its shareholders in its May 2007 Joint Proxy Statement, it did not purchase Crossroads for net book value. Aquila had made several attempts to sell Crossroads. Each was unsuccessful. If the $51.6 million amount was indeed the scrap value of Crossroads then that is what Great Plains paid Aquila for it. Remember, no one else was lining up to buy Crossroads. It is absolutely clear that Great Plains did not pay full net book value for Crossroads, as the Commission recognized in its order from GMO's last rate case cited above. While it is true that

the proxy indicated the value of Crossroads could "be materially affected by changes in fair value prior to closing of the merger," it is equally true that value did not materially change to net book value by the time of the July 2008 closing. Great Plains did not pay anywhere near net book value for Crossroad, yet that is what GMO is requesting this Commission to include in its cost of service for setting MPS rate district rates.

Q. Should the Commission adopt the $51.6 million valuation of Crossroads stated in the May 2007 Joint Proxy Statement?

A. Yes. If the Commission chooses to reconsider its decision on allowing some level of recovery of transmission costs then the Commission should also reconsider the valuation it placed on Crossroads in GMO's last rate case for the MPS revenue requirement when setting rates. The Commission should consider adopting the $51.6 million as the rate base amount for Crossroads if transmission costs are included in rates. Any party looking at the purchase of a power plant so far away from the load it is serving would factor the transmission costs of getting energy from that plant to the customers into the price at which it would purchase the plant. The transmission costs from Crossroads are annual payments that are increasing significantly. Those costs would be paid by GMO's customers for a very long time, if the Commission allows them to be recovered through rates.

Crossroads Energy Center Generating Units

Q. What is Crossroads Energy Center?

A. Crossroads Energy Center is a four unit 75-megawatt natural gas combustion turbine generating site with a total capacity of 300 megawatts located near Clarksdale, Mississippi. These four units are General Electric model 7 EAs, and were built in 2002 as a

merchant plant for the former Aquila Merchant Services Inc. (Aquila Merchant), a wholly-owned subsidiary of Aquila, Inc. (GMO).

Q. Mr. Crawford discuses at pages 3 and 4 of his rebuttal testimony that a March 2007 request for proposal shows "Crossroads was determined to be a lower cost option than self-building." Does this March 2007 request for proposal demonstrate that Crossroads was economically justified?

A. No. The only thing that the March 2007 request for proposal (RFP) shows was that in March of 2007 Crossroads was the lowest cost option to support Aquila's and KCPL's decision to use the merchant plant, Crossroads, as a regulated rate base facility for MPS, enabling Aquila and KCPL give up any attempt to sell the facility, as numerous attempts failed in the past. In essence, Aquila had a plant no one wanted—in fact on one even was willing to make offers for the facility—and Aquila had not used the facility the first several years of its 2002 operations, as there was no market for its power. Only through the sale of power to MPS—Aquila Merchant's affiliate—was Crossroads ever used. GMO is using the 2007 RFP process to justify the decision in 2008 to move this facility from the non-regulated financially troubled Aquila Merchant to a non-regulated subsidiary of Aquila and then, after GPE acquired Aquila on July 14, 2008, for KCPL, acting as the sole agent of GMO, transferring Crossroads to the books of MPS, days before KCPL personnel filed the 2009 GMO rate case on September 5, 2008.

Q. At pages 3 and 4 of his rebuttal testimony, Mr. Crawford claims that the cost of a non-affiliate facility offered to GMO was higher than the installed value of Crossroads. Is there anything surprising that the cost of Crossroads was less than this offered plant?

A. No. While Crossroads turbines were purchased during the time of one of the highest cost turbine markets, the units were installed with 2001 labor dollars. The ** ____ ** per kilowatt price of the offered four General Electric turbines was in 2007, after the turbine market had rebounded from the low prices of the 2004 and 2005 time frames—periods when Aquila could have and should have built low cost generation to replace the Aries purchased power agreement that terminated May 31, 2005. The higher costs of the self-build option of $637 per kilowatt referenced by Mr. Crawford at page 4 of his rebuttal testimony when compared to Crossroads at $383 per kilowatt is also not surprising, since the turbine prices were again based on 2007 prices, when prices in the turbine market had increased. In essence, Crossroads was built at the wrong time, when turbine markets were inflated, and both Aquila's and KCPL's attempts to justify using Crossroads as a regulated facility are being made at the wrong time—when turbine markets had taken off after the significant declines of the 2003 and 2004 time periods after the power market collapse of 2002.

The tragedy of Aquila's decision not to add the necessary capacity to replace the Aries power agreement is that Aquila could have added significant capacity at significantly discounted turbine prices. Turbine market prices were low in 2004 to 2005, and Aquila's non-regulated operations had turbines that it was selling then for even lower than market prices. Aquila simply missed a tremendous opportunity to add low cost generation to its fleet.

Q. Other than studies in 2007 and 2010, did Aquila rely on any other study for making its capacity addition decisions?

A. Yes. As part of GMO's (Aquila) commitment to its resource planning process, it presented findings from its least cost planning study in February 2004. This analysis was based on responses GMO (Aquila) received from Request for Proposals (RFP's) (similar to the RFP

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process GMO used to support its Crossroads decision in 2007). The 2004 analysis concluded that the least cost plan to replace the Aries purchased power agreement was to construct and install five combustion turbines, each sized at 105 megawatts, for a total of 525 megawatts of capacity. In 2004, Staff expressed to the Company that Staff thought GMO's (Aquila) least cost plan was the best course for GMO (Aquila) to follow. Attached as Highly Confidential Surrebuttal Schedule CGF-SUR-20 is Aquila's 2004 integrated resource planning presentation regarding its Resource Planning that is dated February 9, 2004.

While there is nothing wrong with the 2007 Study that GMO conducted to determine its future capacity planning needs, this analysis just is not the one that would address GMO's (Aquila) earlier capacity needs in the 2005 time frame. The actual decision needed to be made in 2004 because of the May 2005 expiration of the Aries 500 megawatt purchased power agreement.

Q. Did GMO perform a study relating to its capacity needs after Great Plains Energy acquired it?

A. Yes. In the 2009 GMO rate case, GMO agreed to perform a study regarding GMO's capacity requirements. Acting as GMO's agent KCPL performed an analysis as part of the Stipulation in the 2009 GMO rate case—Case No. ER-2009-0090. This analysis was completed in April 2010 (the 2010 Study), at which time GMO supplied the results to Staff.

Just as with the 2007 analysis performed by GMO, the 2010 study found Crossroads was the low cost plant. However, this 2010 study had the same flaws as the 2007 study—wrong time period. Just as with the 2007 analysis, the 2010 analysis uses a time frame that was much too late to properly evaluate the replacement of the Aries generation in 2005. There was nothing wrong with the 2010 study, other than it is also based at the wrong time. Aquila needed capacity

in 2005 when Aries contract terminated. In fact, turbine prices increased even higher in the 2010 Study from those levels found during the 2007 Study.

Q. Did GMO's (Aquila) do any other analysis before Great Plains acquired it regarding Aquila's need for capacity?

A. Yes. In 2004, Aquila did a study to address the need to replace the capacity and power it was taking under the Aries agreement. After the Aries capacity agreement ended May 31, 2005, GMO (Aquila) completed construction of three combustion turbines at its South Harper facility. This facility was originally sized to accommodate up to six combustion turbines of at least the size of the Siemens model 501 D, each having 105 megawatts of capacity. Installation of the three combustion turbines totaling 315 megawatts of capacity was completed in June and July of 2005. Staff supported the use of the cost of these units in rate base in GMO's 2005 rate case. However, the South Harper site was subject to significant legal challenges resulting in the Commission having to rule on GMO's authority to construct South Harper and these units three separate times. Therefore, Staff used the costs of South Harper as a surrogate, or proxy, in GMO's (Aquila) 2005 (Case No. ER-2005-0436) and 2007 (Case No. ER-2007-0004) rate cases. After the legal challenges were over, Staff used the South Harper costs in GMO's 2009 rate case- Case No. ER-2009-0090. In addition to the three combustion turbines, Staff included the capacity for two more combustion turbines of the same size, 105 megawatts totaling 210 megawatts.

Q. Has Staff included the South Harper Generating Facility in the rate base of MPS?

A. The legal issues surrounding the South Harper facility were resolved with the March 28, 2009 effective date of the Commission's Report and Order in Case No.

EA-2009-0118. Staff considered the South Harper facility to be in rate base in GMO's 2009 rate case.

Q. Mr. Crawford states, at page 5 of his rebuttal testimony, that "at the time GMO was looking to add capacity to its system, the cost of Crossroads at net book value was less than the available alternatives." Does Staff agree that this is the lowest cost generation that GMO should have considered?

A. No. Mr. Crawford presents a table in his rebuttal at page 5 which shows several different valuations of Crossroads, including the May 2007 Joint Proxy Statement and the PricewaterhouseCoopers LLP, (Pricewaterhouse or PwC) November 2008 Fair Value Study. All these valuation analyses are dated in from March 2007 through November 2008, except what Mr. Crawford identifies as the December 2010 Commission value. In reality the time period for the values the Commission used was in 2006 when Aquila Merchant and AmerenUE (now Ameren Missouri) negotiated the prices for Raccoon Creek and Goose Creek, which are the basis for the Commission's decision regarding the Crossroads rate base value in Case No. ER-2010-0356.

The analyses identified at page 5 of his rebuttal testimony as "GMO Self Build" and "3rd Party Build" are from the 2007 Study, which I have addressed above and criticized for looking at the wrong time period. Those costs are inflated compared to what turbine installations would have been in 2004 and 2005 time frame.

Q. Mr. Crawford identifies a November 2008 value for turbines as "PwC Crossroads Fair Value" of $403 per kilowatt in his rebuttal testimony at page 5. What does this value come from?

A. This Pricewaterhouse value is from a study performed by this accounting firm after the closing of the July 14, 2008 acquisition of Aquila by Great Plains Energy. After acquisitions, companies are required to have an independent study performed to determine the values of acquired assets to determine if any impairments exist and the amount, if any, of goodwill. The Pricewaterhouse Study included all of the former Aquila assets acquired by Great Plains Energy, including the former Aquila corporate headquarters at 20 West Ninth, as well as Crossroads. While Pricewaterhouse valued the office building at 20 West Ninth at substantially less than its book value, it valued Crossroads to be slightly over the book carrying value on Aquila's non-regulated books.

The Pricewaterhouse analysis provides no guidance to the question of what value to place on Crossroads. The study was done after the July 2008 acquisition and after the decision by GMO to seek rate base treatment for Crossroads. Once Pricewaterhouse learned GMO's intentions, this accounting firm assumed Crossroads would be included in rate base at its full value. Therefore, it found the fair value of Crossroads in November 2008 to be slightly higher than the net book value of this facility as identified on the books of the non-regulated Aquila subsidiary. Shortly after the July 2008 acquisition, on September 5, 2005, GMO filed a rate case.

Q. Does the Pricewaterhouse study support the use of net book value for Crossroads?

A. No. The 2008 Pricewaterhouse study has same shortcomings as the 2007 and 2010 Studies—wrong time frame. All these studies made no attempt to compare the Crossroads book value to market value at the time when Aquila needed generating capacity and should have built those units—the 2004 and 2005 time period.

Also, the Pricewaterhouse analysis assumed Crossroads would be placed in rate base at its net book value. The analysis did not consider any of the additional costs of actually getting the power back to the Kansas City area, costs such as the transmission costs. Anyone buying Crossroads would consider the location of the unit along with any transmission costs to get energy from its to where it would be used in deciding the purchase price to offer for the facility. No buyer would have paid net book value for the facility. In fact, Aquila was unable to sell Crossroads to anyone after having made numerous attempts to do so. Aquila was willing to deeply discount the price at which it offered Crossroads as it did on numerous occasions with other generating assets, and still no one made any offer for Crossroads.

Despite the fact that no one would pay full value to buy Crossroads, GMO attempts to justify using full net book value in rate base by the 2008 Pricewaterhouse analysis. The Commission should completely ignore this analysis along with the 2010 KCPL Study and the 2007 Aquila Study.

Q. Did the Commission include Crossroads in rate base in GMO's 2009 rate case?

A. No. The 2009 rate case was stipulated. Staff opposed the inclusion of Crossroads in that case, but since there was no ratemaking determination regarding Crossroads in that case, Crossroads remained out of rate base until the 2010 GMO rate case—Case No. ER-2010-0356—where the Commission valued Crossroads based on the turbine costs at two Illinois facilities.

Combustion Turbine Values have Experienced a Signification Increase

Q. What is your support for asserting combustion turbine prices went up after the time when GMO should have decided in 2004 to replace the capacity it was obtaining from the 2005 Aries capacity agreement?

A. In every case since GMO's 2005 rate case Staff has reviewed the pricing of combustion turbines. As in previous GMO rate cases, Staff reviewed the industry publication *Gas Turbine World* for years 2007-2010 and 2012 (KCPL did not have the 2011 book) In the 2007-2008 GTW Handbook, *Gas Turbine World* reports that turbine prices increased 20 to 30 % over their 2006 levels. At page 29 of this industry publication the following appears:

> **Seeing dramatic increase in prices**
>
> During the past 18 months we have seen power plant equipment prices increase by as much as 20-30 percent over pre-2006 levels. Meanwhile delivery schedules have stretched out to 16-18 months from 12 months or less, as growing demand puts strain on available manufacturing capacity.
> Special orders that require additional engineering can add seven months of lead time.
>
> The rise in equipment price levels since 2006 has been driven by a worldwide increase in cost of materials, higher manufacturing costs, and growing market demand.
> Over the last few years, copper has more than tripled to $3.40 per pound from around $1, molybdenum six-fold to $31 per pound from around $5, aluminum almost doubled to $2,800 per ton from $1,500, and nickel almost quadrupled to $31,000 per ton form $8,000.

Staff's reviews of *Gas Turbine World* identified that General Electric's new model that replaced the 7 EA model that is installed at Crossroads is valued at $19.5 million in the 2007-2008 GTW Handbook, the time that Pricewaterhouse would have examined the price of turbines, and $25.9 million in the 2009 GTW Handbook, a time when KCPL would have conducted its analysis of the value of Crossroads. This indicates that turbine prices in the 2007 and 2008 time period show substantial increases over the prices when GMO (Aquila) should have installed additional combustion turbines to meet the capacity needs of its MPS customers back in 2005.

Q. Were the General Electric 7 EA model combustion turbines valued less in the 2004 time period?

A. Yes. At a time when GMO (Aquila) should have added capacity in 2005, the General Electric 7EA models were significantly less costly than the General Electric 7 EA models Aquila Merchant Services purchased in 2001 and installed at Crossroads in Mississippi. *Gas Turbine World* reported in its 2004-2005 Handbook that these units were selling for $14.8 million apiece. The 2003 price was $16.6 million and the 2000-2001price was $21 million. This compares to the actual Crossroads book value of ** ____ ** million each. The volatility of the natural gas market exacerbated the decline in sales of gas-fired generation caused by the implosion of the merchant energy market during 2002 to 2005. This was an ideal time to purchase capacity, if a utility needed capacity, which GMO (Aquila) did.

In 2006, the price for the General Electric 7 EAs (new model PG7121(EA)) had gone up to $19.2 million according to the 2006 *Gas Turbine World* Handbook.

Q. How do the values of the turbines installed at Crossroads compare over the years?

A. The Crossroads turbines were purchased in 2001 at a price of **____ ** million per turbine. Comparisons of the 2001 price to later valuations of that same turbine model over several years appear in the following table:

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Year of Gas Turbine World	General Electric Model 7EA (new PG7121EA)	
2012	$25.2 million	
2010	$22.7	
2009	$25.9 million	KCPL's Study per Stipulation in ER-2009-0090
2007-2008	$19.5 million	Pricewaterhouse Study Aquila Study
2006	$19.2 million	
2004-2005	$14.8 million	End of the Aries contract
2003	$16.6 million	
2000-2001	$21 million	Crossroads Purchased in 2001

Source: Gas Turbine World Handbook

Q. Are the turbines installed at Crossroads the same as the turbines installed at South Harper?

A. No. The South Harper turbines are Siemens 501D5A units rated at 105 megawatts each. These units saw prices following the same pattern going from high at the start of the last decade to significant price reductions during 2003 and 2004 time frame. In the 2004-05 GTW Handbook, published by *Gas Turbine World*, the price of a Siemens 501D5A was quoted at $18.7 million. In the 2003 *Gas Turbine World* Handbook, the value was $19.9 million and in the 2000-2001 *Gas Turbine World* Handbook has model 5015DAs priced out at $25.5 million. Based on this information, the market cost of these units trended downward during the time GMO (Aquila) needed the five turbines to replace the Aries PPA capacity.

However, the 2006 *Gas Turbine World* Handbook identified the price for the Siemens 501D5A (new model SGT6-3000E) at $22.8 million per unit. In 2009, the last year I have information, the price of this unit significantly increased to $$29.2 million.

Q. Are these turbine prices solely the turbine cost?

A. *Gas Turbine World* does surveys of the industry and contacts turbine manufactures to determine the pricing information it publishes. Some of its data is from actual purchases made by companies - regulated utilities and merchant companies alike. While these combustion turbines prices may include added costs for specific features based on individual needs, such as duel fuel source burning capability and fast-start capability, typically these are the prices that the industry relies on to trend costs of turbine equipment.

Q. When did Aquila Merchant negotiate prices of the combustion turbines installed at Crossroads and South Harper?

A. Aquila Merchant negotiated them from late 2000 throughout the summer of 2001. The turbine contract between Siemens Westinghouse (Siemens) and General Electric and Aquila Merchant was signed September 2001. Crossroads had an in-service date of 2002. The South Harper turbines were originally purchased for the Aries site—called Aries II-- with an expected in service date of June 2003. Aquila Merchant planned to have a purchased power agreement with MPS for 15 years starting in June 2005 which was the end of the Aries power contract.

Q. Was the combustion turbine market different in 2000 and 2001 than in 2003 and 2004 when (GMO) Aquila should have been planning for replacement of the power it was taking under the Aries purchased power agreement for capacity?

A. Yes. In 2000 and 2001, when Aquila Merchant negotiated to buy South Harper turbines 1, 2, and 3, and 18 General Electric 7 EAs, four of which were installed at Crossroads, the power equipment industry was experiencing a sellers' market. Purchasers were paying premiums to reserve manufacturer's slots to place orders and negotiate contract terms. During an interview David Kreimer, GMO's (Aquila) former Director of Engineering, indicated "that

during the time Aquila Merchant was negotiating with Siemens for the three combustion turbines it was a brutal sellers' market for all forms of generation." He stated "that it was the most brutal sellers' [market] that he experienced in the 30 years that he had been working in the industry at the time of the negotiations and when Aquila Merchant entered into the agreement to purchase these combustion turbines." Mr. Kreimer stated that "the sellers' market peaked around August 2002 and pricing for the large F frame machines began to decline quickly....the sellers' market for the larger [Siemens] F model combustion turbines started losing value first before the values for the smaller Siemens 501D5a's and General Electric 7EA combustion turbine[s] started to decline—the smaller combustion turbine's market value lasted longer" [Source: Data Request No. 56.1 in Case No. EO-2005-0156, April 29, 2005 Kreimer interview].

Q. What is the size of the F frame combustion turbines that Mr. Kreimer referred to in his interview?

A. The F frame units are Siemens 501FD combustion turbines and are the range of 150 to 160 megawatts in size. The Aries Combined Cycle Unit has two F frame combustion turbines. The Siemens 501D5A combustion turbines GMO (Aquila) installed at the South Harper Facility are 105 megawatts and the smaller General Electric 7EA combustion turbines are the units installed at Crossroads, Raccoon Creek and Goose Creek. These are nominally rated at 75 to 80 megawatts. [Source: Data Request No. 56.1, April 29, 2005 Kreimer interview]

Q. Was Mr. Kreimer involved in Aquila Merchant's purchase of the three Siemens turbines from Siemens Westinghouse?

A. Yes. When GMO (Aquila) negotiated for and bought these units, Mr. Kreimer was employed by Aquila Merchant. He was directly involved in the discussions between Siemens Westinghouse and GMO (Aquila) regarding these combustion turbines. Mr. Kreimer

also was involved in the negotiations of a 1999 contract to purchase two Siemens 501F EconoPacs installed at the Aries facility near Mount Pleasant, Missouri, to create the combined-cycle unit.

Q. Why is the nature of the combustion turbine market that was occurring in 2000 and 2001, described as a brutal sellers' market, important now?

A. Combustion turbine prices declined after the 2001-2002 timeframe ending the sellers' market in this country. The power equipment market was substantially impacted as result of the collapse of the merchant power market and the utility industry's building of natural gas-fired generation.

During this sellers' market is when the Crossroads units were originally purchased by Aquila Merchant. The values that GMO is requesting to be included in rate base in this case are the book values of the original purchased price made in the very high sellers' turbine market. Therefore, the GMO recommended rate base amount in this case is higher than it should be if GMO (Aquila) would have purchased the Aries replacement power at the time when the turbine market collapsed during the 2003 and 2004 time period.

Q. Was the 2003 and 2004 time period a good time to buy combustion turbines?

A. Yes. Aquila had many opportunities to take advantage of buying generating equipment at steep discounted prices that would have provided customers with capacity badly needed on the MPS system. Aquila failed to do so resulting in the capacity shortfalls experienced by the MPS for several years causing the need to have short-term purchased power agreements that was more costly in the long-term.

Other utilities such as Ameren Missouri took advantage of the buyers market and purchased combustion turbines at Raccoon Creek and Goose Creek on extremely favorable terms benefiting both the company and its Missouri customers-- but not Aquila.

Q. In 2003 and 2004 were there buying opportunities for Aquila to acquire economic generation?

A. Yes. Not only were there plenty of opportunities to take advantage of a depressed turbine market, Aquila had the units under its control. MPS needed the capacity but was completely shut out of any opportunity to acquire these units. Aquila Merchant sold three General Electric 7 EA turbines with rated capacity of 75 megawatts each to two non-affiliates after the 2002 collapse of Aquila and the decline of the turbine market. I referenced these sells in my direct testimony at page 79 of Staff Report. Two of these units sold for ** ____ ** million or ** ____ ** million each and a third turbine was sold for ** ____ ** million. All three turbines were sold substantially below the original purchase price of ** ____ ** million each [Data Request No. 77 in Case No. EO-2005-0156]. The average price that Aquila Merchant sold these units in 2003 was ** ____ ** million-- [** ____ ** million plus ** ____ ** million divided by three]. Using this average price, GMO (Aquila) would have had a far better price at which to deploy these three General Electric turbines to meet its regulated system requirements and greater megawatt capacity. These prices compare with the Crossroads turbine values of ** ____ ** million per unit price for the same GE 7 EA model.

The total costs for the three General Electric turbines Aquila Merchant sold to third parties was ** ____ ** million with a total capacity of 225 megawatts, or ** ____ ** per kilowatt. This per kilowatt cost is far below the per kilowatt cost of the three Siemens turbine costs GMO installed at South Harper. Two 501D5A turbines are 210 megawatts of capacity.

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Using the three General Electric units would have been even more cost effective for GMO to install the three General Electric 7EAs having greater capacity than two of three Siemens units installed at South Harper. With the 315 megawatts of South Harper turbines in addition to the 225 megawatts of the 7 EAs units would have given Aquila the needed capacity to fully replace the Aries power agreement.

Q. Did Aquila Merchant have any other General Electric combustion turbines?

A. Yes. Aquila Merchant originally purchased 18 General Electric 7 EAs, taking delivery and deploying 10 turbines at two different site locations in Illinois (these turbines will be discussed later). Four of those turbines were deployed at the Crossroads Energy Center located in Mississippi.

As noted above, three of the General Electric turbines were sold to Colorado and Nebraska entities and a fourth turbine was release back to the manufacturer, with Aquila Merchant losing the reservation (option) payments it had made to General Electric.

Q. Did Aquila Merchant make any offers regarding the four General Electric combustion turbines before executing the contracts under which they were sold?

A. Yes. Like the Siemens turbines installed at South Harper, Aquila Merchant offered the General Electric turbines to other entities, including KCPL (see surrebuttal Schedule CGF-SUR-21).

Q. Did GMO (Aquila) have an opportunity to acquire any of these four General Electric 7 EAs combustion turbines for its regulated operations, i.e., to serve its customers in its MPS and L&P rate districts?

A. No. GMO (Aquila) never considered using these turbines for its regulated operations, even though MPS needed to replace the Aries purchased power agreement by

June 2005. GMO (Aquila) indicated that these turbines were sold in 2003, in advance of its decision to install turbines at South Harper. (Data Request No. 43, Case No. EO-2005-0156).

Aquila's Capacity Planning and Additional Peaking Turbines

Q. Why does Staff believe Crossroads is not GMO's least cost option as presented in Mr. Crawford's rebuttal testimony?

A. Staff believes that the time period of 2007 that GMO is relying on to evaluate the costs of this generating capacity is misplaced, and well past the time when this capacity was needed by GMO for its MPS rate district. The time that is relevant to the evaluation of least cost capacity planning for Aquila is the time period of 2004 when the Aquila had to make decisions regarding its replacement of the 500 megawatt Aries purchased power agreement that expired May 31, 2005. This agreement was originally with an affiliate of Aquila who owned and built Aries with its co-owner, Calpine. Aquila signed a five-year purchased power agreement with Aquila Merchant to supply capacity and energy for MPS in 1998 for the summer of 2000 to May 2005.

In 2004, Aquila committed to replacing part of its capacity shortfall from the scheduled end to the Aries agreement with three combustion turbines that an Aquila affiliate had in storage - the combustion turbines now installed at South Harper. In January 2004, Aquila informed Staff that it was going to use these combustion turbines to partially replace the 500 megawatts of capacity it had been obtaining from the Aries station in order to meet its capacity needs during the summer of 2005 peak season. At the time, Staff questioned Aquila why it was only installing three combustion turbines, when the Company's own analysis showed the least costs planning to replace the 500 megawatt Aries PPA (purchase power agreement) was to install five combustion turbines. In 2004, Aquila explained that it only had three combustion turbines

to install and it also thought there were attractive short-term purchased power agreements available for the summer of 2006, which was the summer after the South Harper units were to become operational.

Q. Did Staff accept this explanation by Aquila?

A. No. Staff continued to express its concerns it had previously communicated to Aquila many times. Those concerns were that Staff believed the best approach for the Company was to pursue the installation of three combustion turbines that were eventually installed at South Harper and to build additional generating capacity to make up the shortfall. Staff expected Aquila to build five combustion turbines making up approximately 525 megawatts of capacity, which would have more than adequate to replace Aries 500 megawatts of capacity.

Q. Did Aquila Merchant own all of Aries?

A. While Aries was conceived, designed and built by Aquila, Aquila Merchant sold a 50% equity interest to Calpine. In 2004, Aquila Merchant sold the remainder of its share in this plant to Calpine.

Q. Did Aquila ever have an opportunity to purchase Aries after its unregulated affiliate sold its interest to Calpine?

A. Yes. Aquila bid for this generating facility on December 4, 2006, but was not the successful bidder. Aries was purchased by another entity who renamed the unit Dogwood.

Q. Would you briefly describe the Aries power plant?

A. Yes. Aries was first conceived and developed by Aquila (then UtiliCorp) in the late 1990s. It was originally planned for serving customers in the MPS rate district but the project was turned over to its affiliate, Aquila Merchant. Aries is a 585 megawatt natural gas-fired combined cycle facility that began operating in-service in early 2001. Aries would

have been more than enough capacity to meet MPS' system load requirements for 2007 and beyond, possibly through 2010, when Aquila's share of the Iatan 2 Generating facility was expected become available. Iatan 2 is a coal-fired generating plant recently completed by Kansas City Power & Light Company (KCPL) and, in which GMO (Aquila) has an 18 percent ownership share.

Q. Did Calpine's sale of Aries in 2006 influence Aquila's decision to build new capacity?

A. Yes. Because Aquila did not need peaking capacity in addition to the 585 megawatt Aries combined cycle facility, an intermediate capacity plant, it would not commit to building combustion turbines before Calpine sold Aries.

Staff believes that Aquila's decision in 1998 to build Aries as a merchant plant caused the problems with its capacity planning that is the basis for the Crossroads issue before the Commission today. Aries was previously owned 100% by Aquila Merchant as a non-regulated unit. Aquila Merchant sold its 50% share of Aries in late 1999 to Calpine. Had Aquila built this plant as a regulated facility, there would not be the capacity issues that have plagued Aquila (GMO) over the past several years. With ownership and control of the Aries capacity, Aquila would not have been subjected to the capacity market year after year.

Q. Since Aquila did not acquire the Aries Unit how did it get the capacity it needed during the summers of 2007 and 2008 to meet its system loads?

A. With short-term purchased power agreements for capacity from Crossroads.

Q. Why is the time frame of the Aries contract which ended in 2005 relevant to the discussion of Crossroads?

A. Since GMO has taken the position through Mr. Crawford's rebuttal testimony that Crossroads is the most economical capacity generation available to the Company, it is essential to any assessment of the Crossroads facility to understand that it is GMO's (Aquila's) actions in the past that caused all the problems concerning GMO's lack of owned generating capacity today. While the time in question in this case is the 2005 time frame, not the 2007 or 2009 periods as Mr. Crawford would have the Commission view it, problems with GMO's/Aquila's/UtiliCorp's capacity planning goes back to the 1990s.

Staff believes, however, that the relevant time period is when the Aries contract ended in 2005, not two years later in 2007 at the time of Aquila's Study, not in 2008 during the Pricewaterhouse analysis or five years later in 2010, when KCPL did its study for GMO. The costs of combustion turbine acquisition and installation in 2005 are substantially different than in the 2007, 2008 or 2009 time periods. For the Aries capacity replacement to have occurred by May 2005, Aquila would have had to have purchased the turbine equipment by 2004. The combustion turbine market in 2004 was completely different than the market during 2007 and 2008 when GMO made its analysis and concluded that Crossroads was the least cost decision. Prices in the 2004 turbine market were much lower than in the 2001 turbine market when Aquila originally purchased the turbines installed at Crossroads. Thus, the book Crossroads turbine values are higher compared to what they would be if they, or comparable turbines, were purchased in 2004.

Q. Upon what did GMO base its decision that Crossroads was its least cost capacity decision in 2007 and 2008?

A. GMO witness Mr. Crawford generally describes on pages 3 and 4 of his rebuttal testimony the process GMO went through to determine that Crossroads was the best decision for

the Company. GMO received responses from a request for proposal (RFP) for purchased power agreements and self-build options. The self-build options contained prices for turbines and equipment priced at 2007 costs. These costs would have significantly increased compared to when Aquila should have evaluated the capacity addition back in 2004. To suggest that Crossroads is an economic decision, as GMO indicates in Mr. Crawford's rebuttal testimony, is simply wrong.

Q. Are the transmission costs higher for Crossroads than for a comparable generating station in GMO's service area?

A. Yes. Mr. Crawford agrees in his rebuttal testimony at page 5 that the transmission costs are higher for Crossroads compared to a plant located in GMO's area. Transmission costs are discussed in my rebuttal testimony.

Q. Did Aquila ever look at other generating units outside its service territory?

A. Yes. Aquila Merchant once owned two non-regulated generating facilities called Raccoon Creek and Goose Creek. These units were sold to Ameren Missouri in early 2006 as distressed property. Staff inquired of Aquila why these units were not considered for its regulated operations in Missouri. Aquila maintained it could not get sufficient transmission back to the MPS load center and that it was too costly to transmit the power back. In a June 26, 2003 Resource Planning presentation, Aquila identified companies submitting responses to RFPs, but they were rejected primarily because they were located in Illinois, which Aquila believed had transmission issues.

Q. GMO witness Crawford states at page 4 of his rebuttal testimony that GMO considered self-build options, but determined acquiring Crossroads to be a lower cost option than

self-building. Does Staff agree that Crossroads is a low cost option for GMO to meet its generating needs?

A. No. The comparison that GMO (Aquila) made prior to being acquired by Great Plains was based on the wrong time period. GMO (Aquila) examined the costs in 2007 based on 2007 costs, but that was three years after the analysis should have been done. By 2007, the cost of combustion turbines had increased substantially causing Aquila to make the wrong decision on the costs of Crossroads. The analysis that was done used inflated turbine costs over those that the Company could have received had it pursued the self-build option in 2004 as opposed to 2008. More important, GMO (Aquila) likely would have never considered adding a power plant located in Mississippi to its generating fleet to meet its Missouri load requirements, unless the costs were substantially lower than any other option. Aquila never discussed the use of Crossroads to meet its native load requirements. At the time close to the acquisition Aquila personnel discussed with Staff members the potential use of a site in Sedalia but at no time was a plant located in Mississippi ever presented as a solution to Aquila's capacity needs. Having a power plant several hundred miles from the Company's load center presents logistic problems for operations and maintenance and, in particular, substantial costs to transport the power back to GMO's customers. Clearly, it is beneficial to have the generating fleet close to where the electricity is going to be used.

Had Aquila ever suggested considering to use the Crossroads facility for its regulated operations, Staff would have wanted to know the magnitude of the additional costs that would be involved in managing the plant facility and the substantial costs relating to the transmission of the power back to the load center. Those are costs that are incurred as long as the plant is needed for system load requirements.

Q. Did you attend meetings between Aquila and Staff regarding Aquila's decision to build South Harper?

A. Yes. On January 27, 2004, I was present when Staff met with several Aquila personnel, including Mr. Richard C. Green, then Aquila's Chairman, Chief Executive Officer and President. During that meeting Aquila, based on its 2004 resource plan, committed to install three combustion turbines by June 2005. GMO had these units in storage at its Ralph Green generating station located at Pleasant Hill, Missouri. Within a couple of weeks, GMO had a second meeting on February 9, 2004 with Staff and Public Counsel at GMO's 6-month Integrated Resource Planning (IRP) presentation to provide the results of its review of its capacity needs. At this meeting Aquila provided its analyses of its least cost and preferred plans. Staff questioned Aquila about its analysis of its Preferred Plan to only install three combustion turbines. Staff expressed its concerns with Aquila's past capacity planning efforts and took strong exception with its decision not to build more generating assets, particularly since Aquila's analysis justified building more combustion turbines as its "least cost" plan.

Q. Did Aquila only evaluate its preferred plan?

A. No. When Aquila developed its capacity plan and presented it to Staff in January 2004, Aquila determined that its least cost plan was to install five combustion turbines, not three. At the February 9, 2004, IRP meeting, Aquila's lowest cost plan, on a net present value revenue requirements over a 20-year period, identified replacing the Aries Agreement by constructing five combustion turbines totaling 525 megawatts, instead of the three totaling 315 megawatts that they installed at the South Harper facility.

Staff asked Aquila why it was not pursuing its least cost plan, instead of installing three turbines. Aquila indicated that it only had three combustion turbines in storage at the time

and planned to use them in its preferred plan. With its preferred plan, Aquila would make up the capacity shortfall resulting from the expiration of the Aries Agreement with purchased power agreements.

Q. When did Aquila begin planning to replace the power it was taking under the Aries Agreement?

A. Power from the Aries Agreement ended May 31, 2005. So Aquila needed to have replacement capacity by that date. Aquila started planning to replace the Aries agreement by issuing Request for Proposals (RFPs) as early as the spring of 2001. In response to Data Request No. 166 (Case ER-2005-0436) concerning the Aries replacement power (attached as Highly Confidential Surrebuttal Schedule CGF-SUR-22), Aquila provided a history of its capacity planning process, with much emphasis on replacing the Aries agreement in 2005.

From the time Aquila signed the Aries agreement in February 1999, it started considering replacing the Aries capacity, but only with purchased power agreements. Even though the combustion turbines that are presently installed at the South Harper facility had been in storage since August 2002, it was not until the January 2004 meeting that Aquila committed to building a generating plant and installing them. In fact, just prior to the January meeting, Staff discussed the capacity planning matter as part of the 2004 rate case and Aquila had not made any plans to use the combustion turbines that were in storage. It was not until Staff pushed for these turbines to be used to meet Aquila's capacity requirements for the expiring Aries capacity in June 2005 did the Company commit to install the three combustion turbines at the site now known as South Harper.

Q. How did Aquila meet its capacity requirements after the summer of 2005 when South Harper was completed?

A. Since Aquila did not build its least cost plan of five combustion turbines, it relied on short term agreements in each of the years from 2006 to 2008.

Q. Does Staff believe that Aquila's capacity planning was prudent?

A. No. Staff has been very critical of Aquila's approach to addressing its capacity needs for its system. Examples of the former Aquila decision making:

- Having a corporate policy not to build regulated generation evidenced by not having built generation since 1983, except for South Harper in 2005 which affects the regulated operations to this day and Iatan 2 in August 2010. It transferred Crossroads to its regulated operations in August 2008.

- In 1997 attempted to move all generating assets to an Exempt Wholesale Generator (EWG), Case No. EM-97-395. Application was withdrawn after opposition by Staff.

- MPS Resource planning in 1992 determined need for a combined cycle unit by 2000 for MPS yet Aquila's corporate decision made to build unit as a non-regulated merchant plant (Aries) after regulated operations did most of the preliminary work for the development of the project.

- MPS purchased power agreement from 2001 to 2005 from a non-regulated Aquila affiliate (the Aries Combined Cycle Agreement).

- In 2004, Aquila sold its 50% share of Aries giving its partner ** ——————————— ** to take unit over.

- Aquila attempts unsuccessfully to re-acquire Aries in December 2006.

- Despite having a known certain date to replace the Aries Agreement by June 2005, Aquila did not timely plan for the replacement of this capacity. Until January 2004, did not seriously consider building generation instead looking at another purchased power agreement from an affiliate (Aries II).

- Aquila Merchant attempts to sell at steep discounts three turbines which were to be installed at Aries as Aries II in 2002. Units were placed in storage. While units were for sale, at no time were the units ever considered or offered to MPS to meet its growing capacity needs before January 2004. In January 2004 Aquila made decision to replace Aries Capacity Agreement with three combustion turbines it had left

over from its merchant business. These units had been in storage since 2002 during which the units' warranty expired. Units were eventually installed at the South Harper facility in June and July 2005.

- South Harper legal issues caused by having to move forward on project to get units in service by June 2005 to replace Aries Agreement. Since Aquila already had possession of units since 2002, appropriate planning could have taken place much earlier than it did providing ample time to get necessary community support.

- Aquila had many combustion turbines, three of which were new units, in its asset portfolio that it sold at distressed values resulting in hundreds of millions of dollars of impairment charge losses that the Company did not consider to use for its regulated operations despite MPS' need to for capacity. (Raccoon Creek (340 megawatts) and Goose Creek (510 megawatts) sold to Union Electric Company d/b/a AmerenUE, now d/b/a Ameren Missouri, in 2005 with sale completed in early 2006 and three other General Electric 7 EAs combustion turbines sold to non-investor owned utilities in Nebraska).

- In 2000 Aquila re-acquired MPS' four combustion turbines at Greenwood which it had built starting in 1975 and sold under a sale lease back which had a provision where the Company could acquire the units at the end of the lease at the existing market value. Aquila re-acquired the units at greater than the original purchase price even though the units were 25 years old. The units were reacquired by a Aquila non-regulated MPS affiliate with a corporate decision that MPS entered into a 15-year purchased power agreement. This agreement was ultimately terminated and the units were moved back in the regulated operations of MPS. The 25-year old units are now in rate base at a greater amount than what they were originally purchased for in 1975 and 1976. Customers will have in essence paid for these units twice- once through the lease payments which were included in rates and now again in rate base. If the units had been rate based from the mid-1970s the units would have been close if not fully depreciated except for additions occurring over the operating life of the assets.

- GMO's inclusion of Crossroads in rate base in this case at full net book value, not including all related deferred income taxes and the inclusion of all annual transmission costs.

The foregoing demonstrates that Aquila has not had appropriate and effective decision-making regarding its resource plans or its resource planning process. These events and circumstances are not the actions of a typical utility this Commission regulates. When Great

Plains Energy acquired GMO, it inherited the many problems and the long-term issues with Aquila's capacity planning.

Q. Who does GMO view should shoulder the burden of its past capacity planning decisions?

A. Throughout their testimony it is quite clear to me that GMO witnesses believe that it is perfectly fine for GMO customers to pay for higher costs because of the mistakes of Aquila's capacity planning and its refusal to build the necessary generation to serve its customers. The Commission should not forget it was Aquila Merchant who built this plant in the location it did. While at no time did Aquila discuss the use of Crossroads as a regulated asset, Staff always promoted and recommended the building of more hard assets—generators located in the Kansas City and western side of Missouri area, and to build those assets when needed, which was when the market provided great buying opportunities in the 2004 to 2005 time period. As Ameren found out, even buying in the 2006 period afforded great opportunities for economically priced generation. Only Aquila/GMO shows an indifference to its customers by wanting to charge in rates costs clearly resulting from Aquila's bad decision-making concerning capacity planning for its customers—in the past and for many years to come.

GMO completely ignores the capacity planning problems that have existed since 1999, right up to the present. Crossroads represents the essence of the capacity issues Staff has addressed in testimony of every rate case filed by this Company since 2001. It started with the Aries decision; continued to South Harper relating to the valuation of its turbines transferred from a non-regulated affiliate to the regulated operations; continuing with all the court issues with the construction of South Harper; the refusal of GMO to completely replace the capacity of the Aries power agreement with steel in the ground low cost generation.

Effects of Aquila's Decision not to treat Aries as a Regulated Generating Facility

Q. Did Aquila ever consider building Aries as part of its regulated operations?

A. Yes. In 1998, prior to the decision to build Aries by the non-regulated Aquila Merchant, Aquila for the regulated operations of MPS considered building a 500-megawatt combined cycle unit on the same land that Dogwood is now on. Because of Aquila's, then corporate policy to not build regulated generating units, Aquila decided this unit would be a non-regulated non-rate based EWG operating within MPSs service area, with MPS regulated operations bidding on the capacity.

In the summer of 1998, at the time of the initial evaluations of the request for proposals for capacity for MPS, which were issued on May 22, 1998, the regulated operations of Aquila responded to its affiliate Aquila Merchant's RFP with a "build" proposal. This build option to supply capacity and energy to MPS from a combined cycle unit operated by the EWG was the low cost option at the time of the initial review phase of the RFP.

Q. Why did not Aquila build the combined cycle unit, instead of its affiliate Aquila Merchant?

A. The MPS regulated operations of Aquila presented its proposal to Robert K. Green, then Aquila President, who made the decision that the regulated side of its operations would not build Aries. The material covered two different dates: 1) October8, 1998, - Financial Analysis of Supply Options, and 2) October 28, 1998, - Updated Analysis of Supply Options. The presentation material was provided to Staff in response to Data Request No. 301 (Case No. ER-2004-0034) and is attached to this testimony as Highly Confidential Surrebuttal Schedules CGF-SUR-23 and CGF-SUR-24.

Q. How did Staff learn of how it was decided that Aquila Merchant and not Aquila would build Aries?

A. This was discussed with former Aquila personnel who were involved in not only the issuance and review of the RFP, but also as one of the bidders to the RFP to supply capacity to MPS through the EWG. Staff conducted an interview with the individuals who were directly involved in the issuance and review of the RFP and also in making the decision to submit a bid to build a combined cycle unit to supply power to MPS as an EWG.

Q. How did these interviews with former Aquila personnel come about?

A. Staff indicated to Aquila that it wanted to discuss the RFP process and aspects of how MPS came to agree to purchase power from the Aries partners. Aquila contacted two individuals who were directly involved in these decisions and provided them for an interview with Staff.

Q. Is it Staff's view that Aquila should have given more consideration to building Aries as a regulated unit?

A. Yes. Staff believes that had Aquila built Aries as a regulated generating station and rate based it in the traditional manner, Aquila likely would not have the capacity issues it has today. Staff has had issues with Aquila's decision making regarding building generating units since Aquila's 2001 rate case, Case No. ER-2001-672. In each rate case since the 2001 through the last Aquila rate case, Case Nos. ER-2004-0034, ER-2005-0436, and ER-2007-0004, Staff expressed its concerns on the Company's decision not to build generation units and relying on purchase power agreements to meet capacity. Now, after Great Plains acquired it, GMO continues to have issues with capacity due to the decisions made before the acquisition when it was named Aquila and UtiliCorp. One of the latest expressions of those issues is Crossroads.

Q. Did Aquila examine building a combined cycle unit as a regulated asset before Aquila Merchant built Aries?

A. Yes. In its 1992 Integrated Resource Plan dated February 1992, GMO (Aquila) identified that its recommendation was to build ** _____ _____ ** to serve MPS.

[February 3, 1992 Integrated Resource Plan-Executive Summary, Item 6.]

Q. Did Aquila develop the Aries project for its regulated operations?

A. Yes. Throughout the late 1990s, when UtiliCorp (GMO) only had what is now its MPS rate district in Missouri, Aquila developed the 500 MW combined-cycle unit that ultimately became the Aries Combined Cycle Generating Facility. The site for Aries was land that was previously owned by Missouri Public Service Company, the predecessor to UtiliCorp.

Q. Did Aquila incur costs to develop the Aries site?

A. During the early and mid-1990's, the regulated Aquila expended funds to continue to study and develop the preliminary work that was necessary to prepare for construction of this project. Ultimately, Aquila's corporate management determined that the regulated Aquila would not be permitted to build the Aries facility but rather its non-regulated affiliate Aquila Merchant would develop this project. Aquila Merchant took over the Aries project in the summer of 1998.

Q. When was the Aries capacity agreement signed with Aquila for MPS?

A. Aquila entered into this purchased power agreement with its affiliate, Aquila Merchant, in February 1999.

Q. Did Aquila prepare cost estimates for the Aries project?

NP

A. Yes. In an interview with David Kreimer, he indicated that he spent a substantial amount of his time during the winter and spring months of 1998 developing preliminary cost data and studying the estimates for the 500 MW combined cycle unit that ultimately became Aries.

Q. Were these cost estimates and studies provided to Aquila Merchant assisting in building the Aries facility?

A. Yes. The regulated Aquila did much of the preliminary work to get Aries project to the construction stage.

Q. How did the Aries purchased power agreement come about?

A. In the spring of 1998, Aquila issued a request for proposal (RFP) for its power needs for MPS in the early years of this decade. It received responses in July 1998 offering to provide MPS power needs through a variety of options from several different entities. As part of this evaluation, Aquila also examined the option of building and owning a 500 megawatt combined cycle unit with a projected in-service date in 2001.

In August 1998, through its own analysis, as well as the independent analysis of Burns & McDonnell, an engineering consulting firm, Aquila determined that the least cost option for serving MPS was to build the 500 megawatt combined cycle unit.

Q. Did Aquila pursue building the 500 megawatt combined cycle unit?

A. Yes. However, Aquila, at some point, assigned the construction project away to Aquila Power Corporation, Aquila's non-regulated affiliate later known as Aquila Merchant.

Initially, the regulated Aquila pursued building the Aries Combined Cycle Unit as an unregulated EWG. The studies and analyses performed by personnel of the regulated operations ultimately led to the conclusion that the 500 megawatt combined cycle unit was the least cost option

to meet the capacity needs of MPS starting in 2001. This was confirmed by the independent engineering firm, Burns & McDonnell in an August 1998 report to the Company.

In an August 24, 1998 study entitled "UtiliCorp United Inc. Missouri Public Service 1998-2003 Preliminary Energy Supply Plan," the Company independently determined that the construction of a 500 megawatt combined cycle unit was the least cost plan for MPS. Under the Executive Summary Section 1, "Conclusions," the following appears:

> **Conclusions**
>
> Based on the 1998-2003 supply-side analysis, the least cost plan for MPS consists of executing short term purchase contacts to meet MPS capacity needs through the year 2000, and the construction of a gas-fired 500 MW combined cycle unit to meet all of MPS' capacity needs in 2001-2003 time frame and a majority of its needs thereafter.
>
> The above supply provides the least cost means to meet the MPS capacity and energy needs even though MPS' has a low annual load factor of <50% and an abundant supply of low-cost energy supplied by its existing resource base which is 64% coal-fired base load generating capacity.
>
> The ability of combined cycle units to complete in the regional energy market place enables these resources to provide sufficient revenue to offset their higher capital cost.
>
> 1.5 Recommended Action Plan
>
> As a result of the analysis outlined in this report, it is recommended that UCU [(Aquila/UtiliCorp)]:
>
> Negotiate extension of the existing lease agreements on the Greenwood combustion turbines.
>
> Secure short term capacity to meet MPS' capacity needs thru 2000.
>
> Pursue the construction of a 500 MW combined cycle unit proposed with an in service date of June 1, 2001.
>
> [Source: Data Request No. 607 in ER-2004-0034—1998-2003 Preliminary Energy Supply Plan]

Q. Did Aquila, then operating as UtiliCorp, ever examine the option of building and owning the Aries Combined Cycle Unit as part of its regulated operations?

A. No. At no time during the 1998 time period, did Aquila ever consider this as an option. Staff is aware of numerous examples, in Aquila electric rate cases for the MPS rate district (Case Nos. ER-2001-672 and ER-2004-0034) where Aquila readily admitted that at no time did it consider allowing its regulated operations to own or control generating units as regulated plant for serving MPS. While the EWG option was pursued for MPS by Aquila regulated operations, the combined cycle unit was never planned to be part of the traditional regulated operations of MPS, and Aquila never planned for the unit to be included in rate base.

Q. Is this a flaw in the Company's analysis to meet the capacity needs of its Missouri retail electric customers?

A. Yes, it is a fatal flaw. To not have even considered the option of building regulated generating assets for MPS to meet the capacity needs of Aquila's Missouri regulated operations is a failure on the Aquila's part and constitutes imprudence. This decision by Aquila resulted in Aquila's regulated Missouri operations being at the mercy of purchased power agreements priced at market-based rates through May 31, 2005, when the Aries agreement terminated. Aquila continued to be subjected to market-based rates for the power used by its Missouri regulated operations right until Great Plains acquired it in July 2008 and thereafter.

Q. What was the effect of Aquila's strategy to not build regulated generating assets until recently?

A. Aquila subjected its MPS and now, L&P rate district customers, to being served with capacity and energy by purchased power agreements priced at market-based rates. The market rates for purchased power during the period of most of this decade has increased significantly over what they were in the late 1990s when Aquila entered into the Aries purchased power agreement.

Q. What is the basis for the Staff's belief that Aquila did not consider building regulated generation to meet its capacity needs in Missouri and, instead, committed to building unregulated generation?

A. Aquila freely admitted that it never considered building regulated generating facilities to meet the capacity needs of its regulated utility operations in the state of Missouri. Mr. Frank DeBacker, Aquila Vice President, (page 9, line 9 DeBacker rebuttal in ER-2004-034) and Mr. Keith Stamm, Aquila Senior Vice President, (page 12, line 18 Stamm rebuttal in ER-2004-0034) both admitted in their rebuttal testimonies filed in Case No. ER-2004-0034, that this option was never considered by Aquila's regulated operations. In Case No. ER-2001-672, Aquila provided a esponse to Staff Data Request No. 365 in which it stated that "the Company believes that the current regulatory climate does not warrant the business risks associated with constructing and owning rate based generating plants."

Also, in an interview with Mr. DeBacker and Mr. Robert Holzwarth (Vice-President and General Manager of UtiliCorp Power Services (UPS)) held on October 28, 2003, Mr. DeBacker stated that it was Aquila's corporate policy not to consider building regulated generating assets. Mr. DeBacker indicated in the interview that "MPS did not intend to build and include in rate base generating units to supply its power needs. Thus, Aquila (UtiliCorp) through its regulated MPS division never considered building generating capacity as a regulated unit" [Data Request No. 548 in Case No. ER-2004-0034).

Q. Did Aquila state why it never entertained the option of building a regulated power plant?

A. Yes. During the aforementioned interview with Mr. DeBacker and Mr. Holzwarth, they indicated there was a corporate policy at Aquila that no new generation would be built as a

regulated unit subject to being rate based. The following accurately characterizes the information provided at the October 28, 2003 interviews on this topic of corporate policy:

> The philosophy of "buy/not build" in regard to power supply, taken in response to perceived electric industry uncertainty, was an Aquila (UtiliCorp) corporate strategy in place by 1998; **it wasn't just Mr. DeBacker's and Mr. Holzwarth's belief at that time.** The Aquila (UtiliCorp) philosophy was consistent with MPS' strategy in 1998. MPS took the position to depend on purchased power for short-term power needs, no construction of regulated power plants. **The Aquila (UtiliCorp) divisions in Colorado and Kansas followed this same approach.** Bob Green, Jim Miller and Harvey Padawer communicated the "buy/not build" strategy for the regulated entities. This strategy is not set down in writing, to DeBacker's and Holzwarth's knowledge, but was no secret within Aquila. Mr. Holzwarth was present at one meeting where Bob Green expressed the "buy/not build" philosophy. **Among senior officers still with Aquila, Rick Green, currently Chairman, President and Chief Executive Officer could address this philosophy if necessary.**
>
> Both Mr. DeBacker and Mr. Holzwarth indicated that UtiliCorp was concerned about the future of retail competition / retail access and was concerned about the "stranded costs" relating to loss of customers to completion from "customer choice". The Company wanted to "stay short in the market" (stay in market 3 to 5 years only). The decision to "stay short" in the market was made by UtiliCorp in 1996/1997 time frame. Mr. Holzwarth said, "what would happen if you build big units (generating units) and half your customers went away?" When asked if either of them knew of any system (electric system) where half the customers "went away" neither Mr. DeBacker nor Mr. Holzwarth knew where this had occurred. Mr. Holzwarth cited the competition that was occurring in other states such as Pennsylvania, New Jersey, New York and Illinois.
>
> [October 28, 2003 interview with DeBacker and Holzwarth, Data Request No. 548 in Case No. ER-2004-0034; emphasis added]

The least cost option developed for meeting the capacity needs of Aquila's Missouri regulated utility operations was to build the Combined Cycle Unit as an EWG as part of the regulated operations of the Company (Mr. DeBacker's rebuttal testimony in Case No. ER-2004-0034).

Mr. DeBacker indicated in the fall of 1998, the Company decided to create another unregulated corporate entity under its Aquila Merchant subsidiary to build and own generating assets such as the Aries Combined Cycle Unit (page 19 of DeBacker Rebuttal Testimony filed in Case No. ER-2004-0034). While MPS, a regulated division of Aquila, had performed the work required to determine the size and scope of the generating asset needed for the capacity needs of Aquila's Missouri regulated operations, (October 28, 2003 DeBacker interview, Data Request No. 548, in ER-2004-0034), Aquila's upper management transferred that function to the non-regulated operations of Aquila Merchant.

It is interesting to note that the regulated operations of the Company continued to examine the EWG option as late as October 1998. A presentation made on October 8, 1998, entitled, "Financial Analysis of Supply Options" and another presentation made on October 28, 1998, entitled, "Updated Analysis of Supply Options." were made by Aquila's regulated operations and presented the EWG option of building and owning the 500 megawatt combined cycle unit. As late as the end of October 1998, the regulated operations of UtiliCorp were still pursuing the generation option that would later become Aries.

However, the option of the regulated operations building the 500 megawatt combined cycle unit was rejected by Aquila's upper management. Other than the statements made in the interview with Mr. DeBacker and Mr. Holzwarth that the Company believed it would be difficult to have the regulated operations build and own the Aries Combined Cycle Unit, the Staff has not seen nor been provided any documentation that would identify the specific reasons why this option was not agreed to by the Company's upper management. In the October 28, 2003, interview, Mr. Holzwarth indicated that upper management decided that it would be too difficult to have the regulated

operations create the non-regulated function of building and owning Aries. The following interview notes, reviewed by the interviewees, accurately describe this:

> In 1998, the only economic analysis performed to assess MPS' power options for the first years of the next century were for a three-to-five year period only. **Building plants for MPS' rate base was not considered as an option, but Holzwarth's group did consider building a generating plant as an unregulated Exempt Wholesale Generator (EWG) within MPS.** Building a unit as part of an EWG was viewed as superior to including a regulated unit in rate base because there was less risk to Aquila of stranded costs if retail access was allowed in Missouri. Plus, the EWG proposal allowed MPS to better control costs and to "control its own destiny" in regard to power supply, and also allowed MPS the opportunity to profit on a non-regulated basis in the wholesale marketplace through the sale of energy as off-system sales. The analysis performed by UtiliCorp for the EWG never assumed MPS to be a customer of the MPS EWG unit beyond the original five-year power supply proposal in the RFP. Mr. Holzwarth stated that the MPS EWG option was presented at a meeting attended by Bob Green, then UtiliCorp President, and Harvey Padawer (maybe Jim Miller as well). The MPS EWG option was rejected because of questions raised at the meeting the risk of a massive EWG operating failure when taking into consideration MPS' relatively small size; how to obtain generating economies of scale, since a separate organization within MPS would have to be responsible for the EWG unit; MPS' lack of familiarity with the combined-cycle technology; and regulatory scrutiny of possible cross-subsidies between MPS' regulated and non-regulated sides. Mr. Holzwarth said some of the questions posed at this meeting where he recommended that MPS (through UPS) build non-regulated EWG generating unit were: How can MPS operating people manage the EWG also? What would be the "risk" to cash? Where would you get economies of scale from a regulated operation running a non-regulated EWG operation? Mr. Holzwarth stated he did not have answers to these questions.
> [Source: October 28, 2003 interview with Mr. DeBacker and Mr. Holzwarth; emphasis added]

The decision was made to obtain power from other sources. Mr. DeBacker and Mr. Holzwarth indicated that they were not aware of any records documenting the reasons for the MPS EWG option rejection by Aquila's upper management.

Mr. Holzwarth stated that the ultimate decision would have been made by Bob Green and/or Harvey Padawer; however, the consensus opinion of senior management was that a regulated power plant with its potential stranded cost issues was not desirable. Mr. Holzwarth indicated he did not make the decision; he only made the presentation recommending that his group UtiliCorp Power Supply build a generating unit as a non-regulated EWG.
[Source: October 28, 2003 interview with Mr. DeBacker and Mr. Holzwarth,]

Q. Did Staff ask who made the decision not to build regulated generating units?

A. Yes. Staff submitted a data request asking the following:

1. Why was the decision made by Aquila (formerly UtiliCorp United) not to build and operate Aries Combined Cycle Unit as a "regulated" power plant to be included in rate base? Include in your response all reasons and rationales why this decision was made.

   Response: Uncertainty surrounding the deregulation of the electric power industry and the possibility of incurring unrecoverable "stranded costs". Avoiding long term power supply commitments was viewed as a means to effectively mitigate potential "stranded costs" arising from potential retail generation choice.

2. Provide all supporting documentation relating to and relied on upon in making this decision, including but not limited to reports, analyses, studies, etc.

   Response: Compliance with MPS Joint Agreement with MPSC Missouri Public Service Commission] and Office of Pubic Counsel—approved by PSC in Case No. EO-98-316 on 6/25/98.

Secondary Concern

1. Inexperience in operating large F-frame combustion turbine generating units and uncertainty surrounding the actual maintenance costs of these machines.
   [Data Request No. 302 in Case No. ER-2004-0034]

This project then became assigned to Aquila Merchant and the Aries project was developed as part of the merchant energy partners segment of that operation.

Q. Who at GMO (Aquila) made the decision to not to build regulated generating assets to meet MPS capacity requirements?

A. As indicated above cited in the October 28, 2003 interview, Mr. Holzwarth said Mr. Bob Green and Harvey Padawer made the decision not to build regulated generating assets. In response to the Data Request No. 302 in Case No. ER-2004-0034 the Company identified the following decision makers on that issue:

> Bob Green - Chief Operating Officer supervised by Rick Green
>
> Jim Miller - Leader Business Segment UED (UtiliCorp Energy Delivery)
>
> Harvey Padewar - Leader Business Segment UEG (UtiliCorp Energy Group)

In the October 28, 2003, Staff interview with Mr. DeBacker and Mr. Holzwarth, when asked about who made the decision to build Aries as a nonregulated plant, according to Staff notes of the interview reviewed by the interviewees, they stated:

> Were Bob Green, Harvey Padawer and Jim Miller involved in meetings dealing with Aquila Merchant matters? DeBacker and Holzwarth said Padawer would have been; he was head of Aquila Merchant at the time and reported to Mr. [Bob] Green. They supposed Bob Green would have met with Aquila Merchant people; Bob Green as President of Aquila (UtiliCorp) was over Aquila Merchant as well as the regulated utility operations. Mr. DeBacker and Mr. Holzwarth were not sure about Mr. Miller, Senior Vice President of UtiliCorp Energy Delivery (UED) which was responsible for the transmission and distributions system (pipes and wires) of the regulated utilities.
> [Data Request No. 548 in Case No. ER-2004-0034]

Q. Who is Mr. Bob Green?

A. Until October 2002, Mr. Green was the President and Chief Executive Officer of GMO (Aquila) and President of Aquila Merchant.

Q. Who is Mr. Harvey Padawer?

A. Mr. Padawer was head of Aquila Merchant at the time of the decision to build the Aries Project. Aquila Merchant was engaged in the marketing of natural gas and electricity to industrial and wholesale customers. During the time Mr. Padewar was in charge, Aquila Merchant was starting its merchant energy function, of which the Aries unit was intended to play a major part of that strategy.

Q. Who is Jim Miller?

A. Mr. Miller was head of GMO (Aquila's) regulated operations, known as the "pipes and wires" part of the business. He was in charge of UtiliCorp Energy Delivery, or the regulated transmission and distribution operations of the Company.

Q. Did other Missouri utilities follow a different course than Aquila to meet their power capacity needs since the mid to late 1990s?

A. Yes. As noted earlier, utilities such as Empire , KCPL and AmerenUE all embarked on building generating assets, and owning and controlling those generating assets as part of their regulated operations. Staff supported this approach, and has encouraged this practice by utilities this Commission rate regulates through the IRP process, as well as in various applications that have been made to the Commission concerning restructuring and reorganizations of the various corporate entities.

In KCPL's application to restructure its corporate operations in Case No. EM-2001-464, a critical element of Staff's concern and, ultimately, the resolution of that application filed with the Commission, was the commitment for KCPL to continue to build and keep regulated generating assets as part of its regulated operations.

Q. Would there ever be an advantage to an electric utility to not build its own generating units and, instead, rely on power purchases at market prices to serve its regulated customers?

A. Yes, to the extent that a company has both regulated and non-regulated affiliates, and the non-regulated affiliate owned and operated generating facilities that could sell power to the regulated affiliate. If the utility believed that the market pricing of power costs was going to rise over time, the utility could build and own non-regulated generating facilities and enter into purchased power agreements with the regulated affiliate. There would be a direct benefit to the company if the costs could be passed on to the customers of the regulated affiliate through rates. The increased power costs would benefit the owner of the generation because it could raise the costs to the regulated affilaite through market-based rate contracts. This arrangement would benefit the parent company that owned both the regulated utility and non-regulated generating affiliate, because earnings to the parent company would increase. In essence, the forecast of increasing power costs would justify building the generating facility by the non-regulated affiliate with the expectation that the increased pricing would be reflected in newly negotiated power contracts. This, of course, assumes that the Company is successful in passing the increase in costs to the customers of the affiliated regulated utility through purchased power agreements, agreements similar to the one that Aquila entered into with the Aries partners.

Q. Why is this important since GMO no longer has an affiliate that is selling power to it?

A. While GMO does not have an affiliate selling power to it, the aftermath of the Aries decision still affects the Company's decision-making, right up to today. Aries originally was owned by Aquila exclusively until it sold 50% of its ownership interests to Calpine. In

2004, Aquila sold its entire interest in Aries to Calpine. Not only did Aquila lose a 585 megawatt combined cycle unit—a subject this Commission is still having to deal with in finding a replacement to this power—but it also lost very valuable land, and transmission and natural gas pipeline rights. Aries was sized for additional generating units. In fact, the three turbines installed at South Harper were originally planned to be installed at Aries as Aries II. When Aquila gave up its ownership interest in Aries, and going back even further when it decided to get a partner for Aries, it caused the Company great hardship in its capacity planning and meeting the energy needs of its customers.

Having Aries as a combined cycle facility with natural gas prices at the level they are today would be tremendous advantage to both GMO and KCPL. Aries would be the largest unit in either GMO'a or KCPL's fleet. The Aries combined-cycle unit is an intermediate unit giving efficiencies close to coal units, and better than peaking units. Having Aries would give additional options to GMO and KCPL with regard to resource planning for potential retirement of older coal generation.

As the Company struggled with zoning and permitting issues at South Harper it is easy to understand the value of existing sites that already had zoning approvals.

Q. Did Cass County provide zoning and permitting authority to Aquila to build Aries?

A. Yes. Aquila sought all the necessary zoning and permitting requirements in building Aries.

Q. How has GMO's inattention to the Missouri-regulated operations impacted those operations and its customers?

A. In every instance the Staff knows about with regard to other Missouri utilities, the companies have pursued meeting their customers' long-term capacity needs through building and owning generating assets, unless the utilities obtain very favorable base load generation pricing, such as the like the two NPPD capacity agreements GMO had Empire had a very favorable long-term base load agreement with a Kansas utility—Westar Energy. But other utilities, for the most part, want to own and control their generating assets. Aquila alone made decisions year-after-year to pursue purchased power agreements with market-based rates. The decision by Aquila's management to embark on a non-regulated path to meet its capacity needs put the regulated operations "behind the curve" in the sense of ownership of power production facilities. Empire as a company, and Empire's customers, have enjoyed the benefits of the State Line Combined Cycle unit since it went began producing electricity in June 2001. Empire and its customers will have the benefit of that unit for many years to come. GMO's customers, however, will not have the same opportunities for similar benefits, and will pay more in the long-run for GMO's not building generation since 1983, with the exception of the South Harper facility and Iatan 2.

Q. Will prudent ownership of generating assets produce the lowest overall cost?

A. Very likely. Aquila produced a study for its January 2004 IRP analysis that concluded that building and owning five combustion turbines was the least cost scenario for replacing the Aries capacity agreement in June 2005. Then Aquila produced a study in 2007 to justify using Crossroads—a plant originally developed as a merchant plant located in Mississippi over 500 miles from GMO's customers—as a regulated plant serving native load customers. This 2007 study is not valid as it used price estimates based on 2007 costs, costs which are over three years in the past when Aquila needed power to replace the 2005 Aries contract. Since there

is a lead time of when power is needed and when contracts for turbines are signed, power equipment needed in 2005 would have to have been procured by contracts made during 2004 time period.

Advantages of Utility Owning Generating Assets

Q. What are the advantages of regulated utilities building, owning and operating their own generating facilities?

A. Utilities are able to control the operations of the generating facilities if they own and operate those assets. Utilities will not be subjected to the volatility of the market place with cost increases related to purchased power if they operate their own generating assets. Also, utilities are able to provide a much more reliable source of energy when the regulated company has its generation under its control. The regulated entity can operate the unit in a prudent and economic manner, and can maintain and make capital improvements to prolong the life of this valuable asset.

Q. Are there advantages for regulated utilities to own generating facilities?

A. The control of generating facilities by utilities is very important. Companies can better manage costs for maintenance and reliability of units if they own them. In essence, by controlling the generating unit, the Company is much more in charge of its own destiny. In an interview with Staff on November 14, 2003, Mr. Terry Hedrick, then Aquila's Generation Services Manager and the Project Manager of South Harper and now KCPL's Manager of Plant Engineering, indicated that he believed there were "significant advantages in both owning and operating the generation equipment in developing maintenance expertise. If you control / own the equipment, he believes that there are advantages in the areas of costs, manpower and staffing and dispatch flexibility." (Data Request No. 616.1 in Case No. ER-2004-0034)

Q. Are there advantages to customers if regulated utilities own their generating assets?

A. Yes. Generally, the costs (revenue requirements) are higher in the early years of ownership. The capital costs of the plant investment require a return (return on investment) and the utility is entitled to a recovery of the investment (return of investment). As the plant investment is recovered through depreciation – (the return of investment) - the rate base return required – (return on the investment) - decreases. At some point in the future, especially if the plant operates longer than expected, such as in the case of GMO's Sibley generating units, the customers will have the benefit of the plant while the rate base investment is very low. The return on investment declines which causes the revenue requirements to decline dramatically through ownership.

Q. Is GMO in a position to reap these advantages?

A. No. By deciding not to build regulated generation for a period of over 20 years since 1983 GMO put its customers at a disadvantage because it had a substantial amount of capacity that it had to replace—at least 500 megawatts—since the Aries purchased power agreement expired in May 2005. Aquila made no commitment to build regulated generation for over 20 years, unlike every other major electric utility that operates in this state, and faced the challenge of replacing the Aries capacity in large block of power, at least 500 megawatts. It met part of this capacity with South Harper—315 megawatts but did not make the right decision to replace the entire 500 megawatts with owned assets.

Q. Did Aquila Merchant recognize the advantages of owning generation?

A. Yes. Aquila Merchant acquired several generating assets during the 2000 and 2001 time frame, including Aries. Aquila Merchant believed that the forecast for power costs would be increasing over time, and made decisions to "lock in" the cost of owning its own generation, so it could take advantage of the increasing market for power costs. In an

October 29, 2003, interview Mr. Max Sherman, a former Aquila Merchant employee and Project Manager during the early development and construction phase of the Aries plant and Crossroads, discussed the need for generating units:

> Aquila Merchant committed to purchase 12 or more combustion turbines during this period (starting in 2000) to build unregulated peakers to take advantage of the wholesale marketplace (this was after the Aries construction decision had been made and the plant was under construction). The reason for Aquila Merchant's acquisition of the combustion turbines was its belief that, **given expected future power market conditions, it would be less expensive to produce power from generating units you control than to have to buy power in the marketplace.** Mr. Sherman indicated that the last place a merchant company wanted to be was to have to supply power through long-term contracts and be at the mercy of a volatile power market and have to buy power to supply those contracts....
> [Data Request No. 549 in Case No. ER-2004-0034; emphasis added]

Non-regulated merchant companies would want their own generation, so they would not be at the mercy of power pricing "spikes." This was especially important if power had to be delivered through contracts to third parties.

If the regulated entity that did not build and operate its own generating units believed that power costs were going to increase, it would have to enter into purchased power agreements priced at market-based rates. The non-regulated merchant company who negotiated to deliver power to the regulated entity at the escalating market-based contracts benefit if they own and operate their generation assets. In some cases the non-regulated merchant may supply power by either generating or acquiring power through a purchase from another party. The profitability of the non-regulated merchant will depend on the ability to acquire or generate the power at a cost that would be below that which it would rsell it. Since GMO (Aquila) believed there was going

to be a significant rise in the power market costs, the non-regulated subsidiary built and acquired generating assets to engage in the open market for power.

Q. Would the same concern in a rising energy cost market favor regulated entities owning generating assets?

A. Yes. The approach that Aquila Merchant pursued could also have been followed by the regulated Aquila for its MPS division. For the exact reasons that Aquila Merchant believed it was necessary to own the generating assets, Aquila's MPS division should have built and operated its own generation. This was especially important when you take into consideration that the Company believed that the power market costs were going to rise significantly over time, as it did in 2001 through 2005. The decision by Aquila to allow Aquila Merchant to build and acquire generating assets, and sell power from them through the open market through purchased power agreements like those entered into between the Aries partners and MPS resulted in the situation where Aquila's regulated operations were subjected to the volatility of the market for power costs. It is clear that Aquila Merchant believed that it could not enter into long-term agreements and be subjected to the whims of the market place in supplying that power, thus causing them to reach a decision to own the generating assets in order to supply those power needs to their non-regulated customers. It should be just as clear that the regulated entity, GMO, would also want to own generating assets in this same situation.

Q. Do know of any non-regulated merchant company that builds its own generating facilities?

A. Yes. In a meeting with Calpine in the spring 2005, Staff asked Calpine if it supplied electricity to its customers on a long-term basis using purchased power agreements.

Calpine indicated that it was in the business of owning and operating its generating facilities and would not meet long-term power commitments to customers by purchasing the power.

Q. Are there advantages to the utility in owning and operating generating facilities as regulated assets?

A. Yes. Regulated assets are typically put in rate base which, when the units are completed and declared in service, are included in rates allowing the utility a reasonable return on the investment and a recovery over the life of the generating asset through depreciation expense. Thus, a utility is provided some reasonable assurance that the investment in the regulated asset will be fully recovered from its retail electric customers. This provides some reasonable assurance to investors that their asset will be protected through the regulatory process by rate basing the asset. Utility customers benefit by being insulated from rising costs for power during a time when those costs are expected to significantly increase. The customers and the utility owners gain substantial advantages when a company builds and places in service, generating facilities in its regulated operations.

Q. Are there also disadvantages in placing generating assets in the regulated operations?

A. Yes. If there are rising power market costs, a company with both regulated and non-regulated affiliates would be at a relative disadvantage if it put the generating facilities in its regulated affiliate, because it would not be able to shield from the regulators the profits obtained from the regulated affiliates. This is the situation Aquila found itself in 2000 through 2005 with Aquila Merchant's ownership of Aries and ultimately with the planned second purchased power agreement contemplated with Aries II. But the power market collapsed as did Aquila's non-regulated operations so Aquila's and Aquila Merchants' management made the decision to get

out of the merchant business before this agreement ever was finalized. While the regulated entity would have an opportunity to sell the energy from the generating capacity in the open market during the period of expected rising power costs, the profits from these transactions are typically included in the ratemaking process. For as long as the regulated affiliate can stay out of a rate case, the parent will benefit from the increased sales. However, when the regulated affiliate files for rate relief, the power sales would be considered in the rate process.

The decision to put generating assets in a regulated affiliate would cause the non-regulated affiliate to miss opportunities for profit making in the increased power market. Assets that are in the regulated affiliate would be held to a typical regulated return which would likely be less than those that would be received by non-regulated affiliates engaging in profit taking from a rising power market. Aquila's management believed that it could receive greater returns on its investment dollars by having a non-regulated affiliate, Aquila Merchant, own the generating facilities and selling the power through purchased power agreements to entities like the Missouri regulated operations of Aquila in the open market through market-based pricing. As the market reflected the increased power costs, the non-regulated affilaite would also receive the increased revenues resulting in greater-than-regulated returns.

Q. Is there an example where Aquila was subjected to increasing costs because it failed to secure the ownership of generating assets?

A. Yes. In 1975, Aquila, then operating as Missouri Public Service Company, purchased and built four combustion turbines at its Greenwood Generating Station which GMO still operates. Upon completion of the construction before the units went into service, the Company sold at book value to financial institutions, all four of the combustion turbines, and received the capacity power through a 25-year lease for each of the generating units. The lease

did not allow for any residual value to be passed to the utility that originally owned the generating units. Upon expiration of the lease, Aquila reacquired those four combustion turbines at the then existing market-based price. In essence, the Company purchased the same asset twice. The cost to reacquire the assets at the current market price was very close to the original purchase price paid for the assets when they were new. Thus, Aquila bought 25-year-old generators and paid close to what the original investment cost back in the mid-1970s. Customers paid for 25 years lease payments which covered the fixed costs of the units, with Aquila's regulated MPS operations having the responsibility for all operating and maintenance costs along with any capital additions. GMO's customers in its MPS rate district are currently paying in rates for the units which have a greater value than when they were new-- in essence paying a second time for the units. The benefits of ownership are not being realized for the Greenwood units because of this sale/lease back arrangement.

Crossroads Natural Gas Costs

Q. GMO witness Blunk discusses in his rebuttal testimony natural gas costs for Crossroads Energy Center. Does Crossroads Energy Center in Mississippi have higher natural gas costs than a similar energy center would if it was located near Kansas City, Missouri?

A. Yes. Historically the Mississippi based Crossroads has experienced higher natural costs when compared to natural gas prices and costs in Kansas City, Missouri. GMO gets its natural gas in the area known as Midcontinent region of the United States—a location where natural gas prices tend to be lower than most of the other parts of the country and in the Gulf region, Mississippi in particular. The Midcontinent region includes portions of Texas, Oklahoma and Kansas. Historically, natural gas prices in the Midcontinent region have been significantly lower than at the Henry Hub area in Louisiana.

In the past there were basis adjustments made to the price of natural gas when comparing regional prices differences, with Henry Hub prices being higher. These basis adjustments have been as high as over $1 per mmbtu and as low as a few cents. Currently, the basis differences between the regions are not as significant as they have been in the past because of how low natural gas prices are in general, but that will change as natural prices fluctuate.

Currently, and in the past, natural gas prices at Crossroads are higher than they are in the Kansas City area. Specifically, Crossroads natural gas prices have been higher than those for GMO's South Harper, Greenwood, and other large combustion turbine facilities. The following table compares Crossroads natural gas costs with those at both South Harper and at Greenwood:

Generating Unit	2008	2009	2010	2011	2012 through August
	Per mmbtu	Per mmbtu	Per mmbtu	Per mmbtu	Per mmbtu
South Harper					
mmbtu	1,267,064 mmbtu	609,228 mmbtu	716,227 mmbtu	901,270 mmbtu	1,614,308 mmbtu
commodity	** **	** **	** **	** **	** **
Commodity with variable transportation	** **	** **	** **	** **	** **
Commodity with all transportation	** **	** **	** **	** **	** **
Greenwood					
mmbtu	333,734 mmbtu	437,199 mmbtu	454,293 mmbtu	285,837 mmbtu	238,197 mmbtu
commodity	** **	** **	** **	** **	** **
Commodity with variable transportation	** **	** **	** **	** **	** **
Commodity with all transportation	** **	** **	** **	** **	** **

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Generating Unit	2008	2009	2010	2011	2012 through August
Crossroads					
mmbtu	121,736 mmbtu	121,326 mmbtu	306,454 mmbtu	1,081,911	1,043,560
commodity	** **	** **	** **	** **	** **
Commodity with variable transportation	** **	** **	** **	** **	** **
Commodity with all transportation	** **	** **	** **	** **	** **

Source: KCPL and GMO Data Requests 70 and 70.1; Case Nos. ER-2010-0356 and ER-2012-0175

It is only when firm transportation costs (the pipeline reservation payments) are included that South Harper has higher total natural gas costs than Crossroads in 2011 and in 2012 (August 2012). In every year since 2008 South Harper actual natural gas commodity costs are lower than those for Crossroads, and when the variable transportation costs are included with the commodity charges, South Harper is still lower than Crossroads except for in 2011.

Of particular note, Greenwood has significantly lower natural gas costs than Crossroads in every year from 2008 to current 2012. Also, noteworthy is that Greenwood was used significantly more than Crossroads despite not having firm transportation for natural gas delivery for 2008 than 2010. Greenwood does not need firm transportation for natural gas because it is capable of using oil as a fuel source.

Equally important, the lower natural gas prices at Crossroads is off-set by the higher transmission costs to transport the energy from Crossroads back to Kansas City to serve GMO's customers. The annual transmission costs are identified in my direct testimony at page 83 of the Staff Report. For 2011 the annual transmission costs to move power from Mississippi to Kansas City area was ** _____ **—a steep price to pay for having a facility so far from the customers this plant is serving (Data Request 154, Case No. ER-2012-0175).

NP

Greenwood, located in Kansas City, does not have any additional transmission costs to transport its electricity to GMO customers. Greenwood has 253 megawatt capacity facility compared to Crossroads' 297 megawatts and South Harpers' 317 megawatts.

Q. Mr. Blunk states at page 2 of his rebuttal testimony that Staff did not include firm transportation costs for either Raccoon Creek or Goose Creek. Is this correct?

A. Yes. Of course Staff is not including the cost of pipeline reservations charges of between $8 and $9 million for these two plants. Staff is not and has never made any suggestion that the Raccoon Creek and Goose Creek plants are facilities whose costs should be used set rates for GMO's customers. In their rebuttal and surrebuttal testimony the two GMO witnesses (Blunk and Crawford) apparently are both under the impression that the Staff recommendation in GMO's last rate, and the Commission's decision, was to the use these two Illinois power plants as generating assets of GMO—not the case at all. The use of Raccoon Creek and Goose Creek simply represented two distressed combustion turbine facilities that went on the market during a time when the then Aquila affiliate, Aquila Merchant, was selling its assets at deep discounts. Both Raccoon Creek and Gooses Creek represent but two of many opportunities that Aquila had to acquire generating facilities to serve its MPS rate district at extremely attractive prices in the 2004 and 2005 time period, as I testify earlier in this testimony.

Q. Mr. Blunk states at page 3 of his rebuttal testimony that "if Staff is going to use the value of plants located in Illinois, it should use pipeline reservation charges for plants located in Illinois." Mr. Blunk goes on to say that Staff should include the cost of transmission service for the Illinois locations. Does Staff agree that including these costs is appropriate?

A. No. Raccoon Creek and Goose Creek were surrogates for generating assets that Aquila could have put in service to serve customers in its MPS rate district. While its

wholly-owned Aquila Merchant was selling generating assets for pennies on the dollar, the badly needed capacity short rate regulated Aquila MPS was but forgotten. Staff's recommendation for using Raccoon Creek and Goose Creek as surrogate asset costs was to place a rate base value for a plant that Staff never supported be included in rate base—Crossroads.

Staff's recommendation in the last case was not to promote the use of these two Illinois plants as actually providing electricity to GMO's customers and therefore, all the actual costs of these generating assets should be included in GMO's revenue requirement for setting rates for its MPS rate district. To the contrary, as discussed in Staff rebuttal testimony, Raccoon Creek and Goose Creek have the same location disadvantages that Crossroads has. To be clear, Staff is not recommending the Commission include the higher costs of Raccoon Creek and Goose Creek in GMO's rate base any more than it is recommending the higher transmission, transportation or other costs based on the location of Crossroads be included in the revenue requirement for the MPS rate district used for setting rates for GMO customers in that district.

I do agree with Mr. Blunk though- "location, location, location" is everything in the utility business. Location of the power plants needed to produce the electricity is just as important as knowing where this electricity is going to be consumed. Having a power plant in Illinois is not any more of a location to serve western Missouri customers than having that power plant located in Mississippi, Alabama or any other location other than close to where the electricity is going to be used—close to the load center. Location of generating assets is fundamental to the design of any utility system—that is why KCPL, GMO's affiliate, does not have any of its generating units located in Mississippi over 500 miles from where its customers are located.

Crossroads Deferred Income Taxes

Q. GMO witness Hardesty in her rebuttal testimony at page3 and 4 indicates a belief that the deferred income taxes for Crossroads should not include those generated when the facility was part of Aquila's non-regulated operations. Do you agree?

A. No. All of Crossroads deferred income taxes (deferred taxes) should be used as an offset to rate base. To the extent Crossroads generated any deferred income taxes during the time it was treated as non-regulated, it would have done so because of Aquila's ability to generate income. No. tax deduction has value unless it can reduce taxable income. While accelerated tax depreciation of Crossroads created deferred taxes during the time it was part of Aquila Merchant, Aquila did not have any non-regulated income to be able to use the benefit of those taxes. Only the regulated entities of Aquila generated income which would have allowed the benefits of accelerated tax depreciation to be used.

Q. Ms. Hardesty states in her rebuttal testimony at page 6 that she believes deferred taxes need to be consistent with the plant value the Commission determines be included in GMO's rate base for MPS in this case. Do you agree?

A. Yes. I noted that very point in my rebuttal testimony. If the Commission gives GMO the full net book value of Crossroads (which Staff disagrees with) then the full deferred taxes should be used as an offset to rate base. This was the $14.8 million amount shown at page 2 of Ms. Hardesty's rebuttal testimony, although this amount will be updated for the August 31, 2012 true-up. This represents all deferred taxes ever generated by Crossroads since it began operating.

If the Commission continues to value Crossroads for rate base purposes on the distressed Raccoon Creek and Goose Creek properties that it relied on in the 2010 GMO rate case, then

deferred taxes should be consistent with that value. That value is the amount identified in my rebuttal testimony and the rebuttal testimony of Ms. Hardesty. She identifies that amount as $4.2 million (page 6 of her rebuttal testimony). This is consistent with amount I identified in my rebuttal testimony at page 50, line 1.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service	))))	Case No. ER-2012-0175

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 123 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Subscribed and sworn to before me this 10th day of October, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

Notary Public

MISSOURI PUBLIC SERVICE COMMISSION

SCHEDULE 1 through 24

Surrebuttal Testimony of
Cary G. Featherstone

KCP&L GREATER MISSOURI OPERATIONS COMPANY
Great Plains Energy, Incorporated

CASE NO. ER-2012-0175

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INDEX OF SURREBUTTAL SCHEDULES

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in Its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan.	)))))	File No. ER-2010-0355
In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service.	)))))	File No. ER-2010-0356

REPORT AND ORDER DIRECTING KCPL AND GMO TO APPLY TO THE IRS TO REVISE THE MEMORANDUM OF UNDERSTANDING REGARDING THE ADVANCED COAL TAX CREDITS FOR IATAN

Date Issued: March 16, 2011 Date Effective: March 26, 2011

This order directs Kansas City Power & Light Company (KCPL) and KCP&L Greater Missouri Operations Company (GMO) to apply to the Internal Revenue Service (IRS) for an amendment of the 2010 MOU that if agreed to by the IRS would allow GMO to obtain a share of Section 48A tax credits equal to its relative ownership share of Iatan 2 and a reallocation of credits in the amounts of $80,725,000 for KCPL and $26,562,500 for GMO.

Procedural History

On June 4, 2010, KCPL and GMO each filed tariffs and direct testimony in order to begin a general rate proceeding whereby their rates for electric service would increase. KCPL's tariff has an effective date of May 4, 2011. GMO's tariff has an effective date of June 4, 2011.

Interventions were allowed, and direct, rebuttal, and surrebuttal testimony was prefiled. Evidentiary hearings were held from January 18 - February 4, 2011, February 14 - 17, 2011, and March 3 - 4, 2011.

One of the issues raised during the course of the proceedings was whether a portion of the advanced coal tax credits received by KCPL should be allocated to GMO.[1] On February 24, 2011, the Commission directed the parties to fully brief this issue with their initial briefs filed on March 10, 2011 and to state any objection to the Commission hearing this issue separately from the rate issues in the case. The parties filed their briefs on March 10, 2011, as directed and no objections were filed. Thus, in this order the Commission takes up the limited issue of the allocation of the coal tax credit and no other issue.[2]

Declassification of Evidence

Schedule 1 of Paul R. Harrison's Surrebuttal Testimony[3] was designated as "highly confidential" in its entirety during these proceedings. This schedule is a copy of the Final Arbitration Award issued during a private arbitration of a dispute between The Empire District Electric Company (Empire), the Missouri Joint Municipal Electric Utility Commission (MJMEUC) and the Kansas Electric Power Cooperative, Inc. (KEPCo). In addition, Volume 37, Page 3947, was designated as "highly confidential" by the Regulatory Law Judge even though the conversation was not *in camera* at the time. It has since come to the Commission's attention that much of the arbitrator's award is

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[1] *Kansas City Power & Light Company's and KCP&L Greater Missouri Operations Company's List of Issues, Hearing Schedule and Order of Cross-Examination*, (filed January 1, 2011), p. 8; *List of Issues*, (filed January 7, 2011), p. 13.

[2] This includes the related issues of the prudence of the defense of the arbitration and the disallowance of the costs of arbitration. Those issues will be decided with the remaining rate case issues.

[3] Ex. KCPL-223 and GMO-222.

public information as shown by Missouri Lawyers Weekly articles published on March 30, 2010, and April 4, 2010.[4] Therefore, the Commission will designate as "public" the portions of Schedule 1 to Exhibits KCPL-223 and GMO-222 which are reported in the Missouri Lawyers Weekly articles and all of Volume 37 of the Transcript from February 14, 2011.

Findings of Fact

1. KCPL is a Missouri corporation engaged in the generation, transmission, distribution, and sale of electricity in western Missouri and eastern Kansas, operating primarily in the Kansas City metropolitan area. KCPL is a subsidiary of Great Plains Energy, Incorporated (GPE).

2. GMO is a Missouri corporation engaged in the generation, transmission, distribution, and sale of electricity in western Missouri. GMO was formerly known as Aquila, Inc., and was purchased by GPE on July 14, 2008.

3. The Energy Policy Act of 2005 enacted a series of tax incentives including Section 48A of the Internal Revenue Code.[5] Section 48A provided for $500 million of advanced coal project tax credits.

4. KCPL, GMO, Empire, MJMEUC, and KEPCo entered into a joint ownership agreement to build what is referred to as Iatan 2. Joint ownership is held as follows: KCPL 54.71%, GMO 18.00%, Empire 12%, MJMEUC 11.76%, and KEPCo 3.5%.[6]

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[4] *Power companies fight over $125M tax credit*, Missouri Lawyers Weekly, March 30, 2010, and *Light fights Empire*, Missouri Lawyers Weekly, April 4, 2010.

[5] 26 U.S.C. § 48A.

[6] Exhibit KCPL-107, p. 12; Transcript p. 3941.

5. In August 2006 KCPL applied to the Department of Energy and the IRS for advanced coal tax credits for latan 2, but was denied.[7]

6. KCPL did not include any of the other latan 2 co-owners in its application for the coal tax credit[8] and did not inform any of the co-owners about the credit or its plans to apply.[9]

7. On October 30, 2007, KCPL again applied to the Department of Energy and the IRS for advanced coal tax credits for latan 2.[10]

8. In April 2008, the IRS accepted the application and allocated $125 million of advanced coal tax credits for latan 2.

9. KCPL signed a Memorandum of Understanding (MOU) regarding the award of the credits with the IRS in the summer of 2008.[11]

10. None of the other co-owners of the latan 2 project (Aquila, Empire, MJMEUC, and KEPCo) applied for such credits in 2007.

11. On October 9, 2008, Empire notified KCPL of a controversy regarding the advanced coal tax credits.[12]

12. On October 31, 2008, both GMO and Empire filed applications with the IRS seeking advanced coal tax credits for latan 2. The IRS denied both applications indicating that the full $125 million of credits available for latan 2 had already been awarded to KCPL.[13]

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[7] Ex. KCPL-223 and GMO-222, Harrison Surrebuttal.

[8] Tr. 3910.

[9] Ex. KCPL-223 and GMO-222, Sched. 1.

[10] Ex. KCPL-223 and GMO-222, Sched. 3-5.

[11] Ex. KCPL-223 and GMO-222, Sched. 3.

[12] Ex. KCPL-297.

[13] Ex. KCPL-223 and GMO-222, pp. 12-13 and Sched. 7-2; Tr. 3911.

13. Empire, MJMEUC, and KEPCo[14] initiated arbitration proceedings against KCPL, claiming that they were either entitled to their proportionate share of the tax credits according to their ownership shares in Iatan 2 or the monetary equivalent thereof.

14. GMO did not give notice to arbitrate its entitlement to a portion of the $125 million advanced coal tax credits.[15]

15. On December 30, 2009, a private arbitration panel denied the claims of MJMEUC and KEPCo, but found in favor of Empire. The panel concluded that KCPL was in violation of the ownership agreement by failing to include the co-owners in the filing for the tax credit[16] or even telling the other co-owners about its application or its efforts to lobby Congress for an amendment to Section 48A.[17]

16. The panel directed KCPL and Empire to apply to the IRS for an amendment of the 2008 MOU to allow Empire to share in the Section 48A tax credits equal to $17,712,500.[18]

17. The arbitration panel also directed KCPL to pay Empire the $17.7 million in the event that the IRS did not agree to amend the MOU.[19]

18. MJMEUC and KEPCo are not tax-paying entities as MJMEUC is a political subdivision and KEPCo is a not-for-profit corporation.[20] Because MJMEUC and

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[14] On July 10, 2009, July 15, 2009, and July 17, 2009, respectively.

[15] Tr. 3920.

[16] EX-KCPL-223 and GMO-222, Sched. 1; Tr. 3913.

[17] Ex. KCPL-223 and GMO-222, Sched. 1.

[18] Ex. KCPL-223 and GMO-222, Sched. 1.

[19] Tr. 3914.

[20] Tr. 3927; Ex. KCPL-223 and GMO-222, Sched. 1-1.

KEPCo were not eligible for the tax credits, the arbitration panel denied their claims against KCPL.[21]

19. KCPL and Empire applied to the IRS for a reallocation of the Section 48A advanced coal project credits. A revised MOU between the IRS and KCPL was agreed to by the IRS on August 19, 2010 and delivered to KCPL on September 9, 2010.[22] The revised MOU reallocated the advanced coal project credits between KCPL and Empire according to their relative ownership shares in the amounts of $107,287,500 and $17,712,500, respectively.[23]

20. Section 9.1(a) of the Iatan 2 Agreement states that the co-owners did not intend to create a partnership, and Section 9.1(b) states that "to the extent possible" the co-owners "shall each separately report and pay for all real property, franchise, business, or other taxes and fees ... arising out of the acquisition, construction, operation, disposition and co-ownership of Iatan 2; ...." [24]

21. Great Plains Energy and its affiliates file joint tax returns.[25]

22. KCPL was obligated to share costs and benefits of Iatan 2 and to notify the other co-owners of significant events under the Iatan 2 ownership agreement.[26]

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[21] Ex. KCPL-223 and GMO-222, Sched. 1-1.

[22] Tr. 3928.

[23] Ex. KCPL-223 and GMO-222, Sched. 3, pp. 5-9.

[24] Ex. GMO-18, Hardesty Rebuttal at 10-11.

[25] Tr. 3922-3923.

[26] Ex. KCPL-223 and GMO-222, Sched. 1; Ex. KCPL-105; Tr. 3909.

23. KCPL charged GMO and the other co-owners a small portion of the costs of making the application for the tax credits. This amount has since been refunded.[27]

24. If the advanced coal tax credits are imputed to GMO, it will lower the cost of service for GMO and also lower rates.[28]

25. Any attempt by this Commission to reallocate tax credits or indirectly to accomplish a reallocation through adjustments to rate base may constitute a normalization violation.[29]

26. If a normalization violation occurs, it will affect not only the Section 48A advanced coal credits, but also all other investment tax credits on the books of KCPL.[30] Specifically, this would require KCPL to repay the IRS $52,294,411, which consists of (a) $29,151,153 in advanced coal credits that have been claimed, as well as (b) $23,143,258 in other claimed investment tax credits. In addition, KCPL would lose the ability to offset future tax liabilities with $77,957,534 of advanced coal credits that have not yet been claimed. The total penalty to KCPL for such a normalization violation would be $130,251,945.[31]

27. Additionally, because GMO would purportedly receive reallocated tax credits from the Commission, not the IRS, GMO might also be subject to a normalization violation and lose all of its existing tax credits, which amount to

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[27] Tr. 3921.

[28] Ex. KCPL-223 and GMO-222, p. 24.

[29] Tr. 3936-37 and 3961-67.

[30] Ex. KCPL-30 and GMO-18, pp. 10-11.

[31] Ex. KCPL-30 and GMO-18, p. 11; Tr. 3936-37.

$3,963,573 for its MPS Division and $287,722 for its L&P Division, for a total of $4,251,295.[32]

28. The parties agree that a reallocation may be accomplished without a normalization violation by an amendment to the 2010 MOU to which KCPL and the IRS are parties.

Conclusions of Law

1. KCPL is an "electrical corporation" and "public utility" as those terms are defined in Section 386.020, RSMo, and, as such, is subject to the jurisdiction of the Commission as provided by law.

2. GMO is an "electrical corporation" and "public utility" as those terms are defined in Section 386.020, RSMo, and, as such, is subject to the jurisdiction of the Commission as provided by law.

3. This Commission is not bound by the decision of a private arbitration panel formed under the terms of the Iatan 2 Agreement.[33]

4. Private Letter Ruling No. 200945006 (Nov. 6, 2009) states that: "If a normalization violation occurs, the results under [the tax laws] would be the disallowance or recapture of all of the unamortized investment tax credit of Taxpayer with respect to public utility property."[34] Additionally, under Section 211(b) of the Tax Reform Act of 1986, "all credits for tax years open under the statute of limitations at the time a final determination is rendered [by a state utility regulatory commission]

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[32] Ex. GMO-18, pp. 10-11; Tr. 3936-37 and 3961-67.

[33] *See Jim Walter Resources, Inc. v. Federal Mine Safety and Health Review Comm'n*, 920 F.2d 738, 749-50 (11th Cir. 1990) (regulatory commission need not defer to an arbitrator's award).

[34] Ex. 106 at p. 3.

inconsistent with normalization requirements are recaptured."[35] Therefore, a normalization violation may result if the Commission orders a reallocation of the tax credits between KCPL and GMO.[36]

5. Private letter rulings are entitled to evidentiary weight, are relied upon by courts as an instructive tool, and are helpful in ascertaining doctrines applied by the IRS.[37]

6. The Iatan owners are "tenants in common, each with an undivided ownership interest therein ...."[38] Since the parties to the Iatan 2 Agreement are tenants-in-common, and not partners or joint venturers, each party was responsible for its own tax matters and for submitting its own tax filings to the IRS.

7. As the operator of Iatan 2, under Section 6.5(d) of the Iatan 2 Agreement, KCPL owed a special duty to notify its co-owners of significant events related to Iatan 2.[39]

Decision

Although the Commission is not bound by the decision of the arbitration panel, the Commission accepts the findings of the arbitration panel. Even though each party under the Iatan 2 Agreement was responsible for paying and filing its own taxes, as the operator of Iatan KCPL owed a special duty to its co-owners. KCPL should have

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[35] *Id.* at 7.

[36] *See* § 211(b), Tax Reform Act of 1986, Pub. L. No. 99-514, 99th Cong., 2d Sess. (1986); Treas. Reg. 1.46-6; Private Letter Ruling 200945006 (Nov. 6, 2009) (KCPL Exhibit 106). *See generally* R. Matheny, *Taxation of Public Utilities* (Matthew Bender, 2010), § 9.05, Investment Tax Credit Normalization Requirements (attached as Exhibit A).

[37] *See Hanover Bank v. Commissioner*, 369 U.S. 672, 686 (1962); *O'Shaughnessy v. Commissioner*, 332 F.3d 1125, 1131 (8th Cir. 2003); *Thom v. United States*, 283 F.3d 939, 934 (8th Cir. 2002); *Xerox Corp. v. United States*, 656 F.2d 659, 660 (Ct. Cl. 1981).

[38] *See* Iatan 2 Agreement, Exhibit 105, p. 1.

[39] Tr. 3909.

advised GMO and the other co-owners of its intent to request the availability of Section 48A credits and of its lobbying efforts to amend the law so that latan 2 qualified for the tax credits. The tax credits in the amount of $125 million were certainly significant to the operation and construction of the facility, and were obviously part of KCPL's operations strategy.

In addition, once arbitration proceedings had begun, GMO should have been involved, in order to protect its own interest. It is clear that even though KCPL may not have realized it at the time, KCPL could not adequately represent the interest of GMO in the arbitration proceedings.

Because a normalization violation would eliminate the value of tax credits for both KCPL and GMO, causing harm to both of the companies and their customers, the Commission will not impute the tax credit to GMO unless the MOU cannot be amended. The Commission agrees with Staff that KCPL could have avoided the issue by alerting the other co-owners about the application, giving them an opportunity to join in its application for the coal tax credits.

If the normalization violation can be avoided, but GMO will receive its fair share of the tax allocations, that is the best course of action. Therefore, the Commission directs KCPL and GMO to apply to the IRS for an amendment of the 2010 MOU to reallocate the advanced coal project credits that KCPL now holds in revised amounts by a ratio that would reflect the proportionate ownership interests of KCPL at 54.71% and GMO at 18.00% (without regard to the ownership percentages of the non-taxpaying entities, MJMEUC and KEPCo), that is, $80,725,000 and $26,562,500, respectively.

Since Great Plains Energy and its affiliates file joint tax returns[40] it does not matter to the shareholders whether KCPL or GMO has the tax credits. But, which company has the tax credits can make a difference to the ratepayers[41] because it may affect the cost of service. If the advanced coal tax credits are imputed to GMO it will lower the cost of GMO to serve its customers and, therefore, lower GMO rates.

THE COMMISSION ORDERS THAT:

1. The Commission will change the designation from "highly confidential" to "public" portions of Schedule 1 to Exhibits KCPL-223 and GMO-222 which are reported in the Missouri Lawyers Weekly articles and all of Volume 37 of the Transcript from February 14, 2011. The Commission's Data Center shall change the designation of Volume 37 in the Commission's Electronic Filing and Information System (EFIS).

2. No later than April 5, 2011, GMO and KCPL shall apply, at the shareholders' expense, to the Internal Revenue Service for an amendment of the Memorandum of Understanding that would allow KCP&L Greater Missouri Operations Company to obtain a share of the Section 48A tax credits for Iatan 2, Section 48A tax credits equal to $26,500,000.

3. If the application to amend the Memorandum of Understanding is denied, or if less than $26,500,000 in Section 48A tax credits is allocated to KCP&L Greater Missouri Operations Company, then the Commission shall impute a proportionate amount of credits as a reduction to KCP&L Greater Missouri Operations Company's cost of service.

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[40] Tr. 3922-3923.

[41] Tr. 3928-3029.

4. This Report and Order shall be effective on March 26, 2011.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Gunn, Chm., Clayton, Davis, Jarrett,
and Kenney, CC., concur and certify
compliance with the provisions of
Section 536.080, RSMo 2000.

Dippell, Deputy Chief Regulatory Law Judge

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 30th day of March, 2011.

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in Its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)	File No. ER-2010-0355
In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in Its Charges for Electric Service	)	File No. ER-2010-0356

ORDER GRANTING CLARIFICATION OF REPORT AND ORDER DIRECTING KCPL AND GMO TO APPLY TO THE IRS TO REVISE THE MEMORANDUM OF UNDERSTANDING REGARDING THE ADVANCED COAL TAX CREDITS FOR IATAN

Issue Date: March 30, 2011 Effective Date: April 5, 2011

On March 16, 2011, the Commission issued its Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan (Report and Order). The Staff of the Missouri Public Service Commission filed a Motion to Clarify Report and Order[1] requesting that the Commission make three points of clarification. In addition, Kansas City Power & Light Company (KCPL) and KCP&L Greater Missouri Operations Company (GMO) filed an application for rehearing and motion for clarification[2] regarding similar points as Staff and requesting rehearing.

[1] Filed March 18, 2011.

[2] Filed March 25, 2011.

The first point is a rounding error by the Commission at ordered paragraph 2 of the Report and Order. The Commission uses the rounded figure of $26,500,000 when it should use $26,562,500. With this order the Commission will correct that error.

Second, Staff suggests that the Commission had intended[3] to include a provision requiring KCPL to provide its application to the Internal Revenue Service for reallocation of the Section 48A tax credits to Staff for review before the application is made. KCPL reports that it has contacted the IRS in preparation for making the request and indicates that there is no formal "application." KCPL, however, is not opposed to providing the letter requesting the reallocation to Staff for its review prior to sending it to the IRS. The Commission will clarify its Report and Order to include this requirement.

Staff's third point is requesting clarification of the Commission's ordered paragraph 3 which indicates that if the IRS does not agree to alter the Memorandum of Understanding (MOU), then the Commission will "impute" credits to GMO. Staff requests the Commission clarify when this imputation will occur. KCPL also asks for rehearing or clarification of this point. KCPL, however, believes that the entire paragraph should be removed from the order as it will cause a normalization violation which the Commission's order clearly indicates it wishes to avoid. KCPL also requests that the Commission clarify the Commission's intent that if KCPL is unsuccessful in getting a modification of the MOU, then the Commission intends for a ratable portion of the $26,562,500 calculated on the basis of the book life of latan 2 assets to be included as a reduction of cost of service in a future GMO rate proceeding. In addition, KCPL requests guidance from the Commission as to whether its credits will be reduced by a

[3] Staff points to a conversation between Commissioner Davis and Mr. Zobrist (Transcript p. 3902) and the testimony of Paul Harrison (Ex. KCP&L-223, p. 20 and Ex. GMO-222, p. 22).

like amount. Finally, KCPL requests that the Commission delete the word "imputed" and replace it with the word "allocated" in Finding of Fact 24 to clarify this intent.

KCPL is correct in that the Commission's intent is to avoid a normalization error. KCP&L is also correct that this Commission and future Commissions are not prohibited in future rate cases from considering the ratemaking treatment afforded to future events. Thus, with this order the Commission clarifies that KCPL's understanding of the Commission's intent is correct. The Commission did not intend to "Impute" the tax credits. The Commission's intent was to make it clear that KCPL has created an inequity for GMO customers and the Commission intends for GMO's customers to be made whole. Thus, the Commission is directing KCPL to request the IRS to alter the MOU. If that alteration does not occur, then the Commission will consider the ratemaking treatment to afford the tax credit in a future rate case. Therefore, the Commission will clarify its Report and Order by removing ordered paragraph 3 and replacing the word "imputed" in Finding of Fact 24.

KCPL also requests rehearing of the Commission's Report and Order. KCPL raises no new issues for the Commission's consideration and the Commission denies rehearing.

THE COMMISSION ORDERS THAT:

1. The application for rehearing of the Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan is denied.

2. Ordered paragraph 2 of the Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the

Advanced Coal Tax Credits for Iatan is corrected by replacing "$26,500,000" with "$26,562,500."

3. Finding of Fact 24 of the Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan is clarified by replacing the word "imputed" with the word "allocated."

4. The Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan is further clarified by deleting ordered paragraph 3.

5. Kansas City Power & Light Company shall present its letter and other information being presented to the IRS as a request for amendment of the Memorandum of Understanding to the Staff of the Commission for its review prior to sending it to the Internal Revenue Service.

6. The Staff of the Commission shall advise the Commission if it is unsatisfied with the request set out in paragraph 5.

7. Kansas City Power & Light Company shall advise the Commission of the outcome of its request that the Internal Revenue Service modify and amend the Memorandum of Understanding.

8. This order shall become effective on April 5, 2011.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Gunn, Chm., Clayton, Davis,
Jarrett, and Kenney, CC., concur.

Dippell, Deputy Chief Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

REPORT AND ORDER

Issue Date: April 12, 2011

Effective Date: April 22, 2011

D. Arbitration Fees

Should fees incurred in the advanced coal tax credit arbitration case be recoverable by KCP&L?

Findings of Fact – Arbitration Fees

494. The Commission previously issued its report and order related to the advanced coal tax credits for Iatan[679] (Coal Tax Credit Order) and adopts the findings of facts and conclusions of law in this order.

495. In 2008, KCP&L applied for and received a $125 million qualifying advanced coal tax credit from the IRS associated with the construction of Iatan 2.[680]

496. Although there were several co-owners in the project, including The Empire District Electric Company (Empire), GMO, the Missouri Joint Municipal Electric Utility Commission (MJMEUC), and Kansas Electric Power Cooperative, Inc. (KEPCo), KCP&L sought to keep the entirety of the tax credit for itself.[681]

497. Upon realizing that KCP&L intended to keep the entirety of this credit, Empire filed a notice of arbitration in 2009 seeking its proportionate share of the tax credit (or the monetary equivalent).[682]

498. On December 30, 2009, the Arbitration Panel issued its Final Arbitration Award. In its decision, the Arbitration Panel harshly criticized the actions of KCP&L in

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[679] File No. ER-2010-0355, *Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan* (issued March 16, 2011); clarified by File No. ER-2010-0355, *Order Granting Clarification of Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for Iatan* (issued March 30, 2011).

[680] Ex. KCP&L 223, p. 4.

[681] Ex. KCP&L 223, p. 4.

[682] Ex. KCP&L 223, pp. 4-5.

failing to include the remaining co-owners in the tax credit, while sharing information with GMO with which it was about to be affiliated.[683]

499. As of October 31, 2010, KCP&L had paid the SNR Denton law firm over $617,000 for "both the arbitration proceedings and its appeal of the arbitration panel's decision."[684] KCP&L seeks to recover that amount in this rate case.

500. The expenses that KCP&L incurred in defending the arbitration claims brought by Empire, MJMEUC, and KEPCo, including efforts taken after the arbitration award was issued, were to preserve its rights including the appellate rights of KCP&L while it approached the IRS to amend the 2008 MOU and to assure that a normalization violation did not occur.

501. The ratepayers would not have been in the position of needing to defend the tax credits from a normalization violation if KCP&L had not acted inappropriately with regard to not including GMO and Empire in the tax credit application.[685] Neither the ratepayers of GMO or KCP&L have been provided any benefit associated with this expense.[686]

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[683] Ex. KCP&L 223, at Sch. 1-3.
[684] Ex. KCP&L 231, p. 19.
[685] Coal Tax Credit Order.
[686] Ex. 231, Majors Surrebuttal, p. 19.

Conclusions of Law – Arbitration Fees

52. The Commission adopts the conclusions of law from its Coal Tax Credit Order.[687]

Decision – Arbitration Fees

In 2008, KCP&L applied for and received a $125 million qualifying advanced coal tax credit from the IRS associated with the construction of latan 2. Although KCP&L had several other partners in the project, including GMO, KCP&L did not inform its partners of its applications. KCP&L now seeks to recover from the ratepayers the fees for the arbitration in which it then had to defend itself to keep its tax credits intact.

Even though the ratepayers benefit from the tax credits, they have been provided no benefit associated with the defense of those tax credits caused by KCP&L's imprudent conduct in not including its co-owners in the applications. If the Commission grants KCP&L recovery of these legal fees, the Commission will be encouraging this utility to engage in improper actions.

The Commission determines that the arbitration expenses KCP&L has incurred in defending itself for its imprudent acts are disallowed from KCP&L's cost of service for setting rates.

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[687] File No. ER-2010-0355, *Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for latan* (issued March 16, 2011); clarified by File No. ER-2010-0355, *Order Granting Clarification of Report and Order Directing KCPL and GMO to Apply to the IRS to Revise the Memorandum of Understanding Regarding the Advanced Coal Tax Credits for latan* (issued March 30, 2011).

SCHEDULE CGF-SUR-4

and

SCHEDULE CGF-SUR-5

and

SCHEDULE CGF-SUR-6

and

SCHEDULE CGF-SUR-7

and

SCHEDULE CGF-SUR-8

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY

APPLICATION FOR DEPARTMENT OF ENERGY CERTIFICATION

Applicant Name:	Kentucky Utilities Company and Louisville Gas and Electric Company
Applicant Address:	220 West Main Street, P. O. Box 32030 Louisville Kentucky 40232
Taxpayer identification number:	Kentucky Utilities Company 61-0247570 Louisville Gas and Electric Company 61-0264150
Contact Person:	Ronald L. Miller, Director Corporate Tax, (502) 627 - 2687 Gregory J. Meiman, Senior Counsel (502) 627 - 2562 J. Scott Williams, Manager Tax Accounting, (502) 627 - 2530
Qualified advanced coal project:	Trimble County Unit 2 487 Corn Creek Road Bedford, Kentucky 40006

Table of Contents

INDEX OF ABBREVIATIONS

ACI	Activated Carbon Injection
AQCS	Air Quality Control System
BACT	Best Available Control Technology
Bechtel	Bechtel Power Corporation
Btu/kWh	British Thermal Units per Kilowatt hour
Btu/Lb	British Thermal Units per Pound
$Ca(OH)_2$	Hydrated Lime
CCN	Certificate of Public Convenience and Necessity
CER	Capital Expenditure and Recovery
CO	Carbon Monoxide
CSR	Curtailment Service
CT	Combustion Turbine
DESP	Dry Electrostatic Precipitator
DOE	Department of Energy
DSM	Demand Side Management
EAF	Equivalent Availability Factor
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
EPC	Engineering, Procurement & Construction
°F	Fahrenheit
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
GCOD	Guaranteed Commercial Operational Date
GWh	Gigawatt hour
H_2O	Water
H_2SO_4	Sulfuric Acid
HAL	Hitachi American Limited
HF	Hydrogen Fluoride
Hg	Mercury
HHV	Higher Heating Value
HP	High Pressure
I&O	Interconnection and Operating
IGCC	Integrated Gasification Combined Cycle
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IP	Intermediate Pressure
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISO	Independent System Operator
KPDES	Kentucky Pollutant Discharge Elimination System

KPSC	Kentucky Public Service Commission
KU	Kentucky Utilities Company
Lb/MMBtu	Pound per Million British thermal units
Lb/MWh	Pound per Megawatt hours
LD	Liquidated Damages
LDC	Load Duration Curves
LG&E	Louisville Gas and Electric Company
LOI	Loss on Ignition/Unburned Carbon
LP	Low Pressure
MBEL	Mitsui Babcock Energy Ltd.
MISO	Midwest Independent Transmission System Operator
MMBtu	Million British thermal units
MMBtu/hr	Million British thermal units per hour
MW	Megawatts
MWH	Megawatt Hours
O&M	Operations and Maintenance
N_2	Nitrogen
NH_3	Ammonia
NO_X	Nitrogen Oxides
NPVRR	Net Present Value of Revenue Requirements
NTP	Notice to Proceed
O_2	Oxygen
OEM	Original Equipment Manufacturer
Owners	*LG&E, KU, IMPA & IMEA*
PA	*Participation Agreement*
PAC	Powdered Activated Carbon
PC	Pulverized Coal
PID	Process and Instrumentation Diagrams
PJFF	Pulse Jet Fabric Filter
PM	Particulate Matter
PM10	Sub 10 Micron Particulate Matter
PO	Purchase Order
Powergen	*Powergen plc, now Powergen Limited*
PPA	Purchase Power Agreements
ppm	Parts per million
PRB	Powder River Basin
psia	Pounds per square inch absolute
PSSA	Power Supply System Agreement
RFP	Request for Proposals
RH	Relative Humidity
SCPC	Super-Critical Pulverized Coal
SCR	Selective Catalytic Reduction
SO_2	Sulfur Dioxide
SO_3	Sulfur Trioxide

TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
VAR	Volt-Ampere of Reactive power
VOC	Volatile Organic Compounds
WAPC	Wheelabrator Air Pollution Control, Inc.
WESP	Wet Electrostatic Precipitator
WFGD	Wet Flue Gas Desulfurization

Index of Appendices

Appendix	Description	Required/ Supplemental	Electronic Reference
A	Project Milestone Schedule	Supplemental	◦ AppA Milestone Schedule.pdf
B	John Voyles Testimony to the CCN	Supplemental	◦ AppB Voyles.pdf
C	Guarantee Heat Balance Schematic	Supplemental	◦ AppC Heat Balance.pdf
D	Boiler General Arrangement Drawings	Supplemental	◦ 00410-0104-31000-1001 A - Boiler Side Elevation (Section) Sp.pdf ◦ 00410-0104-31000-1002 A – Boiler Plan View (grade) AppD2.pdf ◦ 00410-0104-31000-1007 A – Boiler Plant Elevation (North) AppD.pdf
E	Preliminary Steam Cycle Process & Instrumentation Drawings	Supplemental	◦ AppE Preliminary Steam Cycle.pdf
F	Mass Balances	Supplemental	◦ AppF 1 Mass Balance.pdf ◦ AppF 2 Mass Balance.pdf
G	AQCS General Arrangement Drawings	Supplemental	◦ AppG1 AQCS.pdf ◦ AppG2 AQCS.pdf ◦ AppG3 AQCS.pdf
H	Bechtel Guarantee Sheet	Supplemental	◦ AppH Bechtel GTY Sheet.pdf
I	Trimble Co 2 Ambient Change Tax Credit Study	Supplemental	◦ AppI Ambient Change.pdf
J	WAPC Guarantee Sheet	Supplemental	◦ AppJ 2 WAPC.pdf ◦ AppJ WAPC Guarantee.pdf
K	Certificate for Convenience and Necessity Order	Required	◦ AppK CCN Order.pdf
L	Fuel Quality Specifications	Supplemental	◦ AppL Fuel Specification.pdf
M	Site Plan	Required	◦ AppM Site Plan 2.pdf ◦ AppM Site Plan.pdf

Index of Appendices (continued)

Appendix	Description	Required/ Supplemental	Electronic Reference
N	Site Plan	Required	◦ AppN Bechtel 1.pdf ◦ AppN Bechtel 2.pdf ◦ AppN EON.pdf ◦ AppN Hitachi.pdf ◦ AppN Mitsui.pdf ◦ AppN WAPC 1.pdf ◦ AppN WAPC 2.pdf ◦ AppN WAPC 3.pdf ◦ AppN WAPC 4.pdf ◦ AppN WAPC 5.pdf
O	Burns &McDonnell Preliminary Engineering Study	Required	◦ AppO Burns McDonnell.zip
P	Air Quality Permit	Required	◦ AppP Air Permit.pdf
Q	Kentucky State Board Generation and Transmission Siting Order	Required	◦ AppQ Siting Board Order.pdf
R	Participation Agreement (LGE/KU/IMPA/I MEA)	Supplemental	◦ AppR Participation Agmt.pdf
S	Purchase Orders	Supplemental	◦ AppS 1 PO.pdf ◦ AppS 2 PO.pdf ◦ AppS 3PO.pdf
T	Trimble County Site Deeds	Required	◦ App T Deeds.pdf
U	Interconnection & Operating Agreement	Required	◦ AppU Interconnection Agmt.pdf
V	Energy Market Price Assumptions	Required	◦ AppV Plan Price Assumptions.pdf
W	Certificate for Convenience and Necessity Application	Supplemental	◦ AppW CCN Application.pdf
X	Financial Model	Required	◦ AppX Financial Model.xls
Y	E.ON US Investments Corp. Board Resolution	Supplemental	◦ AppY Brd Resolutions.pdf

Index of Appendices (continued)

Appendix	Description	Required/ Supplemental	Electronic Reference
Z	KPDES Permit	Required	◦ AppZ Waste Water Permit.pdf
AA	Testimony of Sharon L. Dodson to the KPSC for the CCN	Supplemental	◦ AppAA Dodson.pdf
BB	Independent Financial Report	Required	◦ AppBB Fitch.pdf
CC	Black and Veatch Site Assessment Rpt	Required	◦ AppCC Black and Veatch.pdf
DD	Audited Financial *Statements*	Required	◦ AppDD1 10K-05.pdf ◦ AppDD2 10Q-05.pdf ◦ AppDD3 10Q-04.pdf ◦ App DD4 10Q-03.pdf ◦ AppDD5 20-F.pdf ◦ AppDD 6 20-F-04.pdf ◦ AppDD7 20F-03.pdf ◦ AppDD8 EUS 1.pdf ◦ AppDD9 EUS.pdf ◦ AppDD10EUS.pdf
EE	Engineering, Procurement and Construction Agreement	Required	◦ AppEE Signed EPC.pdf ◦ AppEE Exhibits.zip

Other requested appendices (not applicable to TC2)

	Power Purchase or Energy Sales Agreement	Not applicable	Not applicable
	Market Study for non-power output	Not applicable	Not applicable

Project Information Memorandum

I. Summary and Introduction

- *Description of the Project*

Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (referred to herein as "the Companies") will construct an Advanced Coal-based Generation Technology project Trimble County Unit 2 ("TC2"). The unit is a nominal 750 net MW super-critical pulverized coal ("SCPC") facility with the latest coal combustion technology, as well as the latest technological advances in efficiency and environmental controls. This new facility will be located at Trimble County Station in Bedford, Kentucky, along the Ohio River, the site of Trimble County Unit 1 ("TC1"), a 511 MW coal-fired facility. TC2 will be a joint project between the Companies, which will own 75% of the project, and the Indiana Municipal Power Agency ("IMPA") and the Illinois Municipal Electric Agency ("IMEA"), which will jointly own 25% of the project, and will serve the needs of the native load customers of these entities. This project is a new electric generating unit with construction to be completed and unit commercialization to take place in year 2010. The nameplate generating capacity is a nominal 750 net MW.

The estimated total cost of the project is approximately $1.1 billion. The estimated amount of qualified investment in eligible property is approximately $876 million. The amount of qualifying advanced coal project credit requested for the project is $125 million.

The following table summarizes the essential requirements for qualification for tax credit, as well as the associated values proving the qualification of this project. The balance of this document explains this qualification in detail.

Summary of Qualifying Criteria Requirements

Table 1

Criteria	Requirement	Trimble County Unit 2
Heat Rate	8530 Btu/kWh	8350 Btu/kWh
SO_2 percent removal	99%	99%
NO_x emissions	0.07 lbs/MMBtu	0.04 lbs/MMBtu (guaranteed) 0.05 lbs/MMBtu (permitted)
PM emissions	0.015 lbs/MMBtu	0.015 lbs/MMBtu
Hg percent removal	90%	90%
Project to power	New electric generation OR Retrofit/repower existing	New electric generation
Amount of project is electrical power	At least 50%	100%
Fuel	At least 75% coal	100% coal
Project location	At one site	Yes; Trimble County Station, 487 Corn Creek Rd, Bedford, KY 40006
Nameplate	At least 400 MW	Nominal 750 net MW
Project Status	Ongoing engineering activities	Approved by State agencies with permits and contracts in place. Refer to Project Milestone Schedule in Appendix A
Project Type	IGCC or qualifying advanced coal project	Qualifying advanced coal project

The new TC2 unit will be powered by an SCPC boiler and steam turbine generator that utilize the latest technological advances in efficiency and environmental controls. The Companies place a high value on efficiency and environmental stewardship, selecting SCPC over a lower cost, less efficient sub-critical pulverized coal facility or a less efficient circulating fluidized bed plant. Moreover, steam cycle conditions were reviewed and raised to the highest conditions for which commercial guarantees were available and reliable operation could be expected with the 5.5 lbs SO_2/MMBtu performance fuel.

TC2 will clearly satisfy the requirements of Section 48A of the Internal Revenue Code in terms of the required design net heat rate. The Guaranteed Design Net Heat Rate provided by Bechtel in the EPC Agreement is 8662 Btu/kWh. When that heat rate is corrected for the fuel heat content and respective atmospheric conditions, as required by Section 48A(f)(2), TC2 has a calculated Design Net Heat Rate of 8350 Btu/kWh, as seen in Table 1. This is further described in the Heat Rate portion of Section II of this Application.

TC2 will easily satisfy the environmental performance requirements of Section 48A, as well. TC2 will be the most environmentally friendly coal-fired unit in Kentucky with lower permit

limits for sulfur dioxide ("SO_2") and nitrogen oxide ("NO_x") emissions than any other existing or currently planned coal unit in Kentucky. TC2 will be designed to achieve emission levels which are beyond Best Available Control Technology ("BACT") in several areas, using state-of-the-art emission control technologies. First, in terms of mercury removal, TC2 will be guaranteed to achieve 90% Mercury removal, matching the Section 48A Mercury removal design requirement. The 90% Mercury removal guaranteed for TC2 is necessary to provide a reasonable operating margin to meet the Mercury emission limit of 13×10^{-6} Lb/MWh contained in the project's Air Permit. The Environmental Protection Agency's Clean Air Mercury Rule would provide a limit of more than 21×10^{-6} Lb/MWh. The Mercury limit will be met by a selective catalytic reduction system ("SCR"), a dry electrostatic precipitator ("DESP"), an activated carbon injection system, a pulse jet fabric filter ("PJFF"), a wet flue gas desulfurization system ("WFGD") and a wet electrostatic precipitator ("WESP").

With other adjustments being made to TC1, SO_2 and NO_x emissions from both TC1 and TC2 will not exceed currently permitted limits for the Trimble County Station site, even after the addition of the TC2. Nevertheless, while TC2 was able to net out of the Prevention of Significant Deterioration regulations for SO_2 and NO_x and thus BACT does not apply, it will still be designed to meet 0.05 Lb/MMBtu NO_x which is over 28% better than the Section 48A requirement of 0.07 Lb/MMBtu and have a 99% SO_2 removal rate guarantee which equals the Section 48A requirement for SO_2 removal efficiency.

Finally TC2 will be designed to limit filterable and condensable particulate matter ("PM") emissions to 0.015 lbs/MMBtu. This will be accomplished by installing a DESP, a PJFF and a WESP.

The heat rate and emission limits quoted above as design values are vendor guarantees with liquidated damages or make right requirements contained in executed purchase orders. Hitachi American Limited ("HAL") will supply the steam turbine generator. Wheelabrator Air Pollution Control, Inc. ("WAPC") will supply the air quality control system and Mitsui Babcock Energy Ltd. ("MBEL") will supply the boiler. Bechtel Power Corporation ("Bechtel"), the engineering, procurement and construction ("EPC") contractor for TC2, will design and construct TC2 and provide the ultimate guarantee of TC2 emissions and performance to the Companies.

- *Financing and Ownership Structure*

The TC2 project will be owned by KU (60.75%) and LG&E (14.25%), with the remaining 25% to be owned by IMEA and IMPA. Both KU and LG&E are operating subsidiaries of E.ON U.S. LLC ("E.ON U.S."). KU and LG&E together account for the majority of the revenues of E.ON U.S. E.ON U.S. is ultimately owned by E.ON AG ("E.ON"), an integrated power and gas company based in Dusseldorf, Germany, with 2005 revenues of nearly $67 billion and 2005 net income of $8.8 billion. E.ON's primary areas of operation include central and eastern Europe, the United Kingdom, Scandinavia, and the U.S.

The financing of the TC2 project will include a variety of funding sources, as explained below in greater detail. The Agencies will fund their pro-rata share of costs as incurred and have already

issued bonds to fund these respective shares. KU and LG&E will fund the project with a combination of internal cash flow, equity contributions from E.ON U.S., tax-exempt bonds, and intercompany financing from E.ON AG affiliates.

- *Describe the main parties to the project, including background, ownership and related experience*

LG&E is a wholly-owned subsidiary of E.ON U.S. LG&E was incorporated in 1913 in Kentucky. LG&E is a regulated public utility company that supplies natural gas to approximately 324,000 customers and electricity to approximately 396,000 customers in Louisville and adjacent areas in Kentucky. LG&E owns and operates power plants with a generating capacity of 3,514 MW.

KU is a wholly owned subsidiary of E.ON U.S. KU was incorporated in 1912 in Kentucky and 1991 in Virginia. KU is a regulated public utility company that provides electricity to approximately 496,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in Kentucky and approximately 30,000 customers in 5 counties in Virginia. In Virginia, KU operates under the name Old Dominion Power Company. KU owns and operates power plants with a generating capacity of 4,570 MW.

LG&E and KU are each subsidiaries of E.ON U.S. Effective December 1, 2005, LG&E Energy LLC was renamed E.ON U.S. Previously, effective December 30, 2003, LG&E Energy LLC had become the successor, by assignment and subsequent merger, to all the assets and liabilities of LG&E Energy Corp. E.ON U.S. is a subsidiary of E.ON, a German corporation. E.ON acquired LG&E Energy through its July 1, 2002 acquisition of Powergen plc, now Powergen Limited ("Powergen"), a United Kingdom company and holding company for E.ON U.K. plc, E.ON's United Kingdom market unit operating parent. LG&E and KU are now indirect subsidiaries of E.ON. As a result of these acquisitions and otherwise, E.ON and E.ON U.S. are registered as holding companies under PUHCA 2005 and were formerly registered holding companies under PUHCA 1935.

LG&E and KU have a long history of successfully building and operating power plants and constructing air quality control equipment. In 1937, LG&E installed one of the first electrostatic precipitators for particulate matter control and, in 1973, was the first utility in the nation to install scrubbers on its power plant units to reduce sulfur dioxide emissions. LG&E partnered with the Department of Energy in the early 1970's on an experimental scrubber project. LG&E and KU have recently installed SCR equipment and WFGD equipment on most of their coal-fired units to further reduce NO_x and SO_2 emissions. The operation of the new equipment has performed better than specifications and ranks in the top tier of utilities in the United States.

IMPA is a not-for-profit corporation and a political subdivision of the State of Indiana. IMPA was created in 1980 for the purpose of jointly financing, developing, owning and operating electric generation and transmission facilities appropriate to the present and projected energy needs of its participating members. IMPA sells power to its members under long-term power sales contracts. IMPA's owned and member-dedicated generating capacity is 811 megawatts.

IMEA is a not-for-profit, municipal corporation and unit of local government of the State of Illinois. IMEA was created in 1984 for the purpose to jointly plan, finance, own and operate facilities for the generation and transmission of electric power to provide for the current and projected energy needs of the purchasing members. IMEA has forty members, each of which is a municipal corporation in the State of Illinois and owns and operates a municipal electric distribution system.

- *Current Project Status and Schedule to Beginning of Construction*

The project continues to progress according to the Project Milestone Schedule. Purchase orders were issued to HAL for the turbine and WAPC for the air quality control system in April 2006. A purchase order was issued to MBEL for the boiler in May 2006. These purchase orders have a total value of more than $300 million. Bechtel has commenced the detailed engineering for the project with their sub-suppliers and placed orders for critical pipe. Site mobilization is scheduled for July 5, 2006.

The overall Summary Schedule of TC2 Project is shown on page 23 of Mr. John Voyles' testimony as Exhibit JNV-5 in the TC2 CCN and can be seen in Appendix B. Construction of TC2 will be primarily performed through a single EPC contract that will primarily include the boiler, air pollution equipment, and turbine generating systems. The Companies expect actual construction to take approximately four years. The current milestone summary is shown in Appendix A.

II. Technology and Technical Information

- *Provide a description of the proposed technology, including sufficient supporting information (such as process flow diagrams, equipment descriptions, information on each major process unit and the total plant, compositions of major streams, and the technical plan for achieving the goals proposed for the project) as would be needed to allow DOE to confirm that the technical requirements of § 48A could, in principle, be met.*

A) Primary Equipment and Systems

TC2 utilizes the latest combustion technologies, demonstrating that combustion technologies will continue to play a vital role in meeting the needs of electric consumers. TC2's primary equipment and systems are described below.

1) Boiler / Steam Turbine

The boiler proposed for TC2 will be a supercritical boiler burning pulverized coal ("PC") with main steam properties of 3690 psia and 1075°F. Supercritical boilers operate above the critical pressure of water (i.e. pressure at which the density of steam and water are the same). By

operating at increased steam pressures and temperatures, greater cycle efficiencies and lower emissions are achieved.

The boiler is designed to burn a range of fuels. The boiler will burn a maximum of 6,942 MMBtu/hr or approximately 348 tons of the performance fuel per hour. The performance fuel is comprised of a blend of high sulfur eastern bituminous coal (70%) and low sulfur western sub-bituminous coal (30%) with a 5.5 lbs/MMBtu SO_2 weighted average and 9970 lbs/MMBtu heat content. Startup and stabilization fuel will be Number 2 fuel oil.

The Guaranteed Heat Balance is provided schematically in Appendix C on Diagram Guarantee Heat Balance 310SC38-341.

The boiler is an opposed wall-firing design, designed to maximize efficiency and minimize emissions. For example, low NO_x burners and advanced combustion controls will be used in the boiler to reduce emissions by minimizing NO_x formation in the boiler. Good combustion practices will be utilized to control volatile organic compounds ("VOC") and carbon monoxide ("CO") formation.

The steam turbine is an extraction condensing reheat type using approximately 3690 psia, 1075°F/1075°F throttle steam and eight stages of steam extraction for feedwater heating. The steam turbine is a four casing design: high pressure ("HP"), intermediate pressure ("IP") and two low pressure ("LP") sections. See boiler design drawings in Appendix D.

2) Steam Cycle

The boiler is estimated to generate 5.15 million pounds of steam per hour. Feedwater will flow through the economizer and into the furnace waterwall tubes where it is converted to steam. The steam will continue through the waterwall furnace tubes and enter the primary and secondary superheater sections where it will reach its final pressure and temperature of 3690 psia and 1075°F, respectively. After exiting the secondary superheater section of the boiler, the steam will enter the HP steam turbine via the main steam piping. The steam then passes through the HP casing of the steam turbine.

After exiting the HP turbine casing, the steam returns to the boiler via the cold reheat piping to the reheater sections. After the steam is reheated to 1075°F it enters the IP stage of the steam turbine via the hot reheat piping. The steam then flows into the LP section of the turbine via the crossover piping.

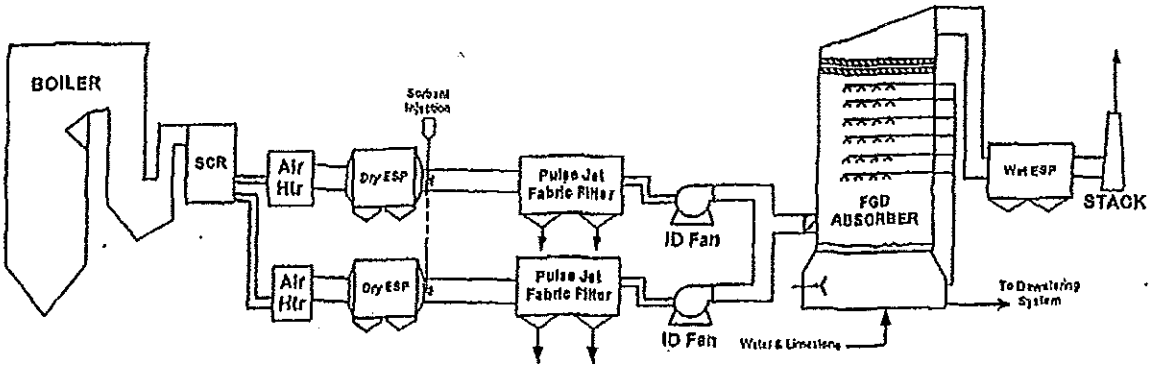
Following the turbine, the steam flows through a number of heat exchangers to transfer heat from the steam to the feedwater until it is finally condensed and returned to the system as feedwater.

Process and Instrumentation Diagrams ("PID") for the steam cycle (Steam Cycle PID 1-6) are in Appendix E.

3) Boiler Flue Gas Path

The coal enters the coal pulverizers as small chunks and exits as a fine powder after the large rollers crush it into small dust-sized particles. The particles are then transported by air (supplied by the primary air fans), and blown into the furnace at the burners, and mixed with secondary air for combustion in the boiler furnace. After the combustion process, the resultant exhaust gases, or flue gas, travel upwards through the boiler furnace, heating the water/steam fluid inside the furnace walls. The flue gas then passes through a superheater section and then enters the convection or backpass section of the boiler where it passes through the reheater sections, further superheaters, and the economizer sections of the boiler. The flue gas then passes through the first piece of equipment in a series of air quality control equipment, the SCR system. From the SCR the flue gas passes through the air pre-heater and then to the remaining Air Quality Control System ("AQCS") components.

The general sequence of equipment that the flue gas will flow through from the boiler to the stack (chimney) is shown below and on the AQCS mass balance diagrams in Appendix F.



4) Air Quality Control Key Equipment

The proposed AQCS for TC2 consists of an SCR, a DESP, a sorbent injection system for mercury ("PAC"), a sorbent injection system for corrosion reduction [$Ca(OH)_2$], a Pulse Jet Fabric Filter ("PJFF"), a Limestone Forced Oxidation WFGD, and a WESP.

The arrangement, dimensions and scope of the equipment are furnished in the AQCS General Arrangement drawings provided in Appendix G.

Flue gas from the air preheater outlet nozzles enters the AQCS and is directed to the DESP inlet nozzles by the ductwork. The flue gas exits the DESP, where the PAC and $Ca(OH)_2$ systems inject dry sorbent into the flue gas stream for mercury and some SO_3 removal. The flue gas enters the inlet plenum of the PJFF for additional particulate removal. Exiting the PJFF, the flue gas travels through axial fans and enters the WFGD. From the WFGD the flue gas travels through the WESP for acid mist removal and out through the existing stack.

a) Selective Catalytic Reduction System

The SCR is BACT for NO_x. The SCR is situated between the economizer outlet and the air pre-heater inlet. The SCR reactions convert NO_x and a reagent, ammonia (NH_3), to water ("H_2O") and nitrogen (N_2). The NH_3 is injected and mixed via a stationary mixing device in the ductwork leading to the SCR. The thorough mixing and even distribution of NH_3 keeps the NH_3 slip below 2 ppm at 3 percent O_2 for the new SCR unit.

The ammonia and NO_x flow through two layers of plate catalyst. The SCR is designed and guaranteed to initially operate with two layers of catalyst; space is designed in the SCR for the addition of a third catalyst layer. The layers of catalyst speed up the ammonia / NO_x reaction and facilitate the creation of H_2O and N_2 as reaction by-products. The catalyst chosen for the project is to convert less that 1 percent of the SO_2 in the flue gas to SO_3 while ensuring the mercury in the flue gas is greater than 55 percent oxidized.

To minimize fly ash collection on the catalyst and the resultant pressure drop, the flue gas will pass through the catalyst sections in a downward flow direction to utilize gravity to assist in the fly ash passing completely through the catalyst sections. Sonic horns will be installed to periodically remove the fly ash from the catalyst.

The TC2 SCR unit will operate with anhydrous ammonia. The existing anhydrous ammonia system for the TC1 SCR at the station will be expanded to support TC2. An inlet loading less than 0.4 Lb/MMBtu of NO_x is anticipated for the SCR while burning the performance fuel. The outlet concentration of NO_x is guaranteed to be less than 0.04 Lb/MMBtu.

b) Dry Electrostatic Precipitator

The DESP is installed down stream of the air pre-heater to remove marketable fly ash (particulate matter) prior to the injection of PAC or $Ca(OH)_2$. The DESP is guaranteed to remove 90% of the particulate matter in the flue gas stream which reduces the particulate matter loading and wear on the PJFF.

The DESP uses electrical current to charge particles contained in the flue gas by passing them over discharge electrodes. The charged particles are then placed in an electrostatic field that drives them to collection plates (or curtains). After an increment of build-up, the collection surface plates are rapped to knock the particles into a hopper below.

The horizontal inlet nozzles of the DESP contain perforated plates to ensure uniform gas flow at the inlet face of the precipitator. The horizontal outlet nozzles contain vertical channel baffles for uniform gas distribution.

The DESP is a three field design consisting of pairs of collecting electrode curtains spaced sixteen inches apart. Suspended within each pair of curtains is a rigid discharge electrode assembly. The curtains are made of roll formed 18 gauge sheet steel and are 50 feet in height by nearly 12 feet in width.

Both the discharge electrodes and the collecting curtains are rapped by shaft-driven tumbling hammer assemblies to remove the particulate matter. The particulate matter "sheets" off the curtains and electrodes falling into the hoppers below the DESP. The particulate matter is removed from the hoppers for sale or disposal.

c) *Sorbent Injection Systems for Mercury Control Powdered Activated Carbon ("PAC")*

Mercury ("Hg") enters the system in three forms; oxidized, elemental, and particulate. Oxidized and particulate mercury are abated throughout the air pollution control system as a co-benefit of the proposed technologies. Particulate mercury is readily removed in the baghouse, WFGD process, and WESP process. Elemental mercury can be converted to oxidized mercury across some of the equipment, allowing for its abatement in the air pollution control processes.

Elemental mercury can oxidize in the boiler due to combustion reactions. It is also oxidized across the SCR due to catalytic reactions. The oxidized mercury can react with unburned carbon ("LOI"), removing a fraction of it in the air preheater and the baghouse. The oxidized mercury is water soluble, leading to further abatement in the wet FGD. Further abatement of mercury takes place in the WESP, where all three forms of mercury can be collected.

An activated carbon injection system ("PAC") will be installed to ensure that TC2 meets the mercury permit limits. The PAC will be injected between the DESP and the PJFF. PAC is BACT for mercury removal. The PAC system is guaranteed to remove 90% of the total mercury and to meet the Air Permit emission limits of 13×10^{-6} Lb/MWH. The Mercury emission guarantee is contingent upon a maximum fuel Mercury content of 15.2×10^{-6} Lb/MmBtu (uncontrolled), flue gas temperatures at the air heater outlet no greater than 350 °F, and total mercury oxidation levels at least 55% for flue gas temperatures greater than 340 °F but less than or equal to 350 °F or at least 20% for flue gas temperatures at or below 340 °F.

d) Hydrated Lime [$Ca(OH)_2$]

Due to the range of fuels and operating parameters specified, there are conditions in which condensation of SO_3 may occur in the PJFF. To mitigate the corrosion and operational issues related to sulfuric acid mist in the PJFF, a $Ca(OH)_2$ system has been installed. The sorbent will be directly injected in the flue gas stream upstream of the baghouse to chemically react with SO_3 and H_2SO_4 to produce filterable compounds. These compounds or particulates are efficiently collected in a baghouse. Pipes or lances used to carry the sorbent will form a grid perpendicular

to the flow of the flue gas inside the duct work. The sorbent exits the pipes or lances and enters the flue gas through an atomizing spray designed to promote mixing.

e) Pulse Jet Fabric Filter

From the DESP, the flue gas will be routed into a PJFF for particulate removal. PJFF is BACT for filterable particulate matter.

TC2 will be supplied with one PJFF system comprised of two fields each containing six compartments. Each compartment contains 1,140 bags for a total of 13,680 bags in the PJFF. Flue gas with boiler fly ash, PAC and $Ca(OH)_2$ enters an inlet plenum and is distributed to each of the individual compartments. Flue gas enters the compartments and is evenly distributed via a baffle to the filter bag socks. The particle laden flue gas flows through the sides of the filters (where the particles collect and form a filter cake on the outside of the bags) and clean flue gas exits the top of the filter. In order to clean the filters, a pulse of air is directed into the top of the filters, causing a pressure change and dislodging the cake from the filter so that it falls into the collection hopper for disposal. Each filter bag is supported on a wire cage; the bags and cages are independently suspended from a tubesheet at the top of each compartment.

There are numerous filter bag material alternatives for a baghouse. However, due to the high sulfur content of the coal to be burned, a degradation resistant fabric filter material has been selected for this particular application.

The baghouse is designed for a filterable PM emission rate of 0.015 Lb/MMBtu.

f) Wet Flue Gas Desulfurization

The flue gas exits the fabric filter baghouse and enters into the WFGD process via the ID fans. The wet limestone forced oxidized WFGD system proposed for the TC2 is BACT for removal of sulfur dioxide from the flue gas. The WFGD is designed and guaranteed to remove 99% of the SO_2 in the flue gas without the addition of reaction enhancement chemicals, such as an organic acid. The WFGD is also effective in removing particulate matter, HF and oxidized mercury.

In the WFGD system, the SO_2 undergoes several reactions—absorption, neutralization, regeneration, oxidation, and finally precipitation—with different chemicals until it finally forms a marketable, wallboard-grade gypsum.

The proposed WFGD consists of one absorber tower with two dual flow trays designed to treat 100% of the flue gas generated from the boiler. The absorber contains six limestone slurry spray levels and is designed to achieve 99% SO_2 removal. The flue gas travels vertically up the absorber tower through the dual flow trays (creating contact and mass transfer between the limestone slurry and the SO_2) and counter-current to the spray patterns. The atomized slurry droplets from the spray headers drop onto the dual flow trays and then to the reaction tank below the absorber tower. The slurry in the reaction tank is thoroughly mixed with oxidation air, which is compressed atmospheric air, blown into the reaction tank to precipitate the gypsum.

The WFGD system is designed for 5.5 Lb SO_2/MMBtu loading and 99 percent SO_2 removal efficiency while burning the performance fuel.

After passing through the WFGD the scrubbed gas is fed into a stand-alone WESP.

g) Wet Electrostatic Precipitator

From the WFGD process, the flue gas will enter a horizontal WESP. A WESP is BACT for removal of SO_3 and sulfuric acid mist. The WESP is designed and guaranteed to meet the permitted level of 0.0037 Lb/MMBtu of sulfuric acid at the stack. The WESP is also effective in removing many types of particulates, including acid mist, oil and tar based condensed aerosols, filterable particulates, and oxidized mercury.

The proposed WESP has three fields; two fields are required to meet the project guarantees and a third field is an installed spare. The active treatment area in each field consists of pairs of collecting electrode curtains spaced eleven inches apart. Suspended within each pair of curtains is an array of rigid discharge electrodes. The WESP contains 369 seven-and-a-half feet long by forty foot tall collection curtains and 3,600 forty foot long discharge electrodes.

A WESP charges particles in the flue gas by passing the particles over energized electrodes. The electrostatically charged particles then flow through an electrostatic field that drives them to oppositely charged collecting plates. The collection plates are continuously irrigated by an overhead washing system to eliminate concerns relating to contaminant build-up. The particle saturated water flows down the plates to the bottom of the WESP and to the reaction tank of the wet FGD system.

The WESP is anticipated to have a removal impact on all particulate matter, both filterable and condensable. The guaranteed total particulate matter concentration (filterable and condensable) following the WESP is 0.015 Lb/MMBtu.

From the WESP, the flue gas flows to the stack (chimney) and exits into the atmosphere.

B) Material Handling

1) Coal

Trimble County's existing equipment is sufficient to handle the coal and limestone needs for 2,350 MW of PC capacity. However, the addition of TC2 will require that some modifications to the existing coal handling system be made to manage the new concept of blending fuels at the site.

All coals will be transported to the site by barge; the station can moor between 1 and 30 barges with barge capacities ranging from 900-ton to 1,500-ton. Coal will be transferred from the barges

using the existing coal unloading system. The existing coal conveying and crushing systems also meet the demands of both TC1 and TC2.

A coal blending operation is proposed for TC2, to blend low sulfur, western sub-bituminous coal with high sulfur eastern bituminous coal.

2) Limestone

Limestone will be used as the flue gas desulfurization ("FGD") reagent and will be transported to the site by barge, just as it is for TC1. The current reagent handling and slurry preparation systems are of sufficient capacity to support the additional demands of TC2.

3) Water

The station is currently permitted under Kentucky Pollutant Discharge Elimination System ("KPDES") Permit # KY0041971 to use the Ohio River for its water needs. The addition of TC2 will not change this method of operation or the existing KPDES permit. See also Section IX, Permits including Environmental Authorizations.

4) Cooling Towers

TC2 will utilize the existing natural draft cooling tower on the site for its operations.

Heat Rate Requirement

- *Provide evidence sufficient to demonstrate that the proposed technology meets the definition of "Advanced Coal-Based Generation Technology," either as integrated gasification combined cycle (IGCC) technology, or other advanced coal-based electric generation technology meeting the heat rate requirement of 8530 Btu/kWh*
- *The applicant must provide actual heat rate and heat rate corrected to conditions specified in § 48A(f)(2)*
- *For projects including existing units, the applicant must provide information sufficient to justify that the proposed technology meets heat rate requirements specified in § 48A(f)(3)*

The EPC Agreement Guarantees with Bechtel for TC2 (attached as Appendix H) provides a guaranteed heat rate for the performance fuel at 59°F dry bulb and 60% relative humidity ("RH") is 8,662 BTu/kWh. The performance fuel has a heat content of 9970 Btu/Lb. To calculate the "design net heat rate" as defined in Section 48A(f)(2), Bechtel's guaranteed heat rate is adjusted both for site reference conditions and for the heat content of the design coal.

With respect to site reference conditions, the Bechtel guarantee conditions of 59°F and 60% RH (which is the ISO standard for system design) needed to be converted in order to apply the conditions contained in Section 48A(f)(2)(D) of 14.4 psia, 63°F dry bulb, 54°F wet bulb, and 55% RH. Those adjustments were made in Trimble County 2, Ambient Change, Tax Credit

Study (attached as Appendix I). The performance data for the existing cooling tower, which was originally designed for two units but which will be enhanced in conjunction with this project, is based upon 90°F dry bulb conditions. As indicated in Appendix I, the guaranteed performance heat rate was first adjusted to a 90°F condition utilizing the existing cooling tower performance data. That 90°F case was then adjusted to the 54°F wet bulb criteria.

The adjusted heat rate at these conditions is 8751.9 Btu/KWh. This value should be conservative since expected enhancements to the cooling tower, which will further enhance performance, were not factored into the calculation.

Also, the heat rate of 8751.9 Btu/KWh described above was adjusted for fuel heat content of 9970 Btu/Lb pursuant to the formula in Section 48A(f)(2). This calculation shown below results in a Design Net Heat Rate of 8,350.3 Btu/kWh:

$8,751.9 * [1-[(13,500-9,970)/1000]*.013] = 8,350.3$ Btu/kWh

This calculation yields the heat rate provided in Table 1 of this Application.

SO_2 Percent Removal Requirement

- *Provide evidence sufficient to ensure that the proposed project is designed to meet the following performance requirements:*
  SO2 percent removal.....99 percent

The WAPC purchase order provides for WAPC to guarantee 99% SO_2 removal from the TC2 flue gas. The relevant sections of the WAPC Guarantees are attached as Appendix J.

NO_x Emissions Requirement

- *NOx emissions.....0.07 lbs / MMBTU*

The EPC Agreement provides for Bechtel to guarantee that NO_x emissions from TC2 will not exceed 0.04 Lb/MMBtu provided the burner stoichiometry does not exceed 1.0; otherwise the guarantee will be 0.05 Lb/MMBtu. See Appendix H.

PM Emissions Requirement

- *PM emissions.....0.015 lbs / MMBTU*

The EPC Agreement provides for Bechtel to guarantee that total (filterable and condensable) PM emissions from TC2 will not exceed 0.015 Lb/MMBtu. See Appendix H.

Mercury Removal Requirement

- *Hg percent removal.....90 percent*

The WAPC purchase order provides for WAPC to guarantee 90% Hg removal from the TC2 flue gas. The relevant sections of the WAPC Guarantees are attached as Appendix J.

Coal Project Requirements

- *Provide evidence sufficient to demonstrate that the project meets the requirements for qualifying advanced coal projects as specified under § 48A(e)(1) including:*

- *The project will power a new electric generation unit or retrofit/repower an existing electric generation unit. At least 50% of the useful output of the project is electrical power.*

TC2 is a new electric generation unit. The Guaranteed Heat Balance is provided schematically in Appendix C on Diagram Guarantee Heat Balance 310SC38-341. It shows that 100% of the useful output is electrical power.

See Appendix K for CCN for evidence that TC2 is a new electric generation unit and that over 50% of the useful output of the project will be electrical power.

- *The fuel for the project is at least 75% coal (as defined in § 48A(c)(4)), on an energy input basis.*

Appendix L contains Fuel Quality specifications to the project EPC contract. It shows that 100% of the fuel for TC2 will be coal.

- *The project is located at one site and has a total nameplate electric power generating capacity of at least 400 MW.*

A Site Plan for the nominal 750 net MW unit is located in Appendix M.

- *Provide information and data, including examples of prior similar projects completed by applicant, EPC contractor, and suppliers of major subsystems or equipment which support the capabilities of the applicant to construct and operate the facility.*

Appendix N contains reference information of the companies involved in the TC2 project.
E.ON U.S.
Bechtel Power Corp.
Mitsui Babcock Energy Limited
Hitachi American Limited
Wheelabrator Air Pollution Control, Inc.

- *Include the project status and relevant information from ongoing engineering activities. Also include in an appendix any engineering report or reports used by the applicant to develop the project and to estimate costs and operating performance.*

As seen in the Project Milestone Schedule located in Appendix A, the project is progressing toward Full Notice to Proceed and site mobilization in July 2006. Key equipment consisting of the boiler, turbine and AQCS has been procured. Detailed engineering is underway. Examples of the detailed engineering and approvals in connection with the project are listed below.

- Burns & McDonnell Report – A preliminary Engineering Study commissioned in 2002 to determine the feasibility, sizing, parameters and project approach strategy of the proposed TC2. The project and the scope have been optimized from this original study to the current status of the Purchase Orders with the Key Equipment sub-suppliers to Bechtel Power (the EPC Contractor). See Appendix O.
- Air Quality Permit, see Appendix P.
- Kentucky State Board Generation and Transmission Siting Order, see Appendix Q.
- Certificate of Public Convenience and Necessity Order ("CCN"), see Appendix K.
- Fuel Specification, see Appendix L.
- Guaranteed Heat Balance, see Appendix C.
- Trimble County 2, Ambient Change, Tax Credit Study, see Appendix I.
- Mass Balances, see Appendix F.
- Preliminary Steam Cycle PID's, see Appendix E.
- Reference, see Appendix N.
- Project Milestone Schedule, see Appendix A.
- Site Plan, see Appendix M.
- AQCS General Arrangements, see Appendix G.
- Participation Agreement (IMEA, IMPA, LG&E, KU), see Appendix R.
- Purchase Orders for Turbine, Boiler and AQCS ("PO"), see Appendix S.

III. Priority for Integrated Gasification Combined Cycle Projects

For IGCC Projects, the applicant must submit information sufficient for categorization and prioritization of projects for certification, including:

- *Identification of the primary feedstock (as defined in section 5.02(5) of Notice 2006-24), and all other feedstocks.*
- *If applicable, evidence demonstrating that the project will be capable of adding components that can capture, separate and permanently sequester greenhouse gases.*
- *A plan showing how project by-products will be marketed and utilized.*
- *Other benefits, if any.*

This section is not applicable as TC2 uses an advanced coal project technology other than IGCC.

IV. Site Control and Ownership

- *Provide evidence that the applicant owns or controls a site in the United States of sufficient size to allow the proposed project to be constructed and operated on a long-term basis.*

LG&E owns the approximately 2,200 acre Trimble County Station Site. At Construction Closing, LG&E transferred an undivided ownership interest in the TC2 site (approximately 6.5 acres under TC2) to the other owners of TC2. Section 6.2 of the Participation Agreement attached as Appendix R describes fully the site ownership. A copy of the Trimble County Station Site deeds is attached as Appendix T.

- *Describe the current infrastructure at the site available to meet the needs of the project.*

As noted in the Project Description in Section II above, TC2 will be installed at an existing site in the E.ON U.S. fleet. This site has existing infrastructure for coal handling, limestone handling, water intakes, cooling tower and civil works complete. See the Site Plan in Appendix M.

- *Provide information supporting applicant's conclusion that the proposed site can fully meet all environmental, coal supply, water supply, transmission interconnect, and public policy requirements.*

All necessary environmental approvals to commence construction of TC2 have been obtained. The Title V, Acid Rain/NO_x Budget permit for the construction/operation of a new electrical generating unit was received/deemed final January 4, 2006. The Kentucky Pollutant Discharge Elimination System ("KPDES") Permit, currently in effect, expires September 30, 2007. The additional anticipated flows will be included during the renewal application in March 2007. The Companies do not anticipated significant changes to the KPDES permit as a result of TC2. In fact, the Companies are in compliance with the certification requirement under Section 48A(e)(2)(A) that all Federal and State environmental authorizations to commence construction have been received.

In terms of other regulatory approvals, on November 1, 2005 the Kentucky Public Service Commission issued an order granting TC2 a CCN and on November 9, 2005 amended that order to include a Site Compatibility Certificate. On January 27, 2004 an Interconnection and Operating Agreement ("I&O") was executed with the Midwest Independent System Operator identifying all necessary electrical infrastructure improvements and assigning almost all construction responsibility to the transmission unit of the Companies. The Companies received a CCN for the direct interconnection part of these facilities on September 8, 2005. An additional CCN for transmission system upgrades was received on May 26, 2006.

Water for TC2 will be taken from the Ohio River through existing intake structures and under existing permits. Coal will be purchased by the Companies' Fuel Department. It is anticipated that coal for the first year of operation will be fully contracted for in 2009. This is consistent with the Companies' practice for its existing 6,000 MW coal fleet.

The CCN order is attached as Appendix K. The Air Quality Permit is attached as Appendix P. The Interconnection and Operating Agreement is attached as Appendix U.

V. Utilization of Project Output

- *A projection of the anticipated costs of electricity and other marketable by-products produced by the plant.*
- *Provide evidence that a majority of the output of the plant is reasonably expected to be acquired or utilized.*
- *Describe any energy sales arrangements that exist or that may be contemplated, e.g., Power Purchase Agreement or Energy Sales Agreement, and summaries of their key terms and conditions.*
- *Include as an appendix any independent Energy Price Market Study that has been done in connection with this project, or if no independent market study has been completed, provide a copy of the applicant-prepared market study.*
- *Identify and describe any firm arrangements to sell non-power output, and provide any evidence of such arrangements. If the project produces a product in addition to power, include as an appendix any related market study of price and volume of sales expected for that product.*

A. Costs of Electricity and Other Marketable By-Products

Table 2 shows the anticipated costs of electricity for TC2 as excerpted from the filed CCN Application for TC2:

Table 2 – Costs of Electricity for TC2

Year	Demand ($/kW-Month)	Energy ($/MWh)	Total Cost ($/MWh)
2010	14.35	14.39	38.96
2011	14.38	14.60	39.23
2012	14.41	14.82	39.50
2013	14.45	15.04	39.78
2014	14.48	15.27	40.07
2015	14.52	15.50	40.35

By-products are currently forecast to be stored on site, however marketing opportunities are continuing to be evaluated. Therefore, long term markets for by-products (flyash, bottom ash, synthetic gypsum) are not known at this time. Additionally, fuel selection and combustion characteristics will determine the final quality of by-products, and therefore their market potential.

The primary fuel will be high sulfur coal, much like TC1, which has marketable by-products. However, TC2 will also have a new coal blending system and will be able to utilize a variety of coals through blending (including high sulfur eastern Kentucky, lower sulfur eastern and western sub-bituminous (Power River Basin) coals).

B. *Majority of Output Will Be Used for Native Load*

As regulated utilities, the Companies have an obligation to serve all customers located in their service territories and must be prepared to meet load growth in those areas. Therefore, the Companies prepared a 2004 Joint Load Forecast which forecasts the need for base-load capacity beginning in 2010. The Companies' energy requirements are forecast to grow at a compound average rate of 2.0 percent between 2005 and 2020. Moreover, the Companies' annual peak demand is forecast to grow at an average annual rate of 2.0 percent from 2005 to 2020. As shown in the highlighted cells in Table 3, the Companies will need between 401 MW and 552 MW of additional capacity by 2012 in order to serve native load requirements and maintain a reserve margin between 13% and 15%. Table 3 further indicates the combined Companies' capacity shortfalls through 2012, exclusive of the addition of TC2.

The Companies historically have maintained adequate reserves to insure reliable least cost generation supply to native load customers. Reserve margin is necessary because additional generation must be available should there be an unexpected loss of generation, reduced supply due to equipment problems, unanticipated load growth, variance in load due to extreme weather conditions, and/or disruptions in contracted purchased power.

The Companies also conducted a Resource Assessment to compare the options available to meet the projected needs of their respective customers. The purpose of a Resource Assessment is to identify the least-cost option for implementing the overall resource acquisition plan. That assessment determined that the construction of TC2 was the least-cost option to meet those needs. Construction is essential for the Companies to continue to meet their obligation, as regulated utilities, to provide reliable low-cost power to their growing native loads.

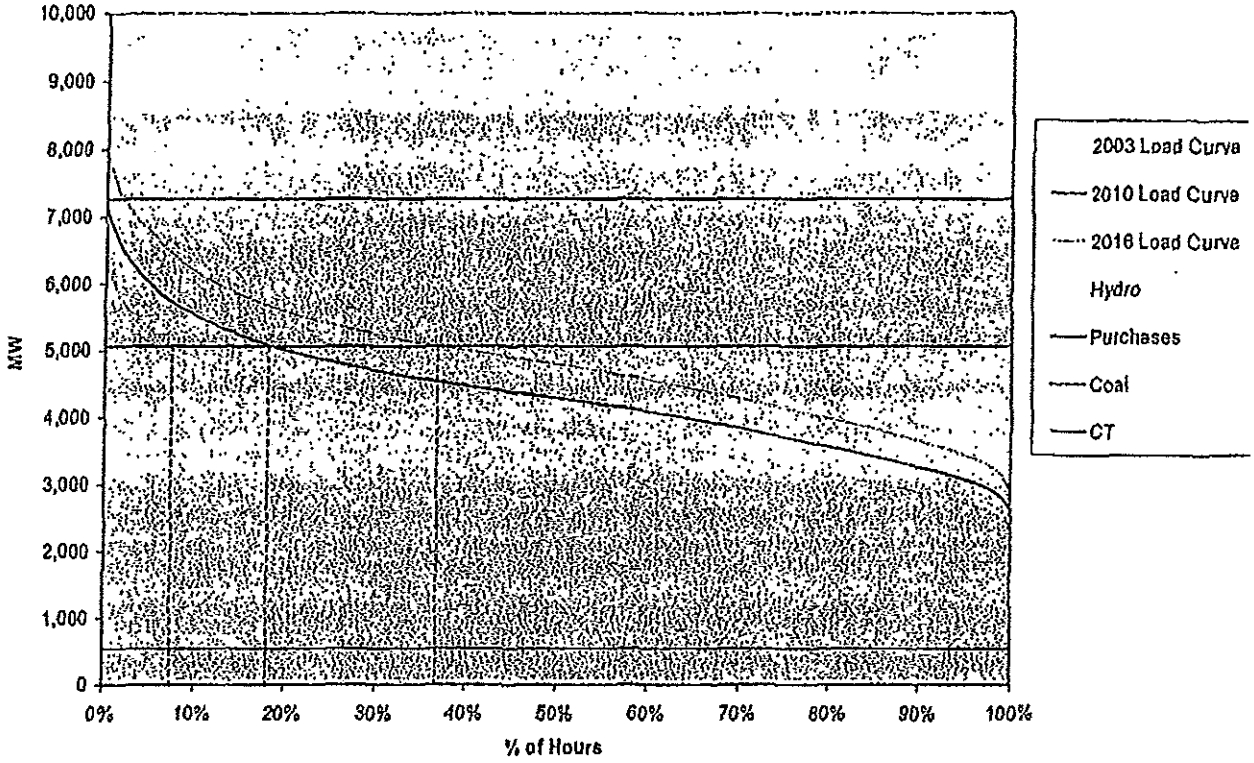
In addition to satisfying reserve margin requirements, the Companies must meet the energy needs of their customers in a least-cost manner. This requires the optimization of the generation portfolio among differing technology and fuel types (i.e., coal, gas, hydro, etc.). The Companies' triennial Integrated Resource Plan ("IRP") identifies when new resources are needed and provides an analysis of the type of new resource that is likely to offer the lowest lifetime system cost. Prior to the TC2 CCN, the most recent IRP filing was in October 2002. The IRP is a complete resource assessment and acquisition plan that considers all utility supply-side and demand-side resource alternatives, including enhancements to existing generation facilities. However, the IRP does not consider the dynamic purchase power market and the opportunities that may exist in the marketplace from time to time. Because the purchase power market is dynamic, the Companies continually review the "buy versus build" decision. The future resource mix is optimized such that the revenue requirements of serving load are minimized.

Table 3 - Capacity Needs for Reserve Margin Range
Revised December 2004
(All values in MW at Summer Peak)

Component		2004	2005	2006	2007	2008	2009	2010	2011	2012
Peak Load		6,632	6,796	6,911	7,051	7,225	7,372	7,483	7,656	7,762
CSR/Interruptible		100	100	100	100	100	100	100	100	100
Existing DSM		*44*	*67*	*89*	*108*	*116*	*116*	*116*	*116*	*116*
2002 IRP DSM Program		0	0	1	1	2	2	2	2	2
Net Load		6,488	6,629	6,722	6,842	7,006	7,153	7,264	7,437	7,543
Existing Capability		7,615	7,608	7,609	7,596	7,582	7,547	7,549	7,550	7,555
Purchases		593	605	574	572	572	571	570	569	568
Total Supply		8,208	8,213	8,183	8,168	8,154	8,118	8,119	8,119	8,123
13 % RM	MW Need Before DSM	-827	-647	-486	-313	-103	100	224	419	535
	MW Need After DSM	-877	-722	-588	-437	-237	-35	90	285	401
15 % RM	MW Need Before DSM	-696	-513	-350	-174	40	245	372	570	688
	MW Need After DSM	-747	-590	-453	-300	-97	109	235	434	552
Existing Reserve Margin, %	Before DSM	25.7%	22.7%	20.1%	17.5%	14.4%	11.6%	10.0%	7.4%	6.0%
	After DSM	26.5%	23.9%	21.7%	19.4%	16.4%	13.5%	11.8%	9.2%	7.7%

By 2010, it will have been 20 and 26 years, respectively, since LG&E and KU constructed a base load unit. From 1990 to 2010, the Companies' energy needs will have grown by 14,500 GWh or 61%. The amount of time which the Companies rely upon resources other than base load resources (owned or purchased) is expected to increase substantially from 2003 to 2016 as shown in the following graph. Based upon an assumed 85% coal unit availability, the native load energy requirement was above the Companies' base load resources 7% of the time for 2003. That figure increases to 18% by 2010 and 36% by 2016. In the graph below, horizontal lines represent cumulative resource capabilities in MW. For example, the Combustion Turbine line is the summation of Hydro, Purchases, Coal and CT capacity. The curves are Load Duration Curves ("LDC") and represent load levels for each hour in the respective years.

Load Duration Curve Comparison with Purchases
85% Availability of Base Load Generation



As part of the Resource Assessment, the Companies issued a Request for Proposals ("RFP") on April 1, 2003 to meet the base load needs of the Companies for 2010 and beyond. The RFP indicated specific requirements such as the amount and timing of capacity and energy needed. The RFP was sent to over 90 potential energy suppliers, with nine responses being received. The nine responses resulted in ten proposals ranging from 10 MW to 500 MW. A screening evaluation was conducted to first assess and rank all viable proposals. The responses to the RFP included Purchase Power Agreements ("PPA") and shared unit ownership, and were evaluated against the Companies self-build option at TC2. Three suppliers were eliminated during the screening process due to their considerably higher costs, and a preliminary detailed analysis was performed based on data used in the screening analysis. Table 4 briefly describes the six offers that were analyzed following the screening analysis.

Table 4 – Six Proposals Analyzed (besides TC2)

Marketer	Description
A	200 MW unit contingent PPA; Term: 6/2007 through 5/2027
B	200 MW in 2007 and increasing to 500 MW in 2009; Thirty year PPA starting in early 2007.
C	500 MW firm (LD) PPA; Term: 1/2007 through 12/2021
D	485 MW asset ownership; Available in early 2005
E	500 MW PPA; Term: 10/2007 through 9/2022
F	114 MW average summer capacity, anticipated 716 GWh annually; Term: Thirty year PPA starting in early 2007

The analysis compares the revenue requirements associated with each option over a thirty-year time period. The analysis is performed primarily using PROSYM, a proprietary production cost model provided by *Global Energy Decisions*. The inputs to the program include generating unit characteristics, load projections, fuel and purchased power cost projections, and other information. The output includes generation, purchased power, and off-system sales profiles, along with the corresponding production costs. This cost information is combined with the capital cost information for each option to determine the net present value of revenue requirements for each resource alternative.

The conclusion of the Resource Assessment is that the construction of TC2 for 2010 in-service is the preferred alternative for meeting native load capacity needs for 2010 and beyond. This is represented as the Case Ranked one in Table 5 below, which shows the lowest Net Present Value of Revenue Requirements ("NPVRR") - utilizing the market conditions at the time of the study for the CCN. A summary of results for the final detailed analysis can be found in Table 5 that follows:

Table 5 – Ranking of Cases Studied in CCN

Case	NPVRR ($000)	Rank	Delta from Min ($000)
TC2 2010 and Marketer F's PPA in 2013	16,370,555	1	0
Marketer F's PPA in 2010 and TC2 2011	16,377,517	2	6,962
TC2 and Marketer F's PPA in 2010	16,399,793	3	29,238
TC2 in 2010	16,443,935	4	73,380
TC2 in 2011	16,450,735	5	80,180
Marketer E's Joint Ownership and Marketer F's PPA in 2010	16,462,347	6	91,792
Marketer E's Joint Ownership in 2010	16,508,339	7	137,784
Marketer E's Joint Ownership in 2011	16,512,364	8	141,809
No Baseload Addition	16,850,301	9	479,746

TC2 will be one of the least-cost providers across the fleet after it is built. As a new base-load unit, and a low-cost provider, TC2 will be expected to operate at full load. Therefore, the PROSYM production cost model forecasts TC2 capacity factors on the order of 90% to 92% for the years that were modeled.

The Companies received approval from the KPSC for the CCN application for Trimble County 2 on November 1, 2005. This document affirms the reasonableness of the unit's expected output and is included in Appendix K.

C. Energy Sales Arrangements

Due to the nature of the Companies' business, (i.e. an obligation to serve all customers located in their service territories), no energy sales arrangements or Power Purchase Agreements have been established. However, IMEA and IMPA do have Participation Agreements ("PA") with the Companies. This specifically details that IMEA and IMPA will own 12.12% and 12.88% respectively, and will share in the construction costs, subject to all applicable approvals.

D. Energy Price Market Study

In lieu of an Energy Price Market Study, the market prices the Companies' Risk Coordination Group approved were used with the TC2 CCN and are provided in Appendix V. The data is given by periods of time, 5x16, 7x8, and 2x16 where 5x16 represents weekday peak hours, 7x8 represents off-peak hours, and 2x16 represents weekend peak hours. The "Into-Cinergy" column shows the pricing for the delivery point near the TC2 site that has since been renamed the "Cinergy Hub." With the unit projected in service in 2010, the market price forecast for that year in particular is shown in Table 6 which is excerpted from the aforementioned appendix. Note: forward market prices only indicate the relative merit position of TC2 in relation to market purchases. Upon commissioning, TC2 will be utilized to serve native load customers and thus not be subject to market price fluctuations for operation.

Table 6 - Market Price Assumptions for TC2

Into-Cinergy	5x16	7x8	2x16
1/1/2010	50.18	30.26	35.63
2/1/2010	48.46	28.48	36.40
3/1/2010	47.29	28.35	34.13
4/1/2010	44.10	29.06	33.16
5/1/2010	41.23	25.20	30.59
6/1/2010	46.03	27.15	33.31
7/1/2010	62.36	32.00	42.98
8/1/2010	61.17	30.26	42.37
9/1/2010	43.40	23.85	31.65
10/1/2010	42.35	28.33	33.14
11/1/2010	42.82	26.67	30.72
12/1/2010	43.17	28.17	37.39

E. Non-Power Output Sales

The new generating unit will provide only electricity and no other usable energy sources; however, as previously mentioned, byproducts from the combustion of coal (bottom ash, flyash) and by-products from environmental control technologies (synthetic gypsum) may be sold should a market develop.

VI. Project Economics

- *Describe the project economics and provide satisfactory evidence of economic feasibility as demonstrated through the financial forecast and the underlying project assumptions.*

Appendix W contains a section of the CCN application filed with the KPSC that contains the least cost analysis proving the economic feasibility of TC2. The CCN application does not contain the effects of the tax credits. Appendix X contains the financial model of TC2 showing the effects of the advanced coal tax credit.

- *Discuss the market potential for the proposed technology beyond the project proposed by the applicant.*

TC2 will be the first facility in the country to employ SCPC technology to burn principally high sulfur eastern coals and achieve the required efficiency under Section 48A. The required net heat design rates will be achieved by utilizing the steam conditions of 3690 psia and 1075° F. Once TC2 proves the viability of long term operations at these conditions, the Companies predict that all future high sulfur coal plants will employ these or higher steam conditions.

TC2 also will be the first new plant to utilize a SCR, DESP, ACI, PJFF, WFGD and WESP arrangement to control Mercury while minimizing solid waste issues. Mercury control remains a challenge for all coal facilities. On its website for the Mercury Emission Control R&D Program, DOE maintains that "technology to cost-effectively reduce mercury emissions from coal-fired power plants is not yet commercially available." The Companies, however, expects that the combination of control technologies will allow for the removal of 90% of mercury emissions in a cost-effective manner. The powered activated carbon employed at TC2 is from Norit-Americas; its trade name is DARCO FGD. DARCO FGD has been tested in numerous Department of Energy/National Energy Technology Laboratory studies. Norit-Americas were part of the research team for the Phase II Mercury Control Project – *Evaluation of Sorbent Injection for Mercury Control.* Once these environmental control features are proven, it is likely that most future PC coal plants in the U.S. burning eastern bituminous coals, will utilize this approach to control mercury emissions.

Section 48A was added to the tax code in recognition of the fact that coal must remain a sustainable fuel source. And, in meeting new emissions control requirements, we cannot afford to abandon our reliance on eastern coal, notwithstanding its high sulfur content. The technologies to be utilized by TC2 represent a giant leap forward in assuring the continued use of high sulfur coal while promoting enhanced efficiencies and reduced air emissions.

- *Show calculation of the amount of tax credit applied for based on allowable cost.*

Total Capital Project Budget (Generation)	$1,056,000,000
Less IMEA/IMPA 25% ownership	(264,000,000)
KU/LG&E eligible generating plant	792,000,000
KU/LG&E eligible transmission plant	84,000,000
Total eligible plant	876,000,000
Tax credit percentage	x 15%
Tax credit calculated	$131,400,000
Tax credit applied for	$125,000,000

Annual capital expenditures above represent financial statement basis projections. Actual tax basis expenditures will reflect differences such as capitalized interest and will be used to determine the qualifying expenditures.

VII. Project Development and Financial Plan

- *Provide the total project budget and major plant costs, e.g., development, operating, capital, construction, and financing costs.*

Steam Generator	$108,800,000
Steam Turbine	47,000,000
Air Quality Control System Package	220,200,000
SCR	24,400,000
Ash Handling	18,400,000
Other Pollution Control Costs	42,000,000
Balance Of Project and Construction	579,700,000
Development Costs	15,500,000
Total Capital Project Budget	$1,056,000,000
Less IMEA/IMPA 25% ownership	(264,000,000)
Total Capital Project Budget-Trans.	84,000,000
Total Capital	$876,000,000

Bechtel is the engineering, procurement and construction contractor for TC2 and will design and construct TC2 and ultimately provide the guarantee of TC2 emissions and performance to the Companies.

- *Describe the overall approach to project development and financing sufficient to demonstrate project viability. Provide a complete explanation of the source and amount of project equity. Provide a complete explanation of the source and amount of project debt. Provide the audited financial statements for the applicant for the most recently ended three fiscal years, and the unaudited quarterly interim financial statements for the current fiscal year.*

- *For internally financed projects, provide evidence that the applicant has sufficient assets to fund the project with its own resources. Identify any internal approvals required to commit such assets. Include in an appendix copies of any board resolution or other approval authorizing the applicant to commit funds and proceed with the project.*

- *For projects financed through debt instruments either unsecured or secured by assets other than the project, provide evidence that the applicant has sufficient creditworthiness to obtain such financing along with a discussion of the status of such instruments. Identify any internal approvals required to commit the applicant to pursue such financing. Include in an appendix, copies of any board resolution or other approval authorizing the applicant to commit to such financing.*

- *For projects financed through investor equity contributions, discuss the source and status of each contribution. Discuss each investor's financial capability to meet its commitments. Include in an appendix, copies of any executed investment agreements.*

- *If financing through a public offering or private placement of either debt or equity is planned for the project, provide the expected debt rating for the issue and an explanation of applicant's justification for the rating. Describe the status of any discussions with prospective investment bankers or other financial advisors.*

- *For projects employing nonrecourse debt financing, provide a complete discussion of the approach to, and status of, such financing.*

KU and LG&E are not "project financing" the construction of TC2. Instead, the plant will be funded as part of the overall capital structure of the Companies. The sources of funds available to fund all projects of the Companies including TC2 will include internally generated cash, equity contributions, tax-exempt bonds, and intercompany loans from E.ON AG affiliates. It is important to note that the amounts identified below will be available to fund the TC2 project as well as all other capital projects of the Companies.

Internally generated cash flow will be a significant source of funds for the project. KU does not anticipate paying dividends during the construction of the project, and will reinvest the funds otherwise paid as dividends to fund capital projects. In 2005, KU generated cash from operations totaling $221 million. LG&E is planning to continue to pay dividends during construction as its funding requirements will be significantly lower. However, LG&E generates significant cash flow to use toward funding the project as demonstrated by its 2005 results when cash from operations totaled $150 million.

KU and LG&E are committed to maintaining strong investment grade credit ratings, and E.ON U.S. will make equity contributions to KU during the term of the project to ensure that KU's capital structure remains balanced. Current forecasts suggest that E.ON U.S. will contribute equity of at least $300 million between 2006 and 2010. E.ON U.S. will obtain funds for these contributions from E.ON AG affiliates in the form of equity or intercompany loans. LG&E anticipates equity contributions totaling $50 million from E.ON U.S. to maintain a balanced capital structure.

Certain costs of the TC2 project qualify for tax-exempt financing which is the lowest cost funding source available to the Companies. The amount of tax-exempt funding available to the applicants is limited by the availability of an annual allocation of the state volume cap. The pool available in Kentucky for private activity issuers such as the Companies is very small with each project currently capped at just below $17 million per application. In recent years, the state has had cap available for a second round of allocation to projects, but even at $34 million annually the pool is somewhat limiting. KU received two allocations in 2005 and once thus far in 2006 for projects unrelated to TC2. KU and/or LG&E will continue to seek tax-exempt allocations to the extent that there are qualifying costs.

The final source of funds will be intercompany loans from affiliates of E.ON AG. E.ON's financing strategy is to borrow all funds externally at the ultimate parent, E.ON AG, and lend funds down to subsidiaries as needed. This strategy is designed to limit structural subordination issues that arise when multiple subsidiaries issue debt externally. The only exceptions to the strategy are situations wherein the subsidiaries can borrow at more attractive rates than E.ON as is true with the tax-exempt bonds discussed above. E.ON makes funds available to the applicants at market based rates using indicative pricing quotes from independent third parties. Loans are expected to be unsecured obligations of the applicants and the timing of the loans will be at the discretion of the applicants. E.ON has approved the TC2 project as evidenced by the attached board resolution in Appendix Y and E. ON is prepared to provide the necessary funding to complete the project.

E.ON is the world's largest investor-owned power and gas company headquartered in Dusseldorf, Germany with a market capitalization at year-end 2005 of €60 billion. E.ON has ready access to the capital markets if required to raise funds externally. E.ON is rated AA- by Standard & Poor's and Aa3 by Moody's and maintains lines of credit for general corporate purposes of €10 billion. E.ON also has recently entered into an additional credit facility totaling €32 billion related to the proposed acquisition of Endesa. At year-end 2005, E.ON had a positive net debt position; i.e. cash exceeded outstanding debt. As further evidence of financial strength, in 2005 E.ON generated cash flow from operations totaling €6.6 billion.

Both of the Agencies sold bonds in June 2006 to finance most of their respective shares of TC2. The proceeds from these bond sales are currently held by a trustee, but are available to the Agencies to pay for the construction of TC2. The Agencies may sell additional bonds in 2009 or later to finish funding construction.

- *In an appendix, provide (1) an Excel based financial model of the project, with formulas, so that review of the model calculations and assumptions may be facilitated; provide pro-forma project financial, economic, capital cost, and operating assumptions, including detail of all project capital costs, development costs, interest during construction, transmission interconnection costs, other operating expenses, and all other costs and expenses, and (2) a report of an independent financial analyst in accordance with the instructions in Section G of this Appendix B.*

Description of Modeling

In order to obtain a CCN for the TC2 project from the Kentucky Public Service Commission, the Utilities had to demonstrate that the project was a component of the least-cost capacity expansion plan for the combined system. The modeling that was performed in the Resource Assessment for the TC2 CCN utilized two different computer models. These are briefly described below:

Overview of the PROSYM Chronological Simulation Model

The PROSYM production costing model was used to evaluate the production cost revenue requirements associated with each of the scenarios. PROSYM is a product of *Global Energy Decisions.* It is a chronological electric utility production simulation modeling system that is designed for performing planning and operational studies on an hourly basis. It uses convergent Monte Carlo analysis to give the least cost and most economical dispatch of generation resources and simulates the Power Supply System Agreement ("PSSA") joint dispatch of both KU and LG&E units. That is, the generating units of both companies are dispatched in economic order to meet the combined demands of both KU and LG&E customers. PROSYM is able to simulate the utilization of typical generation resources and the purchased power alternatives considered in this analysis.

Overview of the Capital Expenditure and Recovery ("CER") Model

The CER module of Strategist (formerly called PROSCREEN II) calculates revenue requirements associated with capital expenditures for both the construction and in-service periods. These capital revenue requirements are combined with the production cost revenue requirements to produce a total system revenue requirement for the study period. The CER contains capital information on resource projects associated with the various cases evaluated in this resource assessment. Inputs to the CER include construction cost profiles, depreciation schedules and various economic assumptions.

Unit Operation Conditions

TC2 was modeled using the following operating conditions:

- Super-critical coal-fired unit
- Summer/winter ratings of 732/750 MW
- Summer/winter Full Load Heat Rate ("HHV") of 9079/8651 Btu/kWh
- Availability: 93%
- Location: Trimble County plant within LG&E transmission system

Proforma Project Financial Projections

Having established – from the perspective of *system* requirements – the optimal timing for the commissioning of the TC2 plant, the proforma project financial projections model (attached Excel file) shows the financial performance of the *stand-alone project* under the following assumptions:

- Project revenue reflects its 'revenue requirements' as reported for regulatory purposes (revenue requirements include depreciation, interest on debt, fair return on equity capital, fixed O&M, and required taxes; all variable costs are treated as 'pass-through' items).
- The project earns its revenue requirements only when the associated costs are included in the rate base (i.e. after a filing for rate adjustment); and the timing of rate filings is determined by the financial position of the Utilities as a whole rather than by the needs of a single project.

- The model thus replicates 'imperfect' rate treatment reflective of a mid-2005 'snapshot' view of the financial outlook for the utilities; in the base case scenario the first rate adjustment – and thus the first opportunity to allow recovery of project costs - occurs in 2010, based on a calculation of prior year ('test year') revenue requirements.
- Project revenues remained essentially fixed between rate cases (although there is allowance for load growth in the interim) irrespective of the profile of actual revenue requirements; this tends to result in 'under-recovery' of costs during the construction phase and 'over-recovery' during the operating phase (*from an individual project perspective*).
- The project maintains the same capital structure as the utilities.

Capital Costs

The expected capital costs for TC2 construction in its entirety is approximately $1.1 billion. The project cost was originally derived with the assistance of Burns & McDonnell Engineering in 2002. The cost was then independently reviewed and updated by Cummins and Barnard in January 2004 to account for subsequent scope and market changes. This includes escalation, contingency, and owner's costs, but excludes costs for transmission facilities. Since 25% of the project is owned by IMEA and IMPA, the total construction costs to the Companies will only be 75% or approximately $800 million, excluding transmission facilities. The Companies' portion of the costs is shown in Table 7 as follows.

Table 7 – TC2 Costs (75% ownership only)
(Nominal $000s)

Year	Capital	Transmission	Total
2005	7,500	0	7,500
2006	76,300	5,200	81,500
2007	206,300	6,300	212,600
2008	304,200	26,900	331,100
2009	166,800	42,100	208,900
2010	30,900	3,800	34,700
Grand Totals	**792,000**	**84,300**	**876,300**

Operations and Maintenance Costs

The projected annual expenses associated with the Companies' 75% ownership of TC2 in 2004 dollars for non-fuel costs is $4 million for variable and $7.3 million for fixed O&M.

VIII. Project Contract Structure

- *Describe the current status of each of the agreements set forth below. Include as an appendix copies of the contracts or summaries of the key provisions of each of the following agreements:*
  - *Power Purchase Agreement (if not fully explained in Section IV)*

Not applicable, since energy will be used to serve native load customers.

  - *Coal Supply: describe the source and price of coal supply for the project. Include as an appendix any studies of coal supply price and amount that have been prepared. Include a summary of the coal supply contract and a copy of the contract.*

TC2 is being designed to burn a variety of different fuels. It is currently anticipated that the main fuel will be a blend of low sulfur sub-bituminous coal from the Powder River Basin ("PRB") and high sulfur bituminous coal from the Illinois and Northern Appalachian Basins. The Companies currently purchase over fifteen million tons of coal per year for its other generating stations and will use the current policy and procedures to purchase the TC2 coals. Agreements for TC2 coals will be secured one or two years prior to commercial operation.

  - *Coal transportation: explain the arrangements for transporting coal, including costs.*

TC2 fuels will be transported on the Ohio River to the site via barge. The station is equipped with a coal barge unloader capable of off-loading the additional requirement of TC2. LG&E currently has a contract with Crounse Corporation to transport all barge coal and anticipates using Crounse to transport TC2 coals.

  - *Operations & Maintenance Agreement: include a summary of the terms and conditions of the contract and a copy of the contract.*

Article 7 of the Participation Agreement ("PA") provides the following:

LG&E and KU shall have the sole obligation and authority to manage, control, maintain and operate TC2. The Companies shall prepare an annual O&M budget and submit it to the Coordination Committee for approval. The Companies shall operate and maintain TC2 using Good Utility Practice.

A copy of the PA dated February 9, 2004 is provided as Appendix R.

- *Shareholders Agreement: summarize key terms and include the agreement as an appendix.*

Table 8 below contains a summary key terms contained in the PA. Appendix R contains the agreement.

Table 8

TRIMBLE 2 PARTICIPATION AGREEMENT
KEY TERMS SUMMARY

ITEM	TERM SUMMARY	
Parties/Ownership	Indiana Municipal Power Agency ("IMPA") Illinois Municipal Power Agency ("IMEA") Collectively the Agencies LG&E and KU (Companies)	12.88% 12.12% 75.00%
Costs	Each party pays its pro rata portion of all TC2 costs (development, construction, operation, maintenance, retirement, etc.). All costs are prorated based on ownership except for fuel and reactant expenses which are prorated based on energy delivered. The $85 million in transmission costs are necessary to move TC2 energy to the Utilities' load. The Agencies will only pay a 25% share of the $8 million direct interconnection costs that are part of the total transmission costs.	
Control	The Companies control the development, construction and operation of TC2, subject to meeting a "Good Utility Practice" standard and complying with approved budgets. The Development Budget is an exhibit to the Agreement. The Construction Budget is approved by a majority vote of the Coordination Committee (Companies 75%, Agencies 25%). Any changes to budgets are also approved by majority vote.	
Development Phase Payments	The Companies accrue Development Costs until April 1, 2004. The Agencies then pay their pro rata share of accrued Development Costs plus interest plus the 2% Supervisory Fee. The Agencies make monthly payments thereafter.	

TRIMBLE 2 PARTICIPATION AGREEMENT KEY TERMS SUMMARY

ITEM	TERM SUMMARY
Development Schedule	The Parties to use commercially reasonable efforts to meet project milestones: Each Party to execute Transmission Service Agreements with applicable ISO by July 1, 2004. (ii) The Companies to execute an Interconnection Agreement with applicable ISO by December 1, 2003. *(iii) Each Party to obtain regulatory approvals by July 1,* 2005. (iv) The Companies to obtain environmental permits by February 1, 2005. (v) Each Party to obtain final authorization and project funding by November 1, 2005. (vi) Construction closing December 31, 2005.
Development Phase Termination / Withdrawal	Any Party may withdraw during the Development Phase. *If the* Companies withdraw, the agreement is terminated, Agency payments may be refunded, development stops, and Agency option to participate in TC2 remains. If an Agency terminates, no refund of payments and Agency option to participate in TC2 ends. The Companies may continue development.
Construction Phase Termination / Withdrawal	Withdrawal during the Construction Phase is a breach. If the Companies withdraw, the construction stops and the Agencies may seek actual damages. If an Agency withdraws, the construction continues and the Companies and remaining Agency buyout the withdrawing Agency's interest at a discount after construction is completed.
Construction Budget	To be submitted 90 days prior to construction closing and approved by a majority vote of the Coordination Committee. Amendments to the Construction Budget are also by majority vote of the Coordination Committee. An Agency may elect to not participate in cost overruns in excess of the initial Construction Budget and be diluted at a discounted rate.

TRIMBLE 2 PARTICIPATION AGREEMENT KEY TERMS SUMMARY	
ITEM	TERM SUMMARY
Construction Phase Payments	Agencies pay their pro rata share of Construction Costs plus the 2% Supervisory Fee monthly.
Operating Procedures	Each Party will only be entitled to use its pro rata share of any Plant Attribute (i.e., Capacity, Energy, Ramp Rate, VAR's) Any inadvertent use of any other Party's pro rata share of a Plant Attribute will be compensated in a way that complies with FERC Comparability Standards.
Assignments	Each Party has a right of first refusal and consent rights, not to be unreasonably withheld on any transfer to a non-affiliate.
Disputes	Disputes to be resolved by the: (i) Coordination Committee (ii) Senior Executives (iii) Voluntary Binding Arbitration

- *Engineering, Procurement and Construction Agreement: describe the key terms of the existing or expected EPC contract arrangement, including firm price, liquidated damages, hold-backs, performance guarantees, etc.*

The table below describes the key terms of the existing TC2 EPC Agreement. The EPC Agreement was signed on June 10, 2006.

EPC Parties:	Louisville Gas & Electric Co., Kentucky Utilities Co., Indiana Municipal Power Agency and Illinois Municipal Electric Agency ("Owners") and Bechtel Power Corp. ("Bechtel").	
Contract Price:	Lump sum turnkey price, plus provisional sum for the Mercury and PM10 Continuous Emissions Monitors.	
Performance:	Net Power Output of a nominal 750 net MW and Net Plant Heat Rate of 8662 BTU/ KWh.	
Schedule:	Notice to Proceed ("NTP")	June 28, 2006
	Scheduled Mechanical Completion	February 15, 2010
	Guaranteed Commercial ("GCOD")	June 15, 2010
Warranty:	Two years on entire plant from Bechtel with extended warranties from OEM's passed through.	

Security: Letters of credit to be received by Owners upon NTP (i.e., the time that Owners authorize Bechtel to commence full construction). The letters of credit are stepped down over the course of the project in four increments and then fully released upon Final Completion (or upon completion of functional tests, if later).

Liquidated Damages: Schedule: If TC2 does not achieve Substantial Completion by GCOD;

Performance: Bechtel must correct performance if TC2 does not achieve a minimum Guaranteed Net Output or a maximum Guaranteed Net Plant Heat Rate ("Minimum Performance").

Reliability: Bechtel must achieve a minimum Equivalent Availability Factor ("EAF") during a 30 day reliability test.

- *Water Supply Agreement: confirm the amount, source, and cost of water supply.*

Increase maximum water withdrawal capacity from current 12,000 gal/min to 54,000 gal/min. Water source is the Ohio River at no cost.

- *Transmission interconnection agreement: explain the requirements to connect to the system and the current status of negotiations in this respect.*

All required contracts and regulatory approvals are in place for the construction of the system improvement necessary to interconnect TC2 and to move the power from TC2 to the Companies' and Agencies' customers.

The Companies are currently members of the Midwest Independent Transmission System Operator ("MISO"). An Interconnection Request #75052130 was sent to MISO in March 2002. In response MISO produced System Impact Study A-024 in May of 2003 and a Generation Interconnection Evaluation, Project G218 (MISO Queue #37356-01) in March of 2003. Both of these studies identified constraints and possible solutions to those constraints in the MISO transmission footprint and adjacent non-MISO transmission systems. After selecting from among the possible solutions identified, a MISO-prepared Facility Study Report, Project F012 (MISO OASIS # 75052130) identified the cost and schedule for required system improvements in July 2003. Subsequently MISO and the Companies entered into an Interconnection and Operating Agreement on January 27, 2004. (Included as Appendix U). The Companies acting as the Transmission Owner filed for regulatory approvals necessary to construct the required system improvements. The KPSC issued orders in September 2005 and May 2006 approving the construction of the required system improvements. The Companies are currently acquiring rights of way for the construction. All transmission construction is scheduled to be complete in the fall of 2009.

The Companies are in the regulatory process of exiting from MISO. However, such withdrawal will have no effect on the Interconnection and Operating Agreement.

IX. Permits including Environmental Authorizations

- *Provide a complete list of all federal, state, and local permits, including environmental authorizations or reviews, necessary to commence construction of the project.*

Title V, Acid Rain/NO_x Budget permits for the construction/operation of a new electrical generating unit.Permit # - V-02-043 (Revision #2) January 4, 2006. See Appendix P.

Kentucky Pollutant Discharge Elimination System ("KPDES") Permit # KY0041971 (effective 10/1/02), see Appendix Z.

- *Explain what actions have been taken to date to satisfy the required authorizations and reviews, and the status of each.*

The Title V, Acid Rain/NO_x Budget permits for the construction/operation of a new electrical generating unit was received/deemed final January 4, 2006. See Appendix P.

The Kentucky Pollutant Discharge Elimination System ("KPDES") Permit # KY0041971 expires September 30, 2007. The additional anticipated flows will be included during the renewal application in March 2007. LG&E does not anticipate significant changes to the permit as a result of TC2. See Appendix Z.

- *Provide a description of the applicant's plan to obtain and complete all necessary permits, and environmental authorizations and reviews.*

With the approved CCN from the KPSC, the Companies have obtained all necessary permits to commence construction of TC2. The appropriate permits are covered in Ms. Sharon L. Dodson's testimony to the KPSC for the CCN, see Appendix AA. Moreover, the required permits are shown in that file on pages 12 and 13, otherwise labeled Exhibit SLD-3. Additionally, any permits routinely required for construction (i.e. plumbing, building, etc.) will be obtained at the appropriate time as necessary.

The Title V, Acid Rain/NO_x Budget permits for the construction/operation of a new electrical generating unit was received/deemed final January 4, 2006. See Appendix P.

The Kentucky Pollutant Discharge Elimination System ("KPDES") Permit # KY0041971 was effective 10/1/02, see Appendix Z.

Water for TC2 will be taken from the Ohio River through existing intake structures and under existing permits.

X. Steam Turbine Purchase

- *If applicant plans to purchase a steam turbine or turbines for the project, indicate the prospective vendors for the turbine and explain the current status of purchase negotiations, and provide a timeline for negotiation and purchase with expected purchase date.*

A Purchase Order (number 25191-100-POA-MUSG-00001) has been released to Hitachi America, Ltd. for the purchase of the steam turbine. Pricing, terms and conditions and schedule have all been agreed between the parties. The Purchase Order Cover Letter for the Steam Turbine as well as the Steam Generator and the AQCS are attached in Appendix S.

XI. Project Schedule

- *Provide an overall project schedule which includes technical, business, financial, permitting and other factors to substantiate that the project will meet the 2 year project certification and 5 year placed-in-service requirement.*

Appendix A contains the TC2 Project Milestones Schedule.

APPENDICES

- *Independent Financial Report.*

See Appendix BB.

- *Copy of internal or external engineering reports.*

See Appendices I, O and CC (Black and Veatch Site Assessment Report).

- *Copy of site plan, together with evidence that applicant owns or controls a site. Examples of evidence would include a deed, or an executed contract to purchase or lease the site.*

See Appendices M and T.

- *Information supporting applicant's conclusion that the site is fully acceptable as the project site with respect to environment, coal supply, water supply, transmission interconnect, and public policy reasons.*

See Appendices M, K, P, Q, U and Z.

- *Power Purchase or Energy Sales Agreement.*

Not Applicable.

- *Energy Market Study.*

See Appendix V.

- *Market Study for non-power output.*

Not Applicable.

- *Financial Model of project.*

See Appendix X.

- *Audited financial statements for the applicant for the most recently ended three fiscal years, and the unaudited quarterly interim financial statements for the current fiscal year.*

See Appendix DD.

- *For each project contract, if no contract currently exists, provide a summary of the expected terms and conditions.*

See Appendix EE (Engineering, Procurement and Construction Agreement).

- *List of all federal, state, and local permits, including environmental authorizations or reviews, necessary to commence construction.*

See Appendices P, Z, AA.

- *If an appendix listed above is not provided, include in its place a complete explanation of the reasons for the omission.*

The project will not have a Power Purchase or Energy Sales Agreement since TC2 will generate power needed to serve native load customers.

A market study was not completed because power will be used for native load customers.

A market study for non-power output was not performed, since the Companies have not yet identified marketing opportunities for the non-power output.

Since an EPC contract has already been executed for the project, a summary for a project contract that does not exist was not applicable.

The Companies respectfully request confidential treatment of this application and all appendices contained herein, as they contain trade secrets and commercial or financial information which is exempt from disclosure under the Freedom of Information Act, 5 USC sec. 552, Subject to the Trade Secrets Act, 18 USC sec. 1905.

Signature – Kentucky Utilities Company and Louisville Gas and Electric Company

Declaration

Under penalties of perjury, I declare that I have examined this submission, including accompanying documents, and, to the best of my knowledge and belief, all of the facts contained herein are true, correct, and complete.

John N. Voyles
Vice President – Regulated Generation
June 28, 2006

e·on | U.S.

S. Bradford Rives
Chief Financial Officer

220 West Main Street
Louisville, Kentucky 40202
T (502) 627-3990
F (502) 627-2111
brad.rives@eon-us.com

September 27, 2006

Via Certified Mail

Internal Revenue Service
Attn: CC:PSI:6, Room 5313
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Re: SECTION 48A APPLICATION FOR CERTIFICATION

Gentlemen:

Enclosed please find the completed application for advanced coal project credits which is submitted for your approval. This is a joint application of Kentucky Utilities Company and Louisville Gas and Electric Company for their Trimble Count Unit 2 project. Pursuant to Notice 2006-24, this application is being made to the Internal Revenue Service. The Taxpayers previously requested Department of Energy Certification. Under separate cover, we are also filing the Section 48A Certification Requirements.

We thank you in advance for your consideration of this application. Please feel free to contact us if you have any questions regarding the same. Please return a stamped copy of this transmittal letter for our file in the enclosed self-addressed envelope. Thank you in advance for your assistance in this matter.

Very truly yours,

Enclosures

SECTION 48A APPLICATION FOR CERTIFICATION

Applicant Name:	Kentucky Utilities Company and Louisville Gas and Electric Company
Applicant Address:	220 West Main Street, P. O. Box 32030 Louisville Kentucky 40232
Taxpayer identification number:	Kentucky Utilities Company 61-0247570 Louisville Gas and Electric Company 61-0264150
Contact Person:	Ronald L. Miller, Director Corporate Tax, (502) 627 - 2687 Gregory J. Meiman, Senior Counsel (502) 627 - 2562 J. Scott Williams, Manager Tax Accounting, (502) 627 - 2530
Qualified advanced coal project:	Trimble County Unit 2 487 Corn Creek Road Bedford, Kentucky 40006

Table of Contents

INDEX OF ABBREVIATIONS

BACT	Best Available Control Technology
Bechtel	Bechtel Power Corporation
Btu/kWh	British Thermal Units per Kilowatt hour
Btu/Lb	British Thermal Units per Pound
CCN	Certificate of Public Convenience and Necessity
DESP	Dry Electrostatic Precipitator
DOE	Department of Energy
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
EPC	Engineering, Procurement & Construction
°F	Fahrenheit
Hg	Mercury
IGCC	Integrated Gasification Combined Cycle
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
ISO	Independent System Operator
KPDES	Kentucky Pollutant Discharge Elimination System
KU	Kentucky Utilities Company
Lb/MMBtu	Pound per Million British thermal units
Lb/MWh	Pound per Megawatt hours
LG&E	Louisville Gas and Electric Company
MMBtu	Million British thermal units
MMBtu/hr	Million British thermal units per hour
MW	Megawatt
MWH	Megawatt Hours
NO_x	Nitrogen Oxide
PJFF	Pulse Jet Fabric Filter
PM	Particulate Matter
psia	Pounds per square inch absolute
RH	Relative Humidity
SCPC	Super-Critical Pulverized Coal
SCR	Selective Catalytic Reduction
SO_2	Sulfur Dioxide
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
WAPC	Wheelabrator Air Pollution Control, Inc.
WESP	Wet Electrostatic Precipitator
WFGD	Wet Flue Gas Desulfurization

Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (referred to herein as "the Companies") submit this Section 48A Application for Certification pursuant to Section 48A of the Internal Revenue Code and the Guidelines issued by the Internal Revenue Service ("IRS") on February 21, 2006 (Notice 2006-24).[1] As required under the Guidelines, the Companies submitted an Application for Department of Energy Certification ("DOE Application") on June 28, 2006. Accordingly, the Companies request that the IRS accept the Companies' Section 48A Application for Certification and allocate to the Companies an investment tax credit of $125 million. The Companies are submitting simultaneously with this Application its Section 48A Certification Requirements. As explained in that submission, the Companies are seeking issuance of the certification because they have satisfied the requirements under Section 48A that all federal and state environmental authorizations or reviews necessary to commence construction of the project have been received and that the main steam turbine for the project has been contracted for.

Summary of the Project

The Companies will construct an Advanced Coal-based Generation Technology project, Trimble County Unit 2 ("TC2"). The unit is a nominal 750 net MW super-critical pulverized coal ("SCPC") facility with the latest coal combustion technology, as well as the latest technological advances in efficiency and environmental controls. This new facility will be located at Trimble County Station in Bedford, Kentucky, along the Ohio River, the site of Trimble County Unit 1 ("TC1"), a 511 MW coal-fired facility. TC2 will be a joint project between the Companies, which will own 75% of the project, and the Indiana Municipal Power Agency ("IMPA") and the Illinois Municipal Electric Agency ("IMEA")[2], which will jointly own 25% of the project, and will serve the needs of the native load customers of these entities. This project is a new electric generating unit with construction to be completed and unit commercialization to take place in year 2010. The nameplate generating capacity is a nominal 750 net MW.

[1] Both KU and LG&E are operating subsidiaries of E.ON U.S. LLC ("E.ON U.S."). E.ON U.S. is ultimately owned by E.ON AG, an integrated power and gas company based in Dusseldorf, Germany. See the DOE Application, which is attached to this Application as Exhibit 1, for details regarding the parties to the project and the project itself.

[2] IMPA is a not-for-profit corporation and a political subdivision of the State of Indiana. IMPA was created in 1980 for the purpose of jointly financing, developing, owning and operating electric generation and transmission facilities appropriate to the present and projected energy needs of its participating members. IMPA sells power to its members under long-term power sales contracts. IMPA's owned and member-dedicated generating capacity is 811 megawatts. IMEA is a not-for-profit, municipal corporation and unit of local government of the State of Illinois. IMEA was created in 1984 for the purpose to jointly plan, finance, own and operate facilities for the generation and transmission of electric power to provide for the current and projected energy needs of the purchasing members. IMEA has forty members, each of which is a municipal corporation in the State of Illinois and owns and operates a municipal electric distribution system.

As part of the TC2 project, new transmission lines are needed to provide stability for the output from TC2. The new transmission lines are based on studies performed by the Companies and approved by the Midwest Independent System Operator. The Companies received a Certificate of Public Convenience and Necessity ("CCN") for the direct interconnection part of these facilities on September 8, 2005 from the Kentucky Public Service Commission. An additional CCN for transmission system upgrades was received on May 26, 2006. The additional transmission lines are a 42 mile Hardin County-Mill Creek 345 kilovolt line and a 2.55 mile Trimble County-Public Service Indiana 345 kilovolt line. Construction for part of the transmission upgrade has begun.

The estimated total cost of the project is approximately $1.25 billion. The estimated amount of qualified investment in eligible property is approximately $988 million. The amount of qualifying advanced coal project credit requested for the project is $125 million.

Attached as Exhibit 1 is a paper copy of the Department of Energy Application filed on June 28, 2006 in accordance with section 5.02 of Notice 2006-24. KU and LG&E satisfied all requirements of the Department of Energy Application.

The following table summarizes the essential requirements for qualification for tax credit, as well as the associated values proving the qualification of this project.

Table 1 - Summary of Qualifying Criteria Requirements

Criteria	Section 48A Requirement	Trimble County Unit 2
Heat Rate	8530 Btu/kWh	8350 Btu/kWh
SO_2 percent removal	99%	99%
NO_x emissions	0.07 lbs/MMBtu	0.04 lbs/MMBtu (guaranteed) 0.05 lbs/MMBtu (permitted)
PM emissions	0.015 lbs/MMBtu	0.015 lbs/MMBtu
Hg percent removal	90%	90%
Project to power	New electric generation OR Retrofit/repower existing	New electric generation
Amount of project is electrical power	At least 50%	100%
Fuel	At least 75% coal	100% coal
Project location	Generation Unit at one site	Yes; Trimble County Station, 487 Corn Creek Rd, Bedford, KY 40006
Nameplate	At least 400 MW	Nominal 750 net MW
Project Status	Ongoing engineering activities	Approved by State agencies with permits and procurement/construction contracts in place.
Project Type	IGCC or qualifying advanced coal project	Qualifying advanced coal project

The new TC2 unit will be powered by an SCPC boiler and steam turbine generator that utilize the latest technological advances in efficiency and environmental controls. The Companies place a high value on efficiency and environmental stewardship, selecting SCPC over a lower cost, less efficient sub-critical pulverized coal facility or a less efficient circulating fluidized bed plant. Moreover, steam cycle conditions were reviewed and raised to the highest conditions for which commercial guarantees were available and reliable operation could be expected with the 5.5 lbs SO_2/MMBtu performance fuel.

TC2 will clearly satisfy the requirements of Section 48A of the Internal Revenue Code in terms of the required design net heat rate. The Guaranteed Design Net Heat Rate provided by Bechtel Power Corporation ("Bechtel") in the BPC Agreement is 8662 Btu/kWh. When that heat rate is corrected for the fuel heat content and respective atmospheric conditions, as required by Section 48A(f)(2), TC2 has a calculated Design Net Heat Rate of 8350 Btu/kWh, as seen in Table 1. This is further described in the Heat Rate portion of this Application.

TC2 will satisfy the environmental performance requirements of Section 48A, as well. TC2 will be the most environmentally friendly coal-fired unit in Kentucky with lower permit limits for sulfur dioxide ("SO_2") and nitrogen oxide ("NO_x") emissions than any other existing or currently planned coal unit in Kentucky. TC2 will be designed using state-of-the-art emission control technologies. First, in terms of mercury removal, TC2 will be guaranteed to achieve 90% Mercury removal, matching the Section 48A Mercury removal design requirement. The 90% Mercury removal guaranteed for TC2 is necessary to provide a reasonable operating margin to meet the Mercury emission limit of 13 x 10^{-6} Lb/MWh contained in the project's Air Permit which is better than the Environmental Protection Agency's Clean Air Mercury Rule requirements. The Mercury limit will be met by a selective catalytic reduction system ("SCR"), a dry electrostatic precipitator ("DESP"), an activated carbon injection system, a pulse jet fabric filter ("PJFF"), a wet flue gas de-sulfurization system ("WFGD") and a wet electrostatic precipitator ("WESP").

With other adjustments being made to TC1, SO_2 and NO_x emissions from both TC1 and TC2 will not exceed currently permitted limits for the Trimble County Station site, even after the addition of the TC2. Nevertheless, while TC2 was able to net out of the Prevention of Significant Deterioration regulations for SO_2 and NO_x and thus Best Available Control Technology ("BACT") does not apply, it will still be designed to meet 0.05 Lb/MMBtu NO_x which is over 28% better than the Section 48A requirement of 0.07 Lb/MMBtu and have a 99% SO_2 removal rate guarantee which equals the Section 48A requirement for SO_2 removal efficiency.

Finally TC2 will be designed to limit filterable and condensable Particulate Matter ("PM") emissions to 0.015 lbs/MMBtu. This will be accomplished by the combination of the DESP, PJFF, WFGD and WESP.

The heat rate and emission limits quoted above as design values are vendor guarantees with liquidated damages or make right requirements contained in executed purchase orders. Hitachi

American Limited will supply the steam turbine generator. Wheelabrator Air Pollution Control, Inc. ("WAPC") will supply the air quality control system and Mitsui Babcock Energy Ltd. will supply the boiler which includes the SCR. Bechtel, the engineering, procurement and construction ("EPC") contractor for TC2, will design and construct TC2 and provide the ultimate guarantee of TC2 emissions and performance to the Companies.

Description of Project Qualifications Under Section 48A

The following sections explain how TC2 will satisfy the qualification requirements of the legislation in more detail.

Heat Rate Requirement

The EPC Agreement Guarantees with Bechtel for TC2 provide a guaranteed heat rate for the performance fuel at 59°F dry bulb and 60% relative humidity ("RH") of 8,662 BTu/kWh. The performance fuel has a heat content of 9970 Btu/Lb. To calculate the "design net heat rate" as defined in Section 48A(f)(2), Bechtel's guaranteed heat rate is adjusted both for site reference conditions and for the heat content of the design coal.

With respect to site reference conditions, the Bechtel guarantee conditions of 59°F and 60% RH (which is the standard for system design) needed to be converted in order to apply the conditions contained in Section 48A(f)(2)(D) of 14.4 psia, 63°F dry bulb, 54°F wet bulb, and 55% RH. Those adjustments were made in Trimble County 2, Ambient Change, Tax Credit Study (See Exhibit 1, DOE application Appendix I). The performance data for the existing cooling tower, which was originally designed for two units but which will be enhanced in conjunction with this project, is based upon 90°F dry bulb conditions. As indicated, the guaranteed performance heat rate was first adjusted to a 90°F condition utilizing the existing cooling tower performance data. That 90°F case was then adjusted to the 54°F wet bulb criteria.

The adjusted heat rate at these conditions is 8751.9 Btu/kWh. This value should be conservative since expected enhancements to the cooling tower, which will further enhance performance, were not factored into the calculation.

Also, the heat rate of 8751.9 Btu/kWh described above was adjusted for fuel heat content of 9970 Btu/Lb pursuant to the formula in Section 48A(f)(2). This calculation shown below results in a Design Net Heat Rate of 8,350.3 Btu/kWh:

8,751.9 * [1-[(13,500-9,970)/1000]*.013] = 8,350.3 Btu/kWh

This calculation yields the heat rate provided in Table 1 of this Application.

SO_2 Percent Removal Requirement

The WAPC purchase order provides for WAPC to guarantee 99% SO_2 removal from the TC2 flue gas.

NO_x Emissions Requirement

The EPC Agreement provides for Bechtel to guarantee that NO_x emissions from TC2 will not exceed 0.04 Lb/MMBtu provided the burner stoichiometry does not exceed 1.0; otherwise the guarantee will be 0.05 Lb/MMBtu.

PM Emissions Requirement

The EPC Agreement provides for Bechtel to guarantee that total (filterable and condensable) PM emissions from TC2 will not exceed 0.015 Lb/MMBtu.

Mercury Removal Requirement

The WAPC purchase order provides for WAPC to guarantee 90% Hg removal from the TC2 flue gas.

Coal Project Requirement

TC2 is a new electric generation unit and 100% of the useful output is electrical power. The Fuel Quality specifications to the project EPC contract show that 100% of the fuel for TC2 will be coal.

Site Control and Ownership

LG&E owns the approximately 2,200 acre Trimble County Station Site. On April 5, 2006, LG&E transferred an undivided ownership interest in the TC2 site (approximately 6.5 acres under TC2) to the other owners of TC2.

TC2 will be installed at an existing site in the E.ON U.S. fleet. This site has existing infrastructure for coal handling, limestone handling, water intakes, cooling tower and civil works completed.

Project Status and Permits

The project continues to progress according to the Project Milestone Schedule, which is contained in Appendix A of Exhibit 1. Purchase orders were issued to Hitachi American Limited for the turbine and WAPC for the air quality control system in April 2006. A purchase order was issued to Mitsui Babcock Energy Ltd. for the boiler in May 2006. These purchase orders have a total value of more than $300 million. Bechtel has commenced the detailed engineering for the project with their sub-suppliers and placed orders for critical pipe. Site mobilization began on July 5, 2006. Excavation of the boiler and steam turbine areas is currently in progress, as well as the relocation of balance of plant systems for TC1 that interfere with the location of TC2.

The overall Summary Schedule of TC2 Project is shown on page 23 of Mr. John Voyles' testimony as Exhibit JNV-5 in the TC2 CCN and can be seen in Appendix B of Exhibit 1. Construction of TC2 will be primarily performed through a single EPC contract that will primarily include the boiler, air pollution equipment, and turbine generating systems. The Companies expect actual construction to take approximately four years. The current milestone summary is shown in Appendix A of Exhibit 1.

All necessary environmental approvals to commence construction of TC2 have been obtained. The Title V permit for the construction/operation of a new electrical generating unit was received/deemed final January 4, 2006. The Kentucky Pollutant Discharge Elimination System ("KPDES") Permit, currently in effect, expires September 30, 2007. Additional anticipated flows from TC2 will be included during the renewal application in March 2007, however the Companies do not anticipated significant changes to the KPDES permit as a result of TC2. In fact, the Companies are in compliance with the certification requirement under Section 48A(e)(2)(A) that all Federal and State environmental authorizations to commence construction have been received.

In terms of other regulatory approvals, on November 1, 2005 the Kentucky Public Service Commission issued an order granting TC2 a CCN and on November 9, 2005 amended that order to include a Site Compatibility Certificate. On January 27, 2004 an Interconnection and Operating Agreement was executed with the Midwest Independent System Operator identifying all necessary electrical infrastructure improvements and assigning almost all construction responsibility to the transmission unit of the Companies. The Companies received a CCN for the direct interconnection part of these facilities on September 8, 2005. An additional CCN for transmission system upgrades was received on May 26, 2006. Construction for part of the transmission upgrade has begun.

Water for TC2 will be taken from the Ohio River through existing intake structures and under existing permits. Coal will be purchased by the Companies' Fuel Department. It is anticipated that coal for the first year of operation will be fully contracted for in 2009. This is consistent with the Companies' practice for its existing 6,000 MW coal fleet.

Utilization of Project Output

The new generating unit will provide only electricity and no other usable energy sources; however, byproducts from the combustion of coal (bottom ash, flyash) and by-products from environmental control technologies (synthetic gypsum) may be sold should a market develop.

Eligible Property

The Companies seek an investment tax credit for their investment in the eligible property of TC2. TC2 includes a steam generator and turbine, as well as the necessary pollution control equipment to enable it to qualify for the investment tax credit. In addition, eligible property also includes the necessary upgrades to the transmission system to accommodate the new facility.

Further, the Companies capitalized interest as property eligible for the investment tax credit. As explained below, the eligible property includes all elements of the project.

Section 48A of the Internal Revenue Code provides that an investment tax credit is available for "eligible property." Eligible property is defined for an integrated gasification combined cycle ("IGCC") facility as "any property which is a part of such project and is necessary for the gasification of coal, including any coal handling and gas separation equipment." For projects other than IGCC, eligible property is defined as "any property which is a part of such project."

Congress intended that the scope of "eligible property" under Section 48A be limited only with respect to IGCC facilities. "With respect to IGCC projects, the conference agreement narrows the definition of credit-eligible investments to include only investments in property associated with the gasification of coal, including any coal handling and gas separation equipment. Thus, investments in equipment that could operate by drawing fuel directly from a natural gas pipeline do not qualify for the credit." *Description and Technical Explanation of the Conference Agreement of H.R. 6, Title XIII, "Energy Tax Incentives Act of 2005,"* p. 36 (July 27, 2005). For projects other than IGCC, no such limits were included in the legislation, and Congress spoke to no limits in the legislative history of the provision.

Under Section 48A, Congress intended that all property that is part of an advanced coal project other than IGCC be included within the scope of eligible property, including transmission facilities. In this manner, the language is broader than the investment tax credit language for either solar or geothermal facilities. In terms of solar energy equipment, the ITC is available for "equipment which uses solar energy to *generate* electricity..." *Id.* at 48(a)(3)(A)(i) *(emphasis added)*. For geothermal, the ITC is available for "equipment used to produce, distribute, or use energy derived from a geothermal deposit,... but only, in the case of electricity generated by geothermal power, up to (but not including) the electrical transmission stage." *Id.* at 48(a)(3)(A)(iii). Congress limited the ITC for solar facilities to equipment used to generate electricity, while for geothermal facilities, transmission facilities are specifically excluded from the scope of eligible property. On the other hand, with respect to advanced coal facilities other than IGCC, Section 48A neither limits the scope of eligible property to equipment used to generate electricity nor does it specifically exclude transmission facilities. In fact, unlike both solar and geothermal facilities, there are no limitations regarding eligible property for advanced coal projects other than IGCC projects.[3]

[3] The use of the phrase "any property which is a part of such project" in prior investment tax credit language further supports the inclusion of transmission facilities within the scope of eligible property. The Tax Reform Act of 1986 repealed an existing investment tax credit, but allowed its continuation for a brief period for "transition property," which was defined to include "property which is part of a project which is certified by the Federal Energy Regulatory Commission before March 2, 1986, as a qualifying facility for purposes of the Public Utility Regulatory Policies Act of 1978." *Tax Reform Act of 1986*, No. 99-514, 100 Stat. 2085 (October 22, 1986), Sections 204(a)(2)(A); 211(a). The Federal Energy Regulatory Commission determined that a qualifying facility included transmission facilities. *Clarion Power Company*, 39 FERC ¶ 61,317 (June 18, 1987). And in Private Letter Rulings, the IRS determined that "property which is part of a project" under Section 204(a)(2)(A) of the Tax Reform Act of 1986 included transmission facilities. *See, Private Letter Ruling 8947034*, 1989 PLR LEXIS 2729 (August 28, 1989); *Private Letter Ruling 8843017*, 1988 PLR LEXIS 2336 (July 29, 1988).

The expected capital costs for TC2 construction in its entirety is approximately $1.25 billion. The Capital and Transmission costs in total have not changed from the DOE Application but the spending per year has changed due to new estimates. Also, capitalized interest has been added to the project costs since the DOE Application was filed. Since 25% of the project is owned by IMEA and IMPA, the total construction costs to the Companies will be 75% of the total costs of the facility. All of the expected capital costs of the advanced coal facility, TC2, will qualify under Section 48A as eligible property. The Companies' portion of the costs is shown in Table 2 and Table 3 as follows.

Table 2 – TC2 Costs (75% ownership only)
(Nominal $000s)

Year	Capital	Capitalized Interest	Transmission	Total
2005	7,900	0	1,000	8,900
2006	102,500	4,000	5,000	111,500
2007	305,400	15,000	15,000	335,400
2008	288,200	30,000	27,000	345,200
2009	83,000	41,000	35,000	159,000
2010	5,000	22,000	1,000	28,000
Grand Totals	***792,000***	***112,000***	***84,000***	***988,000***

Table 3 - Breakdown of Eligible Property

Steam Generator	$108,800,000
Steam Turbine	47,000,000
Air Quality Control System Package	220,200,000
SCR	24,400,000
Ash Handling	18,400,000
Other Pollution Control Costs	42,000,000
Balance of Project and Construction	517,200,000
Development Costs	15,500,000
Total EPC contract costs	$993,500,000
Costs outside of EPC contract	62,500,000
Total Capital Project Budget	$1,056,000,000
Less IMEA/IMPA 25% ownership	(264,000,000)
Subtotal	$792,000,000
Transmission	84,000,000
Capitalized Interest	112,000,000
Total Capital	$988,000,000
Total eligible plant	$988 000,000
Tax credit percentage	x 15%
Tax credit calculated	$148,200,000
Tax credit applied for	$125,000,000

Bechtel is the engineering, procurement and construction contractor for TC2 and will design and construct TC2 and ultimately provide the guarantee of TC2 emissions and performance to the Companies. Individual component costs to construct TC2 are included in Bechtel's "Balance of Project and Construction" line item above. For total cost of EPC contract see Exhibit 1 Appendix EE Article 8.1(page 73). Also, for a detailed breakdown of EPC contract costs see Exhibit 1 – Sub Exhibit X of Appendix EE.

See Exhibit 2 for calculation of capitalized interest and Exhibit 3 for transmission project costs.

Ratio of Total Nameplate Capacity to Requested Allocation

TC2 would provide a high ratio of total nameplate generating capacity to requested credit allocation, as reflected in the following calculation:

Total credit applied for	$125,000,000
Nameplate Capacity (MW)	750
Tax Credit per MW Nameplate capacity	$166,667

EXHIBITS

Exhibit 1 - Application for Department of Energy Certification
Exhibit 2 - Calculation of Capitalized Interest
Exhibit 3 - Transmission Project Costs
Exhibit 4 - Power of Attorney and Declaration of Representative, Form 2848

The Companies respectfully request confidential treatment of this application and all appendices contained herein, as they contain trade secrets and commercial or financial information which is exempt from disclosure under the Freedom of Information Act, 5 USC sec. 552, Subject to the Trade Secrets Act, 18 USC sec. 1905.

Signature – Kentucky Utilities Company and Louisville Gas and Electric Company

Declaration

Under penalties of perjury, I declare that I have examined this submission, including accompanying documents, and, to the best of my knowledge and belief, all of the facts contained herein are true, correct, and complete.

S. Bradford Rives
Chief Financial Officer
September 27, 2006

SCHEDULE CGF-SUR-11

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Featherstone, Cary

From: Welsensee John [John.Welsensee@kcpl.com]
Sent: Thursday, May 03, 2012 6:52 AM
To: Featherstone, Cary
Cc: Rush Tim; Hyneman, Chuck; Majors, Keith
Subject: RE: IRS private letter ruling- inadvertent issue

We are very close (days away) from getting with Staff and/or sending Staff a draft of a PLR we will send to the IRS regarding the re-allocation issue.

John

From: Featherstone, Cary [mailto:cary.featherstone@psc.mo.gov]
Sent: Thursday, May 03, 2012 1:34 AM
To: Welsensee John
Cc: Rush Tim; Hyneman, Chuck; Majors, Keith
Subject: RE: IRS private letter ruling- inadvertent issue

Thanks, John for this information.

Has Great Plains Energy, Kansas City Power & Light and KCP&L Greater Missouri Operations taken any additional steps or made any more effort to seek from the Internal Revenue Service the re-allocation of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations? If so, what additional steps or effort has these entities made regarding this re-allocation of the Iatan 2 Advance Coal Tax Credit for KCP&L Greater Missouri Operations?

From: Welsensee John [mailto:John.Welsensee@kcpl.com]
Sent: Wednesday, May 02, 2012 2:11 PM
To: Featherstone, Cary
Cc: Rush Tim
Subject: IRS private letter ruling- inadvertent issue

Cary,
Attached is a copy of the IRS PLR on the advanced coal credit inadvertent issue. Can you see that it is distributed to the appropriate Staff people?

If you have any questions let me know.

John

Featherstone, Cary

From: Welsensee John [John.Welsensee@kcpl.com]
Sent: Wednesday, May 09, 2012 9:49 AM
To: Featherstone, Cary
Cc: Hardesty Melissa; Rush Tim; Ives Darrin
Subject: Draft PLR- Advanced Coal Credits
Attachments: GPE PLR (to Staff) 5-9-12.docx; MPSC draft letter--Version 5-2-12.doc; KCC draft letter--Version 5-2-12.doc; Exhibit A-1 (Revised MOU from IRS 9-9-10).pdf; Exhibit A-5 (Request for GMO MOU reallocation 4-5-2011).pdf; Exhibit A-6 (IRS Denial of Request to Amend MOU 9-8-11).pdf

Cary,
I know you are still working on a possible time for a PLR discussion, but I thought I would send you a draft of the proposed PLR, as well as a sample letter that Staff might send us (included KCC letter also). I realize of course that Staff might want to tweak the wording, as in the past. I have not attached all of the referenced attachments since several are simply MPSC Orders that you should already have (and are very voluminous)- but if you want let me know.

Can you distribute to those at Staff that might want a copy?

Let me know as soon as you can when you would like to discuss by phone. We would like to file this as soon as practical, but of course want to allow Staff sufficient time to provide its comments.

Thanks

John

May __, 2012

Associate Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Re: Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company Private Letter Ruling Request

Dear Sir/Madam:

Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations Company ("GMO") are subject to the regulatory jurisdiction of the Missouri Public Service Commission ("MoPSC") with respect to that portion of its retail operations that provides services to customers located in the State of Missouri. The MoPSC's jurisdiction extends to the establishment or approval of KCPL's and GMO's rates.

The Staff of the MoPSC has reviewed the normalization ruling request to the Internal Revenue Service ("the Service) and believes that it is adequate and complete in regard to the regulatory matters discussed. KCPL and GMO have offered to permit the MoPSC Staff to participate in any Associate office conference concerning this request for a private letter ruling. If possible, the MoPSC Staff would like to participate fully.

The MoPSC Staff will work with the Service, KCPL and GMO to resolve any tax issues relating to KCPL's and GMO's compliance with the tax normalization rules pertaining to the facts set forth in the ruling request.

Sincerely,

Cherlyn D. Voss,
Director, Regulatory Review
Missouri Public Service Commission

SCHEDULE CGF-SUR-15

and

SCHEDULE CGF-SUR-16

and

SCHEDULE CGF-SUR-17

and

SCHEDULE CGF-SUR-18

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY

mapquest

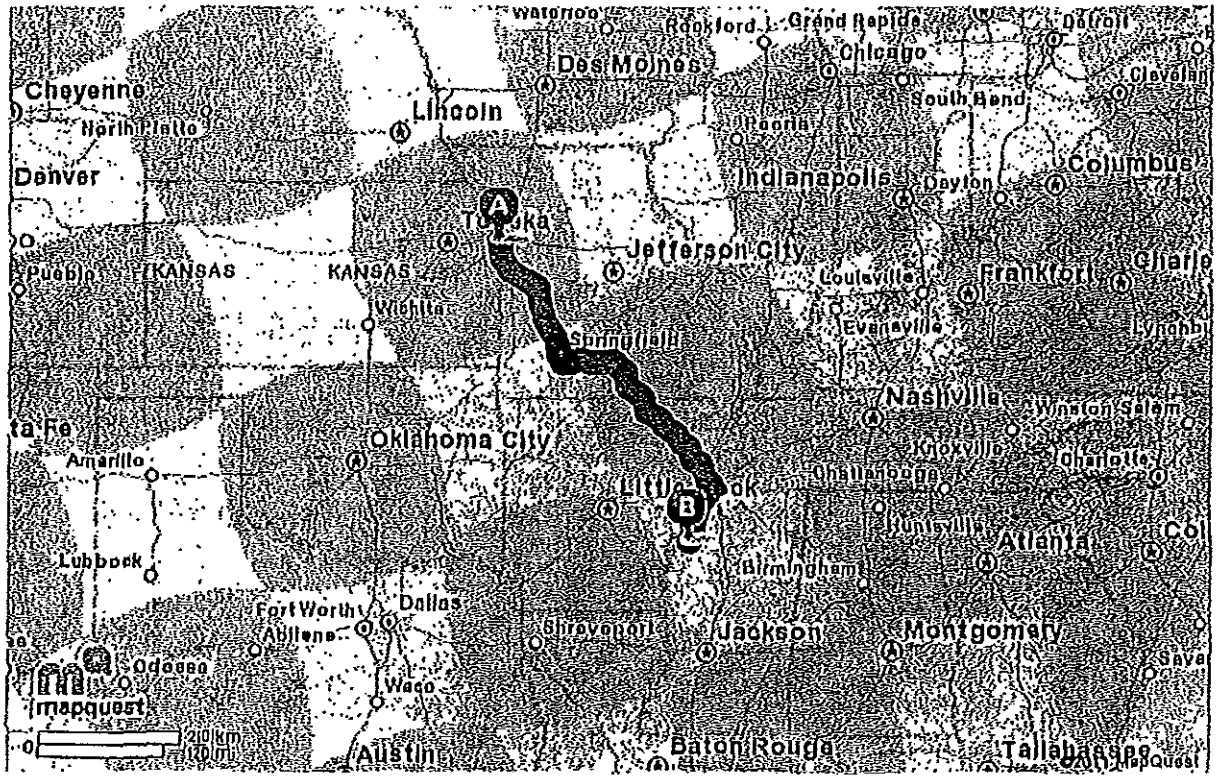
Trip to:
Clarksdale, MS
525.88 miles
8 hours 51 minutes

Notes

		Miles Per Section	Miles Driven
	1200 Main St Kansas City, MO 64105-2122		
	1. Start out going SOUTH on MAIN ST toward W 13TH ST.	Go 0.3 MI	0.3 mi
	2. Turn LEFT onto TRUMAN RD S. *TRUMAN RD S is just past TRUMAN RD N*	Go 0.2 MI	0.4 mi
	3. Keep LEFT at the fork to continue on TRUMAN RD S.	Go 0.04 MI	0.5 mi
RAMP	4. Take the I-70 E ramp.	Go 0.1 MI	0.6 mi
	5. Merge onto I-670 E / I-70-ALT E.	Go 0.2 MI	0.8 mi
	6. Merge onto US-71 S via EXIT 2M.	Go 37.7 MI	38.5 mi
EXIT	7. Take the MO-7 S exit toward CLINTON.	Go 0.2 MI	38.7 mi
	8. Turn LEFT onto MO-7 S. *If you reach US-71 S you've gone about 0.1 miles too far*	Go 39.2 MI	77.9 mi
	9. MO-7 S becomes MO-13 S.	Go 84.5 MI	162.4 mi
	10. Merge onto I-44 E via the ramp on the LEFT toward I-44 E / ROLLA. *If you reach MO-13 N you've gone a little too far*	Go 4.5 MI	166.9 mi
EXIT	11. Merge onto US-65 S / SCHOOLCRAFT FWY via EXIT 82A toward BRANSON.	Go 8.7 MI	175.6 mi

12. Merge onto US-60 E toward CABOOL.	Go 82.3 MI	257.9 mi
13. US-60 E becomes US-63 S (Crossing into ARKANSAS).	Go 61.7 MI	319.6 mi
14. Turn LEFT onto US-412 / US-62 / US-63. *US-412 is just past US-63*	Go 1.6 MI	321.2 mi
15. Turn LEFT onto US-63 / US-63-BR / US-412 / US-62 / AR-175. Continue to follow US-63 W.	Go 105.4 MI	426.6 mi
16. Merge onto I-55 S via EXIT 1A toward MEMPHIS (Crossing into TENNESSEE).	Go 28.3 MI	454.9 mi
17. Merge onto US-61 S via EXIT 7 toward VICKSBURG (Crossing into MISSISSIPPI).	Go 66.8 MI	521.7 mi
18. Turn SLIGHT RIGHT onto MS-161. *MS-161 is 0.1 miles past RODGERS RD*	Go 3.4 MI	525.2 mi
19. Turn RIGHT onto DESOTO AVE. *DESOTO AVE is just past MISSISSIPPI AVE*	Go 0.4 MI	525.6 mi
20. Turn LEFT onto MARTIN LUTHER KING / 4TH ST. *MARTIN LUTHER KING is just past 5TH ST*	Go 0.2 MI	525.8 mi
21. Turn RIGHT onto W TALLAHATCHIE ST. *W TALLAHATCHIE ST is just past E TALLAHATCHIE ST*	Go 0.09 MI	525.9 mi
22. W TALLAHATCHIE ST becomes EDWARDS ALY.	Go 0.02 MI	525.9 mi
23. Welcome to CLARKSDALE, MS. *If you reach ISSAQUENA AVE you've gone a little too far*	Go 0.01 MI	525.9 mi
Clarksdale, MS	525.9 mi	525.9 mi

Total Travel Estimate: 525.88 miles - about 8 hours 51 minutes



SCHEDULE CGF-SUR-20

and

SCHEDULE CGF-SUR-21

and

SCHEDULE CGF-SUR-22

and

SCHEDULE CGF-SUR-23

and

SCHEDULE CGF-SUR-24

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY