

THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

January 18, 2011

Jefferson City, Missouri

Volume 14

In The Matter Of The Application)
Of Kansas City Power And Light)
Company For Approval To Make)
Certain Changes In Its Charges) File No. ER-2010-0355
For Electric Service To Continue)
Implementation Of Its Regulatory)
Plan)

In The Matter Of The Application)
Of KCP&L Greater Missouri)
Operations Company For Approval) File No. ER-2010-0356
To Make Certain Changes In Its)
Changes For Electric Service)

RONALD D. PRIDGIN, Presiding
SENIOR REGULATORY LAW JUDGE.

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1 JUDGE PRIDGIN: Good morning. We are on the
2 record in Case No. ER-2010-0355. I'll also call Case
3 No. ER-2010-0356, as I understand some issues to be heard
4 will be joint to both of those cases.

5 I am Ron Pridgin, the regulatory law judge
6 assigned to preside over 0355. It's being held at 8:30 in
7 the morning at the Governor Office Building, Jefferson
8 City, Missouri. And I believe the date is January 18th,
9 2011.

10 Let me get entries of appearances from
11 counsel. I will go down the list. I hope I get everyone.
12 I will, at the end, ask if I've missed someone. So if I've
13 missed you, I'll give you a chance to speak up.

14 Entry of appearance from Kansas City Power
15 and Light, please.

16 MR. FISCHER: Thank you, Judge. Let the
17 record reflect the appearance of Heather Humphrey, Roger
18 Steiner, Charles Hatfield, Karl Zobrist, Susan Cunningham,
19 Glenda Cafer, Larry Dority and James Fischer on behalf of
20 Kansas City Power and Light in this proceeding, as well as
21 in the companion case, KCPL Greater Missouri Operations
22 Company case.

23 JUDGE PRIDGIN: Mr. Fischer, thank you.
24 On behalf of the Staff of the Commission,
25 please.

1 MR. WILLIAMS: For both cases, Nathan
2 Williams, Kevin Thompson, Steven Dottheim, Annette Slack,
3 Jennifer Hernandez, Sarah Kliethermes, Jamie Ott, Eric
4 Dearmont and Meghan McClowery.

5 JUDGE PRIDGIN: Mr. Williams, thank you.
6 On behalf of the Office of the Public
7 Counsel, please.

8 MR. MILLS: On behalf of the Office of
9 Public Counsel and the public, just me, Lewis Mills. My
10 address Post Office Box 2230, Jefferson City, Missouri
11 65102.

12 JUDGE PRIDGIN: Mr. Mills, thank you.
13 On behalf of MIEC and Ford, please.

14 MR. KINDSCHUH: Yes. On behalf of the MIEC
15 and Ford, my name is John Kindschuh. I'm an attorney with
16 Bryan Cave, LLP. Thank you very much.

17 JUDGE PRIDGIN: Mr. Kindschuh, thank you.
18 On behalf of Praxair MEUA, please.

19 MR. WOODSMALL: Good morning, Your Honor.
20 Appearing on behalf of Praxair and MEUA in the 0355 case,
21 David Woodsmall, Stu Conrad. In the 0356, I'd like to
22 enter my appearance on behalf of Ag Processing and SIEUA.
23 Thank you.

24 JUDGE PRIDGIN: Mr. Woodsmall, thank you.
25 On behalf of the U.S. Department of Energy,

1 please.

2 MR. BRUDER: Thank you, and good morning.
3 On behalf of the United States Department of Energy, Arthur
4 Perry Bruder, 1000 Independence Avenue Southwest,
5 Washington, D.C.

6 JUDGE PRIDGIN: Mr. Bruder, thank you.
7 On behalf of the Hospital Intervenors,
8 please.

9 MR. ZAKOURA: James P. Zakoura on behalf of
10 the Hospital Intervenors.

11 JUDGE PRIDGIN: Mr. Zakoura, thank you.
12 On behalf of the Missouri Department of
13 Natural Resources, please.

14 MS. MANGELSDORF: Sarah Mangelsdorf,
15 appearing on behalf of the Missouri Department of Natural
16 Resources.

17 JUDGE PRIDGIN: Ms. Mangelsdorf, thank you.
18 On behalf of AARP Consumers Council of
19 Missouri, please.

20 MR. COFFMAN: Appearing on behalf of AARP,
21 also appearing on behalf of Consumers Council of Missouri,
22 John B. Coffman, 871 Tuxedo Boulevard, St. Louis, Missouri
23 63119.

24 JUDGE PRIDGIN: Mr. Coffman, thank you.
25 On behalf of the Missouri Retailers

1 Association, please.

2 MR. SCHWARTZ: Good morning. Tim Schwartz,
3 Blitz, Bargett and Deutch, 308 East High Street, Suite 301,
4 Jefferson City, Missouri 65102, representing the Missouri
5 Retailers Association in both the 0355 and the 0356 cases.

6 JUDGE PRIDGIN: Mr. Schwarz, thank you.
7 On behalf of Dogwood Energy, please.

8 No entrance?

9 On behalf of the City of Kansas City,
10 Missouri, please.

11 MR. COMLEY: Good morning, Judge Pridgin.
12 Let the record reflect the entry of Mark W. Comley of
13 Newman, Comley and Ruth, on behalf of the City. Also, let
14 me take this moment to enter my appearance on behalf of the
15 City of Lee's Summit in the General Missouri -- Greater
16 Missouri Operations case.

17 JUDGE PRIDGIN: Mr. Comley, thank you.
18 On behalf of Jackson County, Missouri,
19 please.

20 No entrance.

21 On behalf of Robert Wagner, please.

22 MR. WAGNER: Robert Wagner appearing on
23 behalf of myself.

24 JUDGE PRIDGIN: Mr. Wagner, thank you.
25 On behalf of MJMEUC, please.

1 MR. HEALEY: Doug Healey, the law firm of
2 Healy & Healy, 939 Boonville, Suite A, Springfield,
3 Missouri.

4 JUDGE PRIDGIN: Mr. Healy, thank you.
5 On behalf of the Empire District Electric
6 Company, please.

7 MR. SWEARENGEN: James C. Swearingen and
8 Diana Carter, Brydon and Swearingen, England, 312 East
9 Capitol, Jefferson City, on behalf of the Empire District
10 Electric Company in both cases.

11 JUDGE PRIDGIN: Mr. Swearingen, thank you.
12 On behalf of Missouri Gas Energy, please.

13 MR. JACOBS: Todd Jacobs and Dean Cooper on
14 behalf of Southern Union Company, doing business as
15 Missouri Gas Energy.

16 JUDGE PRIDGIN: Mr. Jacobs, thank you.
17 On behalf of Ameren Missouri, please.

18 MR. TRIPP: Your Honor, Mike Tripp, Smith
19 Lewis, on behalf of Ameren Missouri.

20 JUDGE PRIDGIN: All right. Thank you, sir.
21 And on behalf of -- I did not write down the
22 names. I think I have three local unions being
23 represented.

24 MR. AMASH: Yes, sir. On behalf of IBEW
25 412, IBEW 1613 and 1464, Michael Amash. Thank you.

1 JUDGE PRIDGIN: Thank you, sir.

2 Have I missed anyone?

3 Yes, ma'am?

4 MS. MCNEILL: Good morning, sir. Captain
5 Shayla -- good morning, sir. Captain Shayla McNeill on
6 behalf of the Federal Executive Agencies in Docket 0356.

7 JUDGE PRIDGIN: Captain McNeill, thank you.

8 Anyone else wishing to enter an appearance?

9 All right. I believe somebody asked before
10 the hearing -- and I certainly want to let counsel know if
11 there is a portion of the hearing in which you're not
12 interested, you're certainly free to go and only appear for
13 your issues.

14 And Mr. Steinmeier has joined us. Yes, sir.
15 Your entry of appearance.

16 MR. STEINMEIER: Your Honor, with apologies.
17 while I've been here -- but if you're taking entries in
18 both cases, please let the record reflect the appearance of
19 William D. Steinmeier, William D. Steinmeier, P.C. of
20 Jefferson City, on behalf of the City of St. Joseph,
21 Missouri.

22 JUDGE PRIDGIN: Mr. Steinmeier, thank you
23 very much.

24 Is there anything else from counsel before
25 we proceed to opening statements?

1 All right. Hearing nothing, Mr. Fischer,
2 will you be giving the opening for Kansas City --

3 MR. FISCHER: Yes, I will, Judge.

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

5 MR. FISCHER: May it please the Commission.

6 Good morning.

7 This is the last of four Kansas City Power
8 and Light rate cases that were contemplated by the KCPL
9 regulatory plan that was approved by this Commission five
10 years ago in Case No. EO-2005-0329. And each planned rate
11 case has been related to the completion of a major
12 component included in the regulatory plan.

13 The first rate case, ER-2006-0314, included
14 the construction of 100 megawatts of wind generation at the
15 Spearville wind Energy facility that was completed in
16 September of 2006, on schedule and on budget.

17 The second rate case, ER-2007-0291, included
18 the investment of -- to install selected catalytic
19 reduction equipment at La Cygne unit 1. The La Cygne Unit
20 1 SER was placed into service on schedule and on budget
21 during the second quarter of 2007.

22 The third rate case, Case No. ER-2009-0089,
23 included the completion of the selected catalytic reduction
24 equipment at Iatan 1, which was placed into service in the
25 second quarter of 2009.

1 This case will also review some of the Iatan
2 1 costs that were deferred from the last KCPL rate case.

3 The transmission and distribution asset
4 management programs that were part of the regulatory plan
5 have now been completed.

6 In this fourth rate case, the company has
7 filed tariffs reflecting a \$92 million rate increase, or
8 approximately 14 percent. If this full rate increase is
9 approved, Kansas City Power and Light customers will
10 continue to have rates that are less than the national
11 average.

12 This case includes the completion of an
13 850-megawatt super-critical coal-fired plant at Iatan 2,
14 and also 48 megawatts of additional wind investment at
15 KCPL's Spearville wind Farm.

16 However, many of the issues that are part of
17 this case deal with traditional rate case issues; rate of
18 return, off-system sales, and a substantial change in a
19 freight contract in fuel and purchase power costs.

20 Iatan 2 met its in-service criteria on
21 August 26th of 2010, subject to the Commission's approval.
22 This August 26th in-service date is several months earlier
23 than it was projected to occur when the rate case was filed
24 on May the 4th of last year.

25 Looking back five years ago, when the

1 regulatory plan was first approved by the Commission, the
2 original projected in-service date was June 1st of 2010.

3 Compared to most other plants being built in
4 this time frame, when the national and international
5 construction markets for power plants were overheated, it's
6 a remarkable achievement for KCPL to have completed this
7 plant within three months of the original projected
8 in-service date.

9 The August 26th in-service date represents a
10 4 percent slippage on the schedule compared to the
11 in-service date that was targeted five years ago.

12 Now, from a cost standpoint, the Iatan 2 is
13 a success story, as well. When the company originally
14 established a controlled budget estimate in 2006, when the
15 plant was only 20 to 25 percent engineered and the final
16 scope of the project was not known, the plant at that time
17 was projected to cost \$1.685 billion.

18 When the engineering was 70 to 75 percent
19 complete and the final scope of the project was better
20 known, the company reviewed the expected costs again during
21 the 2008 budget reforecast process. The final cost of
22 Iatan 2 was projected to be \$1.901 billion at that time.

23 It's now expected that the final cost will
24 be \$1.948 billion, almost on budget when compared to the
25 2008 reforecasted budget estimate that was made when the

1 engineering was 70 to 75 percent complete.

2 As a part of the regulatory plan stipulation
3 and agreement in Case No. EO-2005-0329, the company agreed
4 that it would track the cost of the Iatan project from the
5 definitive estimate. This estimate is also referred to as
6 the 2006 control budget estimate.

7 As I mentioned, the control budget estimate
8 was \$1.685 billion. When compared to this initial control
9 budget estimate, the final cost of Iatan 2 is now projected
10 to be approximately 15.6 percent higher than originally
11 projected when the engineering was completed when it was
12 only 20 to 25 percent engineered.

13 KCPL had the right management team in place,
14 had the right management systems, and the management
15 systems worked well.

16 Although the cost variance for Iatan 2 is
17 about 15.6 percent above the 2006 control budget estimate
18 that was projected when the engineering was in its
19 preliminary stages, the cost overrun issue is a significant
20 issue in this case that I'll discuss in more depth in a few
21 minutes.

22 The Iatan 2 project is referred to in the
23 industry as a "mega project." It cost over a billion
24 dollars and it took several years to complete.

25 As Mr. Brent Davis, the former Iatan project

1 director for Iatan 1 and Iatan 2 explains in his rebuttal
2 testimony, designing, procuring and constructing the Iatan
3 project involved the efforts of 4,000 individuals who
4 worked close to six million man hours.

5 KCPL entered into 150 contracts, issued
6 1,100 purchase orders, and coordinated 55 on-site
7 contractors.

8 The amount of concrete that was poured on
9 the Iatan 2 project would be sufficient to create a
10 sidewalk that would stretch 325 miles, from Kansas City,
11 Missouri all the way to Little Rock, Arkansas.

12 There are 25,000 tons of steel, and 950
13 miles of electrical cable installed with Iatan 2.

14 When the project was under construction, it
15 represented one of the largest construction projects in the
16 United States.

17 The Iatan 2 project was also made more
18 complex by the fact that at the same time they were
19 building Iatan 2, they were -- KCPL was also adding the SER
20 equipment at Iatan 1 on the same site for where we were
21 building Iatan 2.

22 If a picture is worth a thousand words, then
23 a video must be worth a million. And rather than trying to
24 use words to describe the complexity and the enormity of
25 the Iatan project, we'd like to show just a brief video

1 that shows the Commission the magnitude of this project.

2 If I could make my technology work.

3 (WHEREIN, at this time, a video was played.)

4 MR. FISCHER: Well, thank you for giving us
5 that opportunity to show how -- the enormity of that plant.

6 Obviously, this case is largely driven by
7 the \$1.9 billion investment at Iatan 2, and the urgent need
8 to have this investment reflected in rates.

9 The stipulation and agreement in Case No.
10 EO-2005-0329 specifically designated this fourth rate case
11 as the case to consider -- and I'll quote -- "the prudent
12 expenditures for Iatan 2."

13 If KCPL is to remain in a financially
14 healthy position, it's necessary that KCPL be permitted to
15 include its portion of the \$1.9 billion prudent investment
16 at Iatan 2 in rates in a timely manner.

17 The Commission has previously held in the
18 Callaway and the Wolf Creek rate case decisions that
19 there's a presumption of prudence related to public utility
20 expenditures, and the Missouri courts have agreed.

21 In particular, the presumption of prudence
22 and the prudence standard has been addressed in State, ex
23 rel. Associated Natural Gas vs. The Public Service
24 Commission, 954 S.W.2d 520.

25 The Commission and the court decisions have

1 held that when other parties raise a serious doubt as to
2 the prudence of those expenditures, then the public utility
3 has the obligation to come forward and rebut those
4 allegations to meet its burden of proof.

5 Now, under this legal standard, it takes
6 competent and substantial evidence to raise a serious doubt
7 of imprudence to shift the burden of persuasion back to the
8 public utility.

9 Now, this legal requirement is different
10 than merely including a proposed disallowance in testimony
11 without any evidence of imprudence to support it.

12 It takes more than stating, as Staff witness
13 Hyneman has said in his deposition about the costs that
14 exceeded the 2006 control budget estimate.

15 It takes more than stating that he doesn't
16 know whether those costs are prudent or imprudent; whether
17 they're inappropriate or unreasonable; or whether they
18 benefit ratepayers. But nevertheless, they should be
19 disallowed, according to Staff.

20 All Staff knows is that these costs exceeded
21 the original control budget estimate. But that's not good
22 enough to legally disallow hundreds of billions [sic] of
23 dollars from the company's expenditures.

24 In order to find a disallowance, according
25 to the court decisions, the Commission must find KCPL has

1 acted imprudently, and that the imprudent actions were the
2 cause of the increased costs.

3 The Commission should also consider what the
4 adoption of a prudence disallowance would mean to the
5 company. Every dollar of that disallowance that is adopted
6 by the Commission and upheld by the courts will mean that
7 the company will have write off the amount of the
8 disallowance from its books.

9 So unlike other rate case adjustments which
10 we typically deal with, which are only in effect from
11 perhaps this rate case until the next rate case, a prudence
12 disallowance of a power plant expenditure will mean that
13 under FAS Opinion Number 90 the company will permanently
14 lose its ability to earn a return on or otherwise recover
15 those disallowed expenditures used to build that power
16 plant. It becomes a permanent write-off of actual dollars
17 spent to build the plant.

18 And that's why this prudence case -- this
19 prudence issue in this case is so important to the company
20 and its investors, who will be called upon in the future to
21 put up additional funds for future projects will need --
22 that will need to be constructed to serve customers.

23 While the revenue requirement impact of a
24 prudence disallowance related to rate base is only about 15
25 percent of the disallowance, these adjustments are very,

1 very serious adjustments because of the requirement to
2 write off the books the full amount of that disallowance.

3 On this -- in this proceeding, the Staff
4 engineers, Mr. David Elliott and Mr. Shawn Lange have had a
5 major role in the Staff's construction audit and prudence
6 review of Iatan 2. In fact, Mr. Elliott and Mr. Lange have
7 made 20 visits to the Iatan site and spent about 20 days
8 poring over the change orders and other documentation that
9 identifies and explains the cost increases at Iatan.

10 Mr. Elliott has 17 years of experience
11 conducting construction audits at power plants for the
12 Missouri Public Service Commission. Based on the
13 depositions that we took in this case, it appears that
14 Mr. Elliott has more experience conducting construction
15 audits than any other engineer on the staff.

16 For example, Mr. Elliott in the past has
17 conducted the construction audit at the following plants:
18 The AmerenUE Meramec combustion turbine project back in May
19 of 2000; the Empire State Line combined cycle unit; the
20 Empire Energy Center units, both 3 and 4; KCPL's West
21 Gardner project, which are four gas turbines near Gardner,
22 Kansas; the KCPL Osawatomie project, which includes 77
23 megawatts of gas turbines near Paola, Kansas; Hawthorn 6;
24 Hawthorn 7; Hawthorn 8; Hawthorn 9; KCPL's Spearville wind
25 Farm, the 67 wind units that were originally put in at

1 Spearville; the Hawthorn 5 rebuild; and then, more
2 recently, the La Cygne SCR project, and then in this case,
3 Iatan 1's SCR and Iatan 2 super-critical coal-fired plant.
4 And it's possible I missed some.

5 In this case, Mr. Elliott has testified that
6 he used the same approach in the construction audit in this
7 case that he used in all of his previous construction
8 audits and prudence reviews.

9 The engineering staff requested from KCPL
10 copies of approved change orders with a value change of
11 \$50,000 or more. As of September 20, 2010, the engineering
12 staff had received from KCPL copies of 647 change orders
13 dated through July 2010 having associated cost change
14 values of \$50,000 or more.

15 Mr. Elliott and Mr. Lange did an initial
16 review of 647 change orders, and comprehensively reviewed
17 222 change orders. These 222 change orders represented
18 about 90 percent of the cost increases on the Iatan
19 project.

20 The change orders included the amount of the
21 cost increase or the cost decrease due to the change, and
22 the reason for the change. They identify and explain the
23 cost changes during the construction project. And as we'll
24 see from Mr. Elliott's work papers during the hearing,
25 Mr. Elliott was able to quantify the cost increases or

1 decreases and review the reasons for the changes.

2 As he explained in his deposition, his
3 professional background and experience as an engineer were
4 helpful in his work to analyze, quantify and explain those
5 cost changes and variances on the Iatan project.

6 The engineering staff discussed each of
7 those 222 change orders with KCPL's construction project
8 personnel to understand the reasons for the individual
9 change orders. In addition, the engineering staff reviewed
10 the contractor and vendor contracts, the purchase orders,
11 the drawings and the correspondence related to those change
12 orders.

13 According to his own estimate, Mr. Elliott
14 spent approximately 15 to 20 days reviewing and analyzing
15 these documents. He then classified the change orders into
16 categories based upon the specific reasons for the change
17 orders, as he's done in his previous audits.

18 Type 1 changes included change orders
19 associated with final design changes or final engineering
20 changes. Thirty-six of the 222 change orders fell into
21 this Type 1 category. According to Mr. Elliott, these
22 types of changes have been allowed in rates in past
23 construction audits.

24 The Type 2 changes that he looked at were
25 changes made by the company for more efficient or safer

1 operations and/or maintenance at the site. There were 35
2 of these that were related to this category. And they
3 also, according to Mr. Elliott, have been approved in rates
4 in previous audits.

5 The Type 3 change orders were for design
6 change orders. These were made due to final design
7 decisions left to be worked out during the actual
8 construction and design changes made in the field.
9 Sixty-six of the 222 change orders were into this category.
10 And according to Mr. Elliott, these types of changes have
11 also been allowed in rates in past construction audits.

12 The Type 4 change orders were made due to
13 unperceived problems or obstacles encountered during the
14 construction. Forty-four of the 222 change orders fell
15 into this category. And like the others, these types of
16 cost variances have been allowed in rates in previous
17 cases.

18 Type 5 related to changes associated with
19 contracts that were written such that the final cost would
20 be determined at a later date. Thirty-eight of the 222
21 change orders that they comprehensively reviewed fell into
22 that Category 5. Mr. Elliott found no reason why any of
23 these changes should be disallowed from rates in this case.

24 There were three Type 6 change orders
25 associated with time and material contracts that were

1 converted into a fixed-price contract during the project.
2 Again, Mr. Elliott found no reason to disallow these types
3 of cost changes.

4 So in the aggregate, Mr. Elliott, Mr. Lange
5 reviewed the 222 change orders in depth that represented
6 about \$151 million of increased costs, or about 90 percent
7 of the increased costs on Iatan 2 as of June 30, 2010.

8 Now, in his deposition, Mr. Elliott
9 testified that if he had followed the same approach in this
10 case as he did in every other construction audit and
11 prudence review, he would have recommended that the Type 1
12 through 6 change orders would be allowed to be recovered in
13 rates.

14 In his section of the November 3rd, 2010
15 construction audit and prudence review report, Mr. Elliott
16 stated -- and I've got it on the screen here -- Based on
17 its engineering review of KCPL's change orders, engineering
18 staff found no engineering concerns with any of the Iatan 2
19 or Iatan common plant change orders reviewed.

20 And he made a similar statement related to
21 the engineering findings, that they found no engineering
22 concerns with any of the Iatan 1 change orders reviewed.

23 In past construction audits, according to
24 Mr. Elliott's testimony in the depositions, the Staff has
25 recommended full inclusion of the construction costs when

1 the engineering staff found no engineering issues. In past
2 cases, this was true even if the costs had increased above
3 the initial estimate of the construction costs.

4 But in this case, the rate case auditors did
5 not ask for Mr. Elliott's recommendation on the Iatan
6 disallowances. According to the testimony of Mr. Hyneman,
7 he did not consult with the engineering staff with regard
8 to the development of Staff's proposed disallowances of
9 Iatan 1 and Iatan 2 in this case.

10 Mr. Elliott also confirmed that he was not
11 asked if he believed the Staff's proposed disallowances in
12 this case were reasonable or consistent with the positions
13 taken by the Staff in previous cases.

14 In his deposition, Mr. Elliott could not
15 recall attending any of the Staff meetings where the
16 Staff's proposed Iatan disallowances were discussed.

17 Until the Iatan construction audit and
18 prudence review, the engineering staff had the lead role in
19 construction audits. But the policy that had been used in
20 other construction audits in which Mr. Elliott had
21 participated was not followed in this case.

22 Instead, the director of Utility Services
23 Division, which includes the accountants, assumed the
24 coordinator role for the construction audit and prudence
25 review.

1 Staff auditors Mr. Chuck Hyneman and
2 Mr. Keith Majors developed and sponsored the primary
3 disallowances related to the Iatan project in this case.
4 This is the first construction audit and prudence review
5 that they've personally conducted.

6 They have asserted that about 37 million of
7 the \$1.9 billion investments at Iatan 2, or about 2 percent
8 of the total cost, are imprudent, unreasonable or
9 unnecessary to serve ratepayers.

10 Now, a list of the Staff's adjustments can
11 be found -- if you're interested in the details -- on
12 schedule 1-1 to the Staff's November 3rd audit report. And
13 the company will adamantly oppose in these hearings those
14 adjustments in this proceeding.

15 The Staff auditors have recommended a series
16 of proposed disallowances that are each worth \$1 million or
17 less for Iatan 2. In some cases, the -- there are similar
18 adjustments for Iatan 1, as well.

19 The Staff has recommended disallowances in
20 the following categories that are less than \$3 million in
21 the aggregate for Iatan 2. That includes inappropriate
22 charges which relate to officer expense accounts, severance
23 cost adjustments, and JLG accident adjustment, affiliate
24 transaction transfer of some assets from Great Plains to
25 the Iatan project, the Cushman project management rate

1 adjustment, and two adjustments related to Pullman -- a
2 Pullman performance bond and a Pullman second shift.

3 Now, there are some larger proposed
4 adjustments, which, as I understand it, the Staff also
5 contends are imprudent, unreasonable or unnecessary
6 expenditures.

7 Two of those adjustments -- the temporary
8 auxiliary electric boiler and the Alstom WSI welding
9 service adjustment -- were the prudence adjustments adopted
10 by the Kansas Corporation Commission in its recent order in
11 the Kansas City Power and Light Kansas rate case.

12 These adjustments were also recommended by
13 Dr. Kris Nielsen, an independent auditor that was hired by
14 the company in this case.

15 These adjustments total approximately \$20.5
16 million. Now, the company will continue to suggest that
17 these adjustments are not appropriate.

18 The next largest adjustment relates to
19 hourly rates and expenses of Shiff Hardin of the
20 Specialized Construction Law Firm that was hired by KCPL to
21 assist it with contract negotiation, cost control and
22 dispute resolution on-site at the Iatan project. These
23 adjustments total approximately \$10 million for both Iatan
24 1 and Iatan 2.

25 The company believes that these adjustments

1 are inappropriate because the evidence will show that these
2 charges were prudent and necessary to the proper management
3 of the construction project.

4 The evidence will show that the specialized
5 law firm's hourly rates and expenses are competitive with
6 the rates charged by other law firms in this specialized
7 field.

8 There are also some miscellaneous
9 adjustments in the 1 to \$3 million range related to campus
10 relocation costs, a construction resurfacing project and a
11 couple of other matters.

12 In total, all of the Staff's specific
13 disallowances for Iatan 2, based upon specific allegations
14 of imprudence, unreasonableness or a lack of benefit to
15 ratepayers total 37 million out of the \$1.9 billion cost of
16 Iatan 2.

17 Now, if we look at Iatan 1 for just a
18 second, the largest adjustment for the Iatan 1 unit that
19 relates to an Alstom Unit 1 settlement agreement. In fact,
20 this adjustment represents nearly two-thirds of the total
21 disallowances proposed by Staff for Iatan 1.

22 As Mr. Bill Downey will testify, this Alstom
23 Unit 1 settlement was an important global resolution of
24 virtually all of the outstanding issues that had arisen at
25 the Iatan Unit 1 project.

1 Staff proposes to disallow -- a disallowance
2 of the amount that KCPL paid to Alstom to settle those
3 claims related to Iatan 1. And then there's a second
4 disallowance for the amount of the liquidated -- liquidated
5 damages that the Staff suggests -- or estimates that could
6 have been collected from Alstom had the company not entered
7 into the settlement agreement.

8 The actual amounts of the adjustments are
9 considered confidential, but if you want to look at them,
10 they're in the audit report. They're Schedule 1-1. And
11 they're also included in the course of the testimony.

12 As explained in the Staff's audit, this
13 settlement was paid in the face of billions of dollars of
14 potential claims from Alstom. Staff's position on why the
15 disallowance should be adopted is unclear.

16 In its surrebuttal testimony, Staff witness
17 Hyneman states -- and I'll just quote it -- "Staff does not
18 characterize KCPL's decision to enter into a settlement
19 agreement with Alstom as imprudent."

20 However, KCPL's decision to include the cost
21 of the settlement as a cost to the plant, according to
22 Staff, is not reasonable, just or appropriate. So it's
23 not -- it wasn't imprudent for them to enter into the
24 settlement, but it is unreasonable to include the cost in
25 the plant cost.

1 As explained by company witnesses Downey and
2 Roberts, the settlement reflects a mediated agreement to
3 resolve the Alstom claims and was a prudent settlement
4 under the circumstances at the time.

5 Staff proposes a disallowance of another
6 amount of the foregone liquidated damages, but Staff never
7 provides testimony that KCPL would have been entitled to
8 recover those liquidated damages.

9 whenever I look at the testimony, it appears
10 that Staff seems to be relying on internal KCPL documents
11 estimating that KCPL might have been entitled to liquidated
12 damages if Alstom had continued to fall behind schedule.

13 But there's no evidence provided by Staff
14 that Alstom continued to fall behind schedule to justify
15 that disallowance. And, in fact, Alstom did not continue
16 to fall behind schedule, in part, due to the fact that they
17 entered into a settlement with KCPL.

18 KCPL will present numerous witnesses,
19 including Mr. Downey, Mr. Blanc, Mr. Giles, Mr. Roberts,
20 Mr. Davis and Mr. Bell to show that these specific
21 allegations of imprudence raised by Staff or other parties
22 are incorrect.

23 In addition to the \$37 million of specific
24 disallowances, Staff has raised another totally
25 unprecedented disallowance related to all other costs that

1 exceeded the original control budget estimate when the
2 project was 20 to 25 percent engineered.

3 Staff's justification for its position, as I
4 understand it, is that there was never -- there's never
5 been a public utility that entered into a regulatory plan
6 that required the development of a cost control system that
7 identifies and explains the cost overruns above a
8 definitive estimate. Therefore, no other public utility
9 has had to face this type of an adjustment.

10 Staff is arguing that any cost above the
11 original definitive estimate should be disallowed because,
12 in their opinion, KCPL has failed to meet one of its
13 commitments in the regulatory plan.

14 As of June 30, 2010, these costs are \$130
15 million for Iatan 2. But by the end of the true-up, the
16 Staff's proposed plug disallowance will grow as additional
17 costs are included in the Staff's construction audit.

18 If Staff's approach to the cost overrun
19 issue were adopted for all the costs that exceeded the
20 control budget estimate of 1.685 billion, then the total
21 Staff disallowance for this unexplained cost overrun issue
22 could eventually approach 200 to \$250 million.

23 The regulatory plan has this sentence in it:
24 KCPL must develop and have a cost control system in place
25 that identifies and explains any cost overruns above the

1 definitive estimate during the construction period of the
2 Iatan 2 project, the wind generation projects, and the
3 environmental investments.

4 This is the sentence that's the basis for
5 staff's unidentified, unexplained cost overrun adjustment.

6 while this commitment is only one sentence,
7 KCPL has taken this commitment very seriously, not only to
8 meet its regulatory commitments, but, much more
9 importantly, to help it prudently control its costs of
10 construction as the mega project progressed through the
11 years.

12 KCPL relied heavily upon its cost control
13 system to understand and prudently manage the project on a
14 day-to-day basis. It was critical to this management
15 process, and it was one of the reasons that the company was
16 able to successfully complete the plant within 15.6 percent
17 of the original control budget estimate.

18 KCPL believes it has met its commitment in
19 this stipulation. And we've got the witnesses,
20 Mr. Archibald, Ken Roberts and Dan Meyer, who are here to
21 address the company's cost control system in depth.

22 In fact, Mr. Meyer, who -- who is an outside
23 consultant with more than 40 years' construction experience
24 in this business, he testifies that KCPL's cost control
25 system is in the top quartile in the industry.

1 And I'd like to show you just a brief
2 illustration of the components of it. As explained by
3 these witnesses, KCPL's cost control system is a robust
4 tracking system that documents all variances -- both the
5 increases and the decreases -- from the control budget
6 estimate for both Iatan 1 and Iatan 2.

7 It was developed in July 2006, and provided
8 to the Staff and other signatory parties to the regulatory
9 plan stipulation at that time.

10 The overall system is based on a cost
11 portfolio which includes all information needed for cost,
12 cash flow and change order tracking and management.

13 The cost report summation, or what's called
14 the K Report, has been submitted to the Staff and the other
15 signatory parties to the regulatory plan stipulation
16 beginning in 2006.

17 There are three processes that explain,
18 justify and document the cost variances to the control
19 budget estimate. And each of those processes is important
20 in understanding, identifying and explaining the variances
21 at the Iatan project.

22 First, there are recommendations to award
23 letters which explain why a contract was awarded for a
24 specific amount that exceeded the control budget estimate.

25 Second, there are estimates to complete,

1 which identified and explained the reasons for cost
2 variances. The control budget itself never changed; only
3 the current budget estimate changed in the reforecast
4 process.

5 The components included what are called risk
6 and opportunity analysis sheets and cost project folders,
7 which contain detail related to changes to the control
8 budget estimate.

9 These were part of the cost reforecast that
10 occurred in 2008, and later in the project as it neared
11 completion.

12 Finally, there are change orders and
13 purchase orders that document the specific justification
14 and corresponding documentation for each change in the
15 control budget estimate.

16 These are the 645 change orders over \$50,000
17 that were reviewed and provided to Mr. Elliott, and which
18 he spent days reviewing and understanding before he
19 concluded that there are no engineering issues that need to
20 be addressed in this case.

21 Dr. Kris Nielsen, the company's independent
22 auditor, and the Missouri Retailers Association witness
23 Mr. Walter Drabinski also used KCPL's cost control system
24 to review the cost overruns at the Iatan project.

25 Commissioners, I would strongly urge you, if

1 you have any questions at all about the ability of this
2 cost control system to track and explain cost increases out
3 at Iatan, please ask the experts about that cost control
4 system -- Mr. Meyer, Mr. Archibald. And Mr. Nielsen has
5 looked at it. All of these folks are able to answer your
6 questions, and I would urge you to do that.

7 The staff was provided the company's cost
8 control system in July 2006. And KCPL's personnel have
9 been going over those cost control reports at every
10 quarterly meeting of the 24 quarterly CEP status meetings.

11 In addition, Mr. Archibald lists in his
12 testimony another 24 meetings in which he discussed the
13 cost control system, the K Report, the change orders, the
14 purchase orders, and the other cost-related documents with
15 the staff.

16 And Judge, at this time, I'd like to have
17 a -- an exhibit marked. It just lists the meetings with
18 the staff regarding the KCPL cost control system.

19 JUDGE PRIDGIN: Mr. Fischer, I hate to
20 interrupt. Has this been included in the exhibit list
21 that's been e-mailed?

22 MR. FISCHER: The list of the meetings are
23 listed in Archibald's testimony. This is a slightly
24 different format, just to make it easier to read. But it's
25 not -- it's not an exhibit already in this document form.

1 JUDGE PRIDGIN: Thank you.

2 MR. FISCHER: We do have an exhibit list,
3 Judge. At the end, we can add it to the back of it, if
4 you'd like.

5 JUDGE PRIDGIN: That's fine. Thank you.

6 MR. WILLIAMS: Do we have an exhibit number,
7 then?

8 MR. FISCHER: We have 65 other exhibits.
9 Could we mark it KCPL Exhibit 66?

10 JUDGE PRIDGIN: Certainly.

11 (WHEREIN, KCPL Exhibit No. 66 was marked for
12 identification.)

13 MR. FISCHER: As you'll see, it just lists
14 the different meetings and the dates that we had meetings
15 on the cost control system.

16 It was only recently when the Staff filed
17 its November 3rd, 2010 audit report that the company
18 learned that the Staff intended to disallow every cost that
19 exceeded the company's control budget estimate that was
20 developed when the project was 20 to 25 percent engineered.

21 As I mentioned, Staff has not cited any
22 precedent for this adjustment. If the company had adopted
23 this approach -- sorry -- if the Commission had adopted
24 this approach in the Wolf Creek rate case, then the
25 Commission would have disallowed a full \$2 billion from the

1 \$3 billion final cost of the plant merely because the plant
2 exceeded its original budget by \$2 billion.

3 In the wolf creek case, the Commission
4 disallowed about \$200 million of investments that it found
5 to be imprudent based upon an engineering analysis similar
6 to Mr. Elliott's review.

7 In the wolf creek case, an -- a staff
8 engineer named John Rankin was the principal staff witness
9 who completed the construction audit and prudence review
10 and sponsored the prudence adjustments related to the
11 plant. In that case, the wolf creek plant was two years
12 behind schedule and \$2 billion over budget.

13 In this case, the Staff auditors are
14 recommending a disallowance that will approach or possibly
15 exceed the level disallowed in the wolf creek case of \$200
16 million, even though the Iatan 2 plant was within 15.6
17 percent of the original control budget estimate when it was
18 20 to 25 percent engineered, and it was completed less than
19 three months later than the targeted in-service date
20 projected five years ago.

21 KCPL does not believe the Staff has raised a
22 serious doubt about the prudence of the expenditure that
23 exceeded the definitive estimate. However, we're going to
24 present ten witnesses in this proceeding who will address
25 at length the issues related to the Iatan 2 construction

1 project and the legal standards that should be used to
2 judge the prudence issues.

3 These witnesses will testify regarding the
4 history of the project, the processes that were ensured,
5 that we had timely procurement of major equipment and
6 services, the extensive cost controls and management
7 processes that were in place to control construction costs,
8 and the efforts to resolve disputes on-site that occurred
9 throughout the project.

10 we've briefly summarized our testimony in
11 KCPL's position statements, at Pages 8 through 12, if you
12 want to get a synopsis.

13 I should also, I think, briefly mention the
14 Missouri Retailers Association. They are sponsoring the
15 testimony of Mr. Walter Drabinski, an outside consultant
16 who was originally hired by the Kansas Corporation
17 Commission Staff in KCPL's last Kansas rate case.

18 The KCC itself found Mr. Drabinski's
19 position lacked credibility, and the Kansas Commission
20 rejected his recommendations. KCPL witnesses, however,
21 will fully address his claims in this case.

22 But in the interest of brevity, I'd like to
23 just quote a portion of the KCC's decision, which is found
24 on Page 27 of its November 22nd, 2010 order. And I'll just
25 quote it.

1 Therefore, we more specifically find that:
2 (A) Mr. Drabinski applied an erroneous standard for
3 prudence review in part because of his holistic approach he
4 used; (B), Mr. Drabinski finds imprudence as a consequence
5 of the results attained, rather than evaluating decisions
6 and the decision-making process, connecting the
7 allegations, and then quantifying the impact; (C),
8 Mr. Drabinski improperly employed hindsight rather than
9 evaluating management decisions at the time; (D),
10 Mr. Drabinski's use of internal audits to criticize KCPL's
11 decisions ignores the fact that the processes of conducting
12 ongoing internal audits during a complex construction
13 project is considered a part of the prudent management and
14 decision-making process, unquote.

15 In conclusion -- I've been here a while; I
16 appreciate your time -- KCPL believes that the evidence
17 will show that KCPL has prudently managed the construction
18 associated with the Iatan projects, and respectfully
19 requests that the Commission reject any prudence
20 disallowances being proposed by the Staff or other parties.

21 Now, while I spent a lot of time on the
22 Iatan project, because it's a very important issue, there
23 are some traditional issues that are also very important,
24 and I just want to touch briefly on.

25 In KCPL's last two litigated rate cases, the

1 Commission has relied upon Dr. Sam Hadaway's testimony for
2 developing its final rate of return determination in the
3 cases.

4 In both cases, the Commission found
5 Dr. Hadaway's credentials were impeccable. And in the last
6 litigated case, in 2007, the order indicates that the
7 Commission noted that the Commission finds Dr. Hadaway's
8 testimony the most persuasive.

9 In this case, KCPL will again be presenting
10 Dr. Hadaway for your consideration. In his updated
11 analysis, Dr. Hadaway is recommending an ROE in the range
12 of 10.2 percent to 10.8 percent based upon the most recent
13 market data.

14 Based upon Dr. Hadaway's updated analysis,
15 Kansas City Power and Light Company has reduced its ROE
16 request in this case from 11.0 to 10.75 percent.

17 KCPL continues to request, however, that a
18 return on equity commiserate with the top end of
19 Dr. Hadaway's range to reflect the reliability and the
20 customer satisfaction achievements of the company.

21 KCPL's transmission and distribution systems
22 continue to perform at Tier 1 reliability levels. In
23 addition, the PA Consulting Group awarded KCPL the
24 Reliability 1, Best Performer Award for the Plains Region
25 for the fourth consecutive year, in 2010, as well as the

1 national reliability excellence award back in 2007.

2 In addition, KCPL is ranked number one --
3 or, at least, one of the highest-rated electricity
4 utilities -- in customer satisfaction, according to the JD
5 Power Associates. And in 2010, JD Power recognized the
6 company as number one in customer satisfaction among
7 business customers in the Midwest large electric utilities.

8 Now, based on these results, we're asking
9 that the Commission look at the higher end of Dr. Hadaway's
10 range.

11 For the fourth year -- or for the fourth
12 KCPL rate case in a row, Staff's ROE recommendation is the
13 lowest ROE recommendation in the record. Staff's ROE range
14 is 8.5 percent to 9.5 percent, which is significantly lower
15 than the ROEs other public utility commissions are awarding
16 elsewhere in the country.

17 As noted in the Staff's own cost of service
18 report, the ROE for electric utility companies for the
19 first three quarters of 2010 was 10.35 percent.

20 Now, the testimony in this case indicates
21 that in past cases for KCPL and other public utilities in
22 Missouri, Staff's cost of capital witnesses have made ROE
23 recommendations below the recommendations of Public Counsel
24 and the Industrial Intervenor witnesses.

25 In this case, Public Counsel has not filed

1 any cost of capital witness testimony. However, the
2 industrials have filed the testimony of Mr. Gorman, which
3 initially recommended an ROE of 9.65 percent. As I
4 understand his testimony, though, he's now recommending an
5 ROE of 9.5 percent based upon his updated testimony in the
6 GMO case.

7 This recommendation continues to be below
8 what the evidence will show is the current cost of that
9 capital.

10 we would respectfully request that the
11 Commission authorize a reasonable rate of return to allow
12 the company to continue to be investment-grade rated and
13 attract capital at reasonable costs.

14 with regard to the off-system sales margin
15 issue, KCPL is advocating the continued use in this case of
16 the methodology that's been adopted by the Commission for
17 off-system sales in the past three KCPL rate cases.

18 KCPL proposes to establish the off-system
19 sales contribution margin at the 25th percentile of Michael
20 Schnitzer's probabilistic analysis for the period April 1st
21 of last year through March 31 of this year with the
22 tracking mechanism that has previously been adopted by this
23 Commission.

24 As we've discussed in the last KCPL rate
25 case, this approach to the off-system sales issue has

1 proven to be critically important because this market is so
2 incredibly volatile. Due to factors beyond the control of
3 the company -- principally the price of natural gas and the
4 prices of wholesale power -- KCPL has not always been able
5 to realize even the 25th percentile level of the margins.

6 Although the company believes there are good
7 reasons why utility shareholders and the customers should
8 share off-system sales margins, the company has not
9 requested a sharing mechanism in this case. In reality,
10 KCPL currently returns more than 100 percent of its
11 off-system sales margins to its customers, because the
12 Kansas Commission and the Missouri Commission use different
13 allocation methodologies for determining what portion of
14 the off-system sales margins go back to customers. Excuse
15 me.

16 In this case, the Industrial Intervenors
17 have proposed to increase the level of the margins, for
18 which KCPL's entirely at risk, to the 40th percentile
19 level.

20 Now, Staff, in their rebuttal testimony, has
21 changed their position and adopted the approach that's
22 being suggested by the Industrials. But from our
23 perspective, there's no sound basis for this change of
24 policy from the approach that's been used in previous KCPL
25 cases.

1 KCPL will continue to give back all of its
2 off-system sales margins to its customers under either
3 approach being advocated in the case. However, the issues
4 is, how much of KCPL's authorized revenue requirements
5 should be placed at risk?

6 The Commission in the past has struck the
7 right balance and recognized how volatile this market is,
8 and we've given back all the off-system sales margins. And
9 we encourage you to continue to stay the course in this
10 proceeding.

11 Finally, there's a transition -- a merger
12 transition cost issue in the case. This is related to the
13 merger transition cost of the acquisition of Aquila, Inc.

14 On this issue, the Staff again is seeking to
15 rewrite the Commission's merger order. On Page 241 of the
16 Commission's report and order in Case EM-2008-0374, the
17 Commission stated -- and I've got it on the board -- "The
18 Commission will authorize KCPL and Aquila to defer
19 transition costs to be amortized over five years."

20 However, in this case, the Staff is opposed
21 to the continuation of the amortization to allow the
22 company to recover the deferred transition costs that the
23 Commission authorized there.

24 This position is inconsistent with the
25 company's previous merger order, and we believe should be

1 rejected. It would send the wrong signal for the
2 Commission to adopt the Staff's position, when it's already
3 ruled in the merger proceeding, that the transition costs
4 should be deferred and amortized over five years and
5 recovered.

6 The big picture is also something I'd like
7 to look at. Boy, you can't see that very well.

8 Let me hand out an exhibit.

9 MR. FISCHER: Judge, could I have this
10 marked as Exhibit 67 -- KCPL Exhibit 67?

11 JUDGE PRIDGIN: Yes, sir. I'm sorry. Yes,
12 sir.

13 (WHEREIN, KCPL Exhibit No. 67 was marked for
14 identification.)

15 MR. WOODSMALL: Your Honor, may I ask a
16 question about this? Is this meant to be evidence, or is
17 this just purely illustrative? We're in opening statements
18 right now.

19 MR. FISCHER: This is illustrative, as far
20 as I'm concerned, but you're certainly welcome to ask our
21 witnesses anything you'd like about it.

22 MR. WOODSMALL: Okay. So it's not in the
23 record?

24 MR. FISCHER: It's not in the record. All
25 the pieces are, but it's all combined here. It basically

1 pulls together the Staff filings and the company.

2 MR. WOODSMALL: Just solely -- as long as we
3 know it's not -- it's an illustration, it's not evidence,
4 so it's not going to be offered, I guess, then.

5 MR. FISCHER: As I mentioned earlier, the
6 company's original request in its tariff filing was for a
7 \$92 million rate increase. The reconciliation that was
8 filed last week, I believe, indicates that KCPL's position
9 is now an \$87.4 million increase.

10 According to the reconciliation that was
11 filed last week, Staff's current revenue requirement
12 recommendation is approximately \$1.2 million, and I believe
13 that's based on their midpoint.

14 In its original direct case filing that the
15 Staff made just two months ago, November 10th, 2010, the
16 Staff was recommending an increase in the range of \$150,000
17 to 14 million. This recommendation included a \$65 million
18 allowance for known and measurable changes for the impact
19 of the true-up proceeding.

20 According to Mr. Featherstone's direct
21 testimony at Page 6 -- and I'll just quote it -- Because of
22 the significant cost increases related to the plant
23 additions and substantial fuel cost increases, resulting
24 primarily from a new freight contract that goes into effect
25 on January 1, 2011, Staff has included estimates for them

1 in its direct case, unquote.

2 The \$65 million allowance for known and
3 measurable changes included in the Staff's filing is,
4 according to Mr. Featherstone, what -- and I'll quote
5 again -- what Staff believes will be the results of its
6 true-up of KCPL's revenue requirement through the period
7 ending December 31, 2010. That's found on Page 6 of his
8 direct.

9 In Staff's updated accounting schedules,
10 which -- where it's showing that their position is a \$1.2
11 million revenue requirement, Staff has not included in the
12 revised schedules any allowance for the impact of the
13 true-up proceeding.

14 Now, as you'll see, there are approximately
15 \$86 million of issues between the Staff and the company
16 reflected in the reconciliation. The ROE issue is worth
17 about thirty-two and a half million. The off-system sales
18 issue is about 18.3. The Iatan project disallowances that
19 I spent so much time about, those are 11.4 million. The
20 Iatan regulatory assets are 3.1 million. The merger
21 transition costs are three and a half million.

22 Those major issues total about \$69.2
23 million. And then there's about \$17 million worth of
24 miscellaneous issues, to get to a total difference between
25 the cases of about 86 million.

1 Now, if, hypothetically, the Commission
2 authorizes a 10.5 ROE, then approximately \$24.4 million
3 would be added to the Staff's case.

4 If the Commission continues its policy
5 regarding off-system sales that it's used in the previous
6 three KCPL rate cases since the beginning of the regulatory
7 plan, then Staff's revenue requirement would be increased
8 by another 18.3 million.

9 If the Commission reaffirms its previous
10 position on the recovery of merger transition costs, then
11 the Staff's revenue requirement would increase by
12 approximately 4 million.

13 So if the Commission authorizes a 10.5 ROE,
14 maintains its traditional position on off-system sales, and
15 reaffirms its ruling on merger transition costs, then
16 Staff's case will be nearly \$50 million before you even
17 look at the Iatan disallowances or consider any of the
18 impacts of the true-up.

19 Thank you very much for your attention
20 today. I know I've gone on longer than I should, but I
21 appreciate your time and your attention. If you have
22 questions, I'd be happy to answer them. But certainly my
23 witnesses are available very shortly to answer all your
24 questions. Thank you very much.

25 JUDGE PRIDGIN: Mr. Fischer, I believe the

1 chairman has a question.

2 MR. FISCHER: Yes, sir.

3 COMMISSIONER CLAYTON: Mr. Fischer, I just
4 have a couple of very basic questions. There are a lot of
5 numbers you've thrown around, and we can talk total figures
6 for Iatan 2 construction costs.

7 But basically, we're talking about Missouri
8 jurisdictional, KCP&L, GMO figures. And if I look at the
9 document you just gave us, these are specific to the two
10 entities serving in Missouri. Correct?

11 MR. FISCHER: This is specific to KCPL only.

12 COMMISSIONER CLAYTON: Only KCP&L, not GMO?

13 MR. FISCHER: Yes. This just relates to the
14 355 case.

15 COMMISSIONER CLAYTON: Okay. Can you give
16 me an idea of the Missouri jurisdictional share of the
17 total cost of Iatan 2? Is it a 55/45?

18 MR. FISCHER: I think it's about 1.1
19 billion, isn't it, for Missouri?

20 COMMISSIONER CLAYTON: But the percentage
21 breakdown is about 55/45, as I recall?

22 MR. FISCHER: Between Missouri and Kansas --

23 COMMISSIONER CLAYTON: Yes.

24 MR. FISCHER: Is that what you're asking?

25 I'm sorry.

1 COMMISSIONER CLAYTON: Yes.

2 MR. FISCHER: Yes.

3 COMMISSIONER CLAYTON: And then of that
4 55/45 share, what is KCP&L proper's share of that 55
5 percent? Is it, like, around 78 percent? 75 percent?

6 MR. FISCHER: well, 55 percent is the
7 share -- Missouri's share of KCPL itself. So the other 45
8 is Kansas.

9 Now, are you asking how much of Iatan 2 is
10 related to Missouri?

11 COMMISSIONER CLAYTON: I'm trying to get an
12 idea of the breakdown in -- between KCP&L and GMO of the
13 total cost of the project. There's an Empire piece,
14 there's a GMO piece, there's a KCP&L piece.

15 MR. FISCHER: I'm not so good with numbers.
16 The 55 percent is KCPL, 18 percent of Iatan is GMO. Is
17 that's your --

18 COMMISSIONER CLAYTON: That's good. If you
19 don't know the answer, tell me you don't know the answer.

20 MR. FISCHER: Probably a good chance.

21 COMMISSIONER CLAYTON: If we had not had the
22 comprehensive energy plan and the additional amortizations
23 that were made part of prior cases, using KCP&L's case, how
24 much greater would the rate increase request be here today?

25 MR. FISCHER: I would ask you to ask

1 probably Tim Rush that question. The amortizations were
2 earlier in the case -- 132 million. I think they've
3 increased now. I don't know what the revenue impact would
4 be on the revenue requirement. Obviously, that's a
5 substantial reduction from what it would have been had that
6 regulatory amortization not been --

7 COMMISSIONER CLAYTON: So you throw out that
8 130 million. Then it has to be reduced down to an
9 annualized amount and a reduction in plant services?
10 Right?

11 MR. FISCHER: Right. Yeah, it gets
12 complicated. The 132 was the -- earlier in the case, was
13 the amortization total that had been aggregated. But I'd
14 ask you to ask my experts the question about --

15 COMMISSIONER CLAYTON: I'll ask Mr. Rush
16 that question.

17 My last question is: Can you tell me
18 whether KCP&L believes the comprehensive energy plan and
19 the process that's gone with it has been a success or a
20 failure?

21 MR. FISCHER: I believe that the company
22 witnesses would say it was successful. We got these plants
23 done. We've made the commitments that we -- we
24 accomplished the commitments that we did. And we have
25 appreciated very much the support of the Commission in this

1 process.

2 It's been a long journey and it's been a
3 success. We got the plant done, and its 15 percent cost
4 overrun within three months of being -- of the targeted
5 date, we think that's a complete success on Iatan 2. We've
6 got the wind, we've got the environmental upgrades that
7 have occurred.

8 It's -- did what it was supposed to do. And
9 sometimes it's been a rocky road along the way, but we got
10 there, and we appreciate the support of the Commission and
11 other parties along the way.

12 Thank you.

13 JUDGE PRIDGIN: Mr. Fischer, thank you.

14 Mr. Williams?

15 MR. WILLIAMS: May it please the Commission.

16 My name is Nathan Williams, and I, along with Kevin
17 Thompson, Steve Dottheim, Annette Slack, Jennifer
18 Hernandez, Sarah Kliethermes, Jamie Ott, Eric Dearmont and
19 Meghan McClowery are representing the staff of the
20 Commission in these cases.

21 The staff plans to make -- issue specific
22 opening statements immediately preceding each issue as it
23 is heard. Therefore, my opening remarks here are limited
24 to providing an overview of the cases before you, in
25 particular the issues that you're going to hear over the

1 next three weeks, and to highlight certain aspects of the
2 cases that the Staff believes the Commission should be
3 aware of from the outset of these proceedings.

4 I'd note to you that there are ongoing
5 discussions regarding settlement of some of the issues in
6 these cases. If any agreements are reached, they'll be
7 presented to the Commission for its consideration.

8 These two rate cases started on June 4th,
9 2010, when the two subsidiaries of Great Plains Energy
10 and -- that this Commission regulates, Kansas City Power
11 and Light and KCP&L Greater Missouri Operations Company
12 filed applications seeking general electric rate increases.

13 Kansas City Power and Light Company stated
14 in its application -- that its -- in its application that
15 its increased was designed to recover an additional \$92.1
16 million per year in rate revenues, or a 13.8 percent
17 increase.

18 Kansas City Power and Light Company's
19 request is designated as File Number ER-2010-0355.

20 KCP&L Greater Missouri Operations Company
21 stated in its application -- stated its application was
22 designed to recover an additional \$75.8 million per year in
23 rate revenues from its customers in its Kansas City, or
24 MPS, service territory, a 14.4 percent increase; an
25 additional \$22.1 million per year in rate revenues from its

1 customers at St. Joseph area, or LPS, service territory, a
2 13.9 increase.

3 KCP&L Greater Missouri Operations Company's
4 requests are designated as File Number ER-2010-0356.

5 Based on its midpoint return on equity
6 recommendation of 9.0 percent, and subject to true-up
7 adjustments, Staff is recommending a revenue requirement
8 increase for Kansas City Power and Light Company of
9 \$961,000, a revenue requirement increase for MPS of \$20.2
10 million, and a revenue requirement increase for L&P of
11 \$20.3 million.

12 A major difference in the revenue
13 requirements of Staff and KCP&L Greater Missouri Operations
14 Company for MPS and L&P is due to Staff including a full
15 annual cost of fuel purchase power and off-system sales
16 margins in the revenue requirement, while KCP&L Greater
17 Missouri Operations Company proposes to collect part of
18 those costs and revenues through its fuel adjustment
19 clause.

20 The evidence in these cases will show that
21 Kansas City Power and Light Company serves approximately
22 509,000 customers, of which about 450,000 are residential
23 customers; about 57,000 are commercial customers; and the
24 remaining about 2,000 customers are industrial,
25 municipalities and other utilities.

1 To serve these customers, Kansas City Power
2 and Light Company owns 571 megawatts of nuclear capacity.
3 Including Iatan 2, it owns about 2,774 megawatts of coal
4 capacity. It owns 148 megawatts of wind capacity whenever
5 the additional 48 megawatts is found to be in service. It
6 owns 829 megawatts of natural gas-fired combustion turbine
7 capacity; 302 megawatts of oil-fired combustion turbine
8 capacity. And it also serves its customers with additional
9 purchase power.

10 The evidence in these cases will show KCP&L
11 Greater Missouri Operations Company has approximately
12 312,000 customers, of which about 274,000 are residential
13 customers; about 38,000 are commercial customers; and the
14 remaining about 500 customers are industrial, municipal and
15 other utility customers.

16 To serve these customers, KCP&L Greater
17 Missouri Operations Company owns, including Iatan 2, about
18 2,128 megawatts of generating capacity, of which about
19 1,045 megawatts is coal capacity; 1,100 -- 1,019 megawatts
20 is natural gas-fired combustion turbine capacity; 64
21 megawatts is oil-fired combustion turbine capacity. And it
22 also serves its customers with purchase power.

23 Over this week and the first part of next
24 week, the Commission will hear evidence on the Iatan
25 issues, issues that pertain to both the Kansas -- Kansas

1 City Power and Light Company rate case and the KCP&L
2 Greater Missouri Operations Company rate case.

3 In the following two weeks, the Commission
4 will first hear issues exclusive to Kansas City Power and
5 Light Company, then issues common to both companies.

6 In the fourth scheduled week of hearings,
7 the Commission will hear issues specific to KCP&L Greater
8 Missouri Operations Company.

9 Staff plans to provide an overview of issues
10 specific to KCP&L Greater Missouri Operations Company in an
11 opening statement made at the beginning of that fourth
12 week.

13 The evidence during the first week of these
14 cases will show that Iatan 2 went into service on August
15 26th, 2010. Therefore, for Kansas City Power and Light
16 Company, File Number ER-2010-0355, in the second mandatory
17 rate case and the fourth rate case described in Kansas City
18 Power and Light Company's 2005 experimental alternative
19 regulatory plan the Commission approved in Case Number
20 EO-2005-0329, and a culmination of that plan.

21 while the addition of Iatan 2 is a
22 significant impact on the rates of both companies, the
23 impact on the rates of Kansas City Power and Light Company
24 are lessened by the additional amortizations of its
25 experimental alternative regulatory plan.

1 In terms of the rate impacts of contested
2 issues in the Kansas City Power and Light Company rate
3 case, the disputes between Staff and Kansas City Power and
4 Light Company on the issues of return on equity and
5 off-system sales margins are greater than their disputes on
6 Iatan 2.

7 The evidence will show Staff recommends for
8 these affiliates a return on equity in the range of 8.5 to
9 9.5 percent, and that the company's recommended return on
10 equity of 10.75 percent.

11 Based on its calculations, a difference of 1
12 percent, or 100 basis points, in return on equity has an
13 impact on the revenue requirements of Kansas City Power and
14 Light Company of about \$15 million; for MPS, about \$9
15 million; and for L&P, about \$4 million.

16 On a Missouri jurisdictional basis, the
17 additional amortizations from Kansas City Power and Light
18 Company's experimental alternative regulatory plan have
19 accumulated to over \$169 million. And Staff expects that
20 number to increase to \$188 million by May 20th -- May of
21 this year, when new rates for Kansas City Power and Light
22 Company are expected to take effect.

23 In each of Kansas City Power and Light
24 Company's last three rate cases, to enable Kansas City
25 Power and Light Company to maintain its credit metrics

1 consistent with those of the S&P benchmarks for a BBB-plus
2 credit rating while it built Iatan 2 and made environmental
3 upgrades to Iatan 1, Kansas City Power and Light Company's
4 customers paid more in rates than they would have under
5 traditional ratemaking.

6 As the fourth and last rate case of Kansas
7 City Power and Light Company's regulatory plan, this case
8 is the case where the ratemaking treatment of accumulated
9 additional amortizations is to be decided.

10 It is Staff's position the full amount of
11 the additional amortization should remain in Kansas City
12 Power and Light Company's Iatan 2 depreciation reserve.

13 Doing so will, for Kansas City Power and
14 Light Company's customers, lower the rate base impact of
15 Iatan 2 upon which those customers pay a return and provide
16 a return to Kansas City Power and Light Company of the
17 costs of this plant.

18 Other parties, including the Office of the
19 Public Counsel and some of the Industrial Intervenors, are
20 proposing the accumulated amortization be flowed back to
21 customers over a period of time, between 15 and 20 years.

22 Staff opposes this approach of returning the
23 extra rate revenues customers paid to create the initial
24 amortization because, as the offset to Kansas City Power
25 and Light Company's rate case -- rate base decreases, those

1 customers will pay not only a return of, but also a return
2 on that rate base.

3 The evidence in these cases will include
4 rebuttal testimony of Kansas City Power and Light Company's
5 and KCP&L Greater Missouri Operations Company's expert
6 witness Kris Nielsen, who admits that Kansas City Power and
7 Light Company incurred imprudent expenditures in the
8 construction of Iatan 2.

9 Thus, the contest here is not whether Kansas
10 City Power and Light Company incurred imprudent
11 expenditures -- the company's own witness will testify it
12 did -- but rather upon the level of imprudent expenditures.
13 Staff will present its position regarding Iatan 2 in
14 staff's opening statements for the Iatan 2 issues.

15 while these issues will be addressed again
16 in later opening statements, the Commission should be aware
17 from the outset that despite having an obligation to act in
18 the best interest of KCP&L Greater Missouri Operations
19 Company, personnel of Kansas City Power and Light Company
20 have taken no action to seek a reallocation to KCP&L
21 Greater Missouri Operations Company of a portion of the
22 \$125 million advance coal federal income tax credit Kansas
23 City Power and Light Company sought and received from the
24 Internal Revenue Service.

25 Kansas City Power and Light Company only

1 shared a portion of that \$125 million credit with The
2 Empire District Electric Company in proportion to its
3 ownership interest in Iatan 2 after The Empire District
4 Electric Company challenged Kansas City Power and Light
5 Company in arbitration and won.

6 Further, although Hawthorn 5 is not
7 operating up to specifications to which Kansas City Power
8 and Light Company contracted it was to be built, and Kansas
9 City Power and Light Company has received compensation from
10 the builders and incurs higher operating and maintenance
11 costs than it would if the plant operated to those
12 specifications, not only has Kansas City Power and Light
13 Company not reduced its rate base to reflect the value of
14 the Hawthorn plant as built, it is also refusing to give
15 its rate-paying customers any benefit of the compensation
16 it received from those builders for their failure to meet
17 the design specifications.

18 It is Staff's position that Kansas City
19 Power and Light Company and KCP&L Greater Missouri
20 Operations Company will have already recovered the
21 transition costs associated with Great Plains Energy's
22 acquisition of Aquila on July 14th, 2008, through the
23 retention and merger savings that have not yet been
24 reflected to reduce their cost of service, and which will
25 not be reflected in the rates until rates are set in these

1 cases -- anticipated to be May of this year for Kansas City
2 Power and Light Company and June for KCP&L Greater Missouri
3 Operations Company. Yet both companies are seeking
4 explicit recognition of those costs in an amortization and
5 the recovery.

6 Differences between this Commission and the
7 Kansas Corporation Commission on the allocation of
8 off-system sales margins between the Kansas and Missouri
9 jurisdictions are longstanding. In its first rate cases
10 under its regulatory plans in Missouri and Kansas, Kansas
11 City Power and Light Company proposed the use of what it
12 called an unused energy allocator for the allocation of its
13 off-system sales margins between the two state
14 jurisdictions.

15 This Commission rejected that allocator in
16 favor of an energy allocator. But the Kansas Corporation
17 Commission adopted the unused energy allocator, an
18 allocator which allocates more of the off-system sales
19 margins to the Kansas jurisdiction.

20 In its case before this Commission, rather
21 than the unused energy allocator it used in its companion
22 case before the Kansas Corporation Commission, Kansas City
23 Power and Light Company proposes that a demand allocator be
24 used to allocate off-system sales margins between the
25 Kansas and Missouri jurisdictions, another allocator that

1 would allocate more of the sales margins to the Kansas
2 jurisdiction.

3 It is Staff's position that an energy
4 allocator is the appropriate allocator for allocating
5 off-system sales margins between the Kansas and Missouri
6 jurisdictions, and that if any jurisdiction should change
7 the allocator used for off-system sales margins, it is the
8 Kansas jurisdiction that should do so.

9 Additionally, the evidence in this case will
10 show that with respect to what is described as the KCMO
11 earnings tax issue, Kansas City Power and Light Company
12 argues that if normalized annualized earnings tax expenses
13 included in the income tax calculation, the company is
14 penalized by a reduction of earnings tax associated with
15 several disallowed expenses removed from the cost of
16 service schedules that the company must include on its
17 filed income tax return when the expenses are not allowed
18 in the case.

19 Kansas City Power and Light Company makes
20 this argument, although it does not dispute that the actual
21 earnings taxes it has paid to the City of Kansas City are
22 significantly less than the amounts that are included in
23 its cost of service used for setting rates in its last
24 several rate cases.

25 The purpose of these general rate case

1 proceedings is to determine based on historical cost
2 information the appropriate forward-looking costs upon
3 which to base the utility's rates.

4 This purpose is one of the cornerstones of
5 the Public Service Commission law enacted by emergency
6 legislation in 1913 to protect the public from
7 over-reaching by investor-owned utilities through
8 Commission oversight and substitution with competition.

9 The Staff asks you to keep each of these
10 points in mind as you hear the evidence and deliberate in
11 these cases.

12 JUDGE PRIDGIN: Mr. Williams, thank you.
13 Mr. Chairman?

14 COMMISSIONER CLAYTON: Mr. Williams, I just
15 want to ask you just a few questions. Do you know the
16 answer to the question: If you accept, for just
17 illustrative purposes here, KCP&L's rate increase request,
18 how much greater would that revenue requirement request be
19 if we hadn't had additional amortizations granted in the
20 three previous cases -- or the two previous cases? Do you
21 know?

22 MR. WILLIAMS: I think you should probably
23 ask Cary Featherstone, who is going to be one of the
24 overview witnesses --

25 COMMISSIONER CLAYTON: Got you.

1 MR. WILLIAMS: -- in the case. But I
2 believe it's \$169 million.

3 COMMISSIONER CLAYTON: On an annualized
4 revenue requirement basis?

5 MR. WILLIAMS: That I'm not sure about.

6 COMMISSIONER CLAYTON: All right. From the
7 Staff's perspective, does it believe the comprehensive
8 energy plan entered into in 2005/2006 has been a success or
9 a failure?

10 MR. WILLIAMS: Well, it's been a success in
11 that we now have Iatan 2, certainly. And as Mr. Fischer
12 said, it has been rocky, from Staff's perspective, for some
13 time. I'd say overall the plan was a success. I don't
14 know that the staff would want to go through quite the same
15 plan again.

16 COMMISSIONER CLAYTON: Thank you.

17 JUDGE PRIDGIN: Chairman, thank you.
18 Office of Public Counsel, Mr. Mills.

19 MR. MILLS: Judge, I'll be very brief, so by
20 your leave, I'll just do my opening from here --

21 JUDGE PRIDGIN: Certainly.

22 MR. MILLS: -- if that's all right.

23 I think it's fairly clear from the opening
24 statement of both Mr. Fischer and Mr. Williams that this is
25 really the Iatan case. There are other issues in the case,

1 obviously, and some of them are worth a significant amount
2 of money, but the main attention, the main focus of the
3 hearings will be on Iatan.

4 when it became clear a couple of years ago
5 that Iatan costs were spiraling significantly, Public
6 Counsel analyzed the amount of time and the number of
7 personnel and, in fact, the qualifications of the personnel
8 that it would take to keep up with trying to get a handle
9 on those cost overruns and the possible disallowances.

10 It made a decision not to try, because,
11 frankly, that's beyond the -- simply the act of trying to
12 get the information from the company, much less trying to
13 analyze it and come up with a reasonable decision on what
14 is prudent and imprudent, is beyond our resources.

15 So with respect to the main issue in the
16 case, Public Counsel is not really a player. In fact, I
17 think it's fair to say that Public Counsel's entire budget
18 for this case is likely eclipsed by the production cost of
19 Mr. Fischer's slick opening statement.

20 Nonetheless, there are a number of issues
21 that Public Counsel has filed testimony on, and Public
22 Counsel will be presenting issue-specific opening
23 statements on the issues as they come up.

24 Thank you.

25 JUDGE PRIDGIN: Mr. Chairman?

1 COMMISSIONER CLAYTON: Just from the
2 perspective of the Office of Public Counsel, do you believe
3 that the -- as we conclude the Iatan process, the
4 comprehensive energy plan, do you see this process as being
5 a success or a failure? And perhaps I should say that
6 versus the other lawful alternative, which would be placing
7 all of these costs into rate base at one time and in one
8 case.

9 MR. MILLS: Well, frankly, you know, a
10 little bit of that depends on the outcome of this case. I
11 think if Iatan -- the whole Iatan project goes into service
12 at \$300 million over budget, I may have my doubts about
13 whether the process was a success.

14 Certainly, the idea of a regulatory plan is
15 a good one. We have learned a lot through the execution of
16 this regulatory plan. Were we to do it again with this
17 utility or another utility, I think we would certainly
18 build on what was done here. So in that sense it's a
19 success.

20 So, I mean, I guess to answer the question,
21 if my two choices are success or failure, I would say
22 success, but it certainly could have worked out better.

23 JUDGE PRIDGIN: Mr. Chairman, thank you.

24 Opening statement for MIEC and Ford, please.

25 MR. KINDSCHUH: May it please the

1 Commission. Good morning. My name is John Kindschuh, and
2 I'm with the firm of Bryan Cave in St. Louis. Bryan Cave
3 is here on behalf of the MIEC, Missouri Industrial Energy
4 Consumers and Ford. My remarks are also going to be very
5 brief.

6 The MIEC only intends to address issues
7 involving rate design in this matter. So accordingly, we
8 plan to provide substantive opening remarks on the day when
9 the rate design is discussed in these proceedings.

10 And due to our travel logistics and the
11 division of the issues, we really appreciate the
12 Commission's permission to be excused from the hearing when
13 our issue is not being discussed or contemplated.

14 So thank you for your time.

15 JUDGE PRIDGIN: Mr. Kindschuh, thank you.

16 Opening on behalf of Praxair MEUA, please.

17 MR. WOODSMALL: Good morning. I'll be
18 fairly brief, too, in that we'll be doing mini opening
19 statements throughout this case.

20 Throughout this case, you will hear much in
21 the way of burden of proof. In fact, just last week, the
22 Commission issued an order adopting KCP&L's proposed
23 procedural schedule because KCP&L has the burden of proof
24 in this case.

25 In fact, Section 393.150(2) clearly provides

1 that KCP&L bears the burden of proof in any case concerning
2 rates.

3 But what exactly is burden of proof, and
4 what does it mean? Now, burden of proof is not a mythical
5 beast. It's not like the Loch Ness monster or Big Foot.
6 It is an actual concept that is provided by statute and
7 should be strictly followed by the Commission.

8 As the Supreme Court has stated -- and this
9 is a quote -- The rules as to burden of proof are important
10 and indispensable in the administration of justice, and
11 constitutes a substantial right of the party on whose
12 adversary the burden rests. They should be jealously
13 guarded and rigidly enforced by the courts.

14 Therefore, from this Supreme Court holding,
15 we know several things about burden of proof as it applies
16 to this case.

17 First, it is a substantial right of the
18 customers that burden of proof be enforced against KCP&L.

19 Second, the burden of proof should be
20 rigidly enforced by the Commission.

21 What, then, is burden of proof? Again, the
22 Supreme Court has provided that answer. Quote, The burden
23 of proof means the obligation to establish the truth of the
24 claim by preponderance of the evidence. It rests
25 throughout upon the party asserting the affirmative of the

1 issues. This burden of proof never shifts during the
2 course of the trial.

3 Now, I mention all this because despite the
4 Commission's recognition in its order last week that KCP&L
5 has the burden of proof, I seldom see the Commission
6 actually apply the burden of proof when it decides rate
7 cases.

8 Long and short, the burden of proof provides
9 that the Commission -- provides that the company has to
10 prove, quote, the truth of its claim, unquote. Therefore,
11 if you have any questions regarding the legitimacy of an
12 expense, if the Commission does not adequately understand
13 an issue, or if the company fails to adequately connect the
14 dots in this case, then the company has failed to meet its
15 burden of proof.

16 Remember this as you go through the case.

17 Finally, you may wonder what it means for a
18 company to fail to meet its burden of proof. Again, the
19 Supreme Court has provided the answer to that, as well:
20 Quote, The failure of the plaintiff to sustain such burden
21 is fatal to his or her relief or recovery.

22 Moving on, you know -- you know, I think one
23 of the downsides of trying these cases on an issue-by-issue
24 basis is that we sometimes do a terrible job of tying all
25 the issues together. It is important for you to understand

1 how the various issues tie together and the implications
2 that a decision on one issue will have on another.

3 For that reason, I want to talk about some
4 overarching issues and how they connect together.
5 Specifically, I'm going to be talking about jurisdictional
6 allocations, off-system sales margins, and the construction
7 of Iatan 2. Hopefully when I'm finished you'll be able to
8 see how these three issues all tie together.

9 Jurisdictional allocations. Before 2006,
10 Kansas and Missouri both did jurisdictional allocations for
11 off-system sales in the same manner. Each jurisdiction
12 allocated these costs on the basis of energy.

13 Because allocations were treated the same in
14 both cases, each dollar of off-system sales margins was
15 divided perfectly between the states. There was no left
16 over or over-collection by either jurisdiction.

17 Suddenly, in 2006, KCP&L committed to use a
18 novel, self-created allocator in the context of the Kansas
19 regulatory plan. This allocator worked to the benefit of
20 the Kansas ratepayers by allocating more of the off-system
21 sales dollars to Kansas.

22 KCP&L tried to get Missouri to go along with
23 this methodology in 2006, and this Commission shot it down
24 flat. KCP&L's agreement created a problem, however, in
25 that KCP&L must now return a dollar-five for every dollar

1 of off-system sales it collects.

2 The point of this discussion is twofold.
3 First, I want you to see that the difference in
4 jurisdictional allocations is a function of KCP&L's own
5 agreement in Kansas. Kansas was using the energy
6 allocator. KCP&L initiated the development and
7 implementation of the unused energy allocator that was
8 adopted in Kansas. This is a problem of KCP&L's own
9 making.

10 Despite being rejected by this Commission
11 in 2006, KCP&L once again asked the Commission to move
12 towards the Kansas allocation methodology.

13 In response, you will hear from several
14 witnesses that the Commission should continue to use the
15 energy allocator. This methodology is consistent with the
16 one adopted by the Commission in 2006, as well as the
17 allocation methodology expressly adopted by the Commission
18 in last spring's AmerenUE decision.

19 The second reason for my discussion
20 regarding jurisdictional allocations is so that you can see
21 that one of the reasons KCP&L has been historically
22 under-performing in the wholesale market. As you can see,
23 because its Kansas Commission -- commitments requires it to
24 return more than it collects, KCP&L has no incentive to
25 engage in off-system sales.

1 Let me say that again. Because it returns
2 more than it collects because of the Kansas commitment, it
3 has zero incentive to engage in off-system sales.

4 Effectively, because of this lack of
5 incentive to engage in off-system sales, Missouri
6 ratepayers are being harmed by KCP&L's commitment in
7 Kansas. But again, this isn't this Commission's problem.
8 You shouldn't fix KCP&L's problem in Kansas. Instead, you
9 should continue to use the energy allocator.

10 But in order to force KCP&L past a negative
11 incentive created by its Kansas commitment, and by way of
12 segue to my next issue, you should establish a level of
13 off-system sales, an expectation that KCP&L will fully
14 participate in the off-system sales market.

15 Moves me to off-system sales. Off-system
16 sales are an important issue in setting rates for this
17 company. Recognizing that ratepayers pay for the fuel used
18 in these plants, pay for the operation and maintenance of
19 these plants, pay for the depreciation of the plants, and
20 pay for a return on the plant investment, it is well
21 established that the off-system profits should be used to
22 lower the retail rates for these customers.

23 The fact that off-system profits should be
24 used in this manner is expressly reflected in the Missouri
25 regulatory plan. Historically in setting rates, the

1 Commission has included a normalized level of every expense
2 and revenue item. This means that the Commission looks at
3 every item and includes that level of the revenue and
4 expense that it expects the company will incur for the
5 period in which rates will be in effect.

6 If you think about it, this works great.
7 The company is provided an expected amount. But if it is
8 able to increase that revenue item or drive down its
9 expenses from that normalized level, then the company keeps
10 the difference.

11 Starting in 2006, KCP&L began presenting a
12 forward-looking study of its projected level of off-system
13 sales profits. Within that study, KCP&L witness Schnitzer
14 models the SVP market in which KCP&L is assumed to sell its
15 excess energy.

16 Based upon numerous runs, that study
17 provides a curve of possible outcomes. Much like the
18 bookmaker in Vegas setting the over/under on a football
19 game, Mr. Schnitzer provides a 50th percentile. At this
20 level, KCP&L is projected to have an equal opportunity to
21 exceed the level put into rates, as well as to miss it.

22 This 50th percentile would be consistent
23 with the normalization method of ratemaking previously
24 discussed.

25 In the 2006 case, however, the Commission

1 decided to set the level of off-system sales in a different
2 method. It completely changed gears. Instead of using the
3 normalized method, and therefore the 50th percentile for
4 ratemaking, the Commission set rates based upon the 25th
5 percentile.

6 Under Mr. Schnitzer's analysis, then, KCP&L
7 should have exceeded this 25th percentile three out of
8 every four years. In fact, the Commission in its order
9 even pointed out that KCP&L would, quote, have a fairly
10 substantial chance, unquote, of exceeding the 25th
11 percentile.

12 In its order, the Commission used the 25th
13 percentile in conjunction with the tracker mechanism. What
14 this means is that every dollar KCP&L generates in
15 off-system sales above the 25th percentile must be returned
16 to the ratepayers. While the Commission thought it was
17 protecting the ratepayers by implementing this tracker
18 mechanism, what it was really doing was destroying all
19 incentives for KCP&L to participate in this market.

20 The fact that it used the tracker in
21 conjunction with the 25th percentile means that KCP&L has
22 zero incentive to make any sales once it reaches that 25th
23 percentile.

24 So I want you to see graphically. 50th
25 percentile, they have an equal opportunity of exceeding and

1 falling short. The Commission set it at 25th percentile.
2 Three out of every four years they should have been
3 exceeding this level. They haven't been doing it. What's
4 wrong? Is it the modeling, or is it because of the lack of
5 incentives because of the tracker mechanism that KCP&L just
6 chooses not to participate in the off-system sales?

7 Thus two incentives have been created to
8 keep KCP&L from making off-system sales. First, KCP&L has
9 no incentive to engage in off-system sales because of the
10 jurisdictional allocator that it agreed to in Kansas.
11 Remember, KCP&L is now required to return a dollar-five for
12 every dollar it makes.

13 Second, even though the Commission set
14 off-system sales very low, KCP&L is required to return
15 every dollar of off-system sales it makes over the 25th
16 percentile.

17 Given these two disincentives, we would
18 expect KCP&L's performance in the wholesale market to
19 plummet. In fact, that is exactly what has happened.
20 While Mr. Schnitzer states that KCP&L should be reaching
21 the 50th percentile at least every other year, KCP&L has
22 not reached this point in any of the four years since the
23 Commission implemented this methodology.

24 So, then, one of thing -- two things is
25 wrong: One, either Mr. Schnitzer's model is broken and

1 cannot accurately be used to predict the level of future
2 off-system sales, or, two, because of its lack of
3 incentives, KCP&L is choosing not to participate fully in
4 the off-system sales market.

5 We believe that the reason is the second.

6 KCP&L, on the other hand, throws varied
7 excuses out -- very slim testimony on this issue on their
8 part.

9 KCP&L claims that its poor performance in
10 the wholesale market is because of the volatility in the
11 wholesale markets and the drop in price of natural gas.

12 Interestingly, this concern is no longer
13 applicable. As you probably know, natural gas prices have
14 bottomed out. They've settled at a low price. In fact,
15 natural gas prices today are largely at the same price they
16 were two years ago. The volatility is largely gone.

17 Furthermore, given that -- the futures price
18 of natural gas, these prices are not expected to drop any
19 further, but possibly go up. As such, the chances of
20 further decreases in natural gas or the price of wholesale
21 electricity is very slim.

22 It is apparent from reading the Commission's
23 2006 order that the use of the 25th percentile was only
24 supposed to last throughout the regulatory plan. It should
25 be ending. Look at the Commission's order in that 2006

1 KCP&L case.

2 In fact, the Commission cited KCP&L's
3 upcoming regulatory planned capital expenditures as
4 justification for lowering KCP&L's risk and setting rates
5 on the 25th percentile. That justification is no longer
6 applicable today. Today, the regulatory plan is complete.

7 while KCP&L didn't finish everything it
8 promised, the construction of Iatan 2 and the wind units
9 are finished. In fact, as you can see from this chart,
10 forward-looking capital expenditures have decreased to a
11 point below that experienced in 2006.

12 Here's the point at which you implemented
13 the 25th percentile. You can see that capital spending was
14 going up, but now, with Iatan 2 done, with the capital
15 projects going down, it has gone down to a level prior to
16 where it was in 2005. The justification that the
17 Commission gave for going to 25th percentile is no longer
18 applicable. It's time to go back to the normalization
19 method.

20 Consistent with this, the Industrials have
21 advocated that the Commission raise the floor for
22 off-system sales margins to the 40th percentile --
23 somewhere in here (indicating).

24 At this point, KCP&L would be expected,
25 still, to exceed this point 60 percent of the time. They

1 still have protection. Given the fact that gas prices have
2 bottomed out, and those prices will go nowhere but up, it
3 should be easy for KCP&L to reach this point of off-system
4 sales.

5 The third issue I wanted to talk about was
6 the energy that's now available because of Iatan 2. The
7 other reason the Commission should increase from the 25th
8 to the 40th percentile is that Iatan 2 is complete.
9 Capital pressure is off; it's generating energy.

10 with the completion of Iatan 2, KCP&L now
11 has 465 megawatts of additional coal-fired generation to
12 sell into the wholesale market. Not only has the
13 completion of Iatan 2 significantly reduced KCP&L's risk
14 associated with the capital exposure, it also presents
15 heightened opportunities to make more sales.

16 with these additional megawatt hours, KCP&L
17 has more opportunities to make more money.

18 These increased sales need to be reflected
19 in the retail rates of the Missouri ratepayers.

20 As you can see, it's time to set some
21 realistic expectations for KCP&L to engage in the wholesale
22 market. By utilizing the 25th percentile, you state that
23 you are only expecting KCP&L to achieve a level of sales
24 that is well below average. You're not expecting much from
25 them.

1 As has been seen, it is not surprising given
2 these low expectations that KCP&L has been under-achieving.
3 KCP&L's performance has exactly matched the expectations
4 you've placed on them.

5 with all the new energy that's now available
6 from Iatan 2, it's time to increase your expectations. By
7 using the 40th percentile, you set a higher expectation,
8 but one that should be easily attained.

9 Finally, I want to address, real quickly, a
10 couple of the points that Mr. Fischer made that I believe
11 tell their side of the story but aren't -- isn't the
12 entirety of the story.

13 Mr. Fischer noted -- and I believe part of
14 his presentation talked about -- KCPL's rates being below
15 the national average. That is quickly going away. KCPL's
16 rates are growing faster than the national average. In
17 fact, in five years, KCP&L's rates will have increased
18 approximately 50 percent with the conclusion of this case.

19 Mr. Fischer talked about only being 15.6
20 over budget. What's interesting there is, that comparison
21 is apples and oranges. The budget initially included
22 several times that KCP&L didn't do. On the Iatan 2 side,
23 it didn't include the removal of the stack.

24 In fact, in their video, you probably saw
25 several times where there were two stacks. One of those

1 isn't working -- isn't working anymore. They were supposed
2 to tear it down.

3 when they did the reforecast, though, they
4 realized the cost pressures they were under, and they no
5 longer put that in there. So we're getting less.

6 In their original budget, they were supposed
7 to have rail cars. They were going to own these rail cars
8 to bring this coal from Wyoming. Not anymore. Under the
9 reforecast they took that out, and they're now leasing
10 those rail cars.

11 So when Mr. Fischer talks about a 15.6
12 percent over-budget figure, that's understated, because
13 we're not getting what we planned for.

14 Getting to the question that you've asked,
15 Chairman. You asked, was the regulatory plan a success.
16 And I would tell you, I agree with some of the statements
17 of Mr. Mills, but I'd go so far as to say no, it wasn't a
18 success.

19 It didn't do -- in the words of
20 Mr. Fischer -- it didn't, quote, Do what it was supposed to
21 do. It gave KCP&L the financial ability to build the
22 things they were supposed to, but it -- we didn't get what
23 we were supposed to.

24 In addition to the Iatan 2 items, we didn't
25 get the environmental upgrades on La Cygne that were all

1 supposed to be done. Some of those are now going to be
2 done in the future.

3 Another problem with the regulatory plan was
4 it appears that the Commission didn't understand the
5 regulatory amortizations. While they were given these huge
6 regulatory amortizations, the Commission still gave the
7 highest return on equity in the nation. The Commission
8 didn't understand the interplay between these two financing
9 aspects.

10 Excuse me.

11 Finally, if you look at original projects,
12 KCP&L projected that Iatan 2, this case -- they'd be able
13 to put Iatan 2 in the rates with no rate increase.

14 Because of the use of the amortization
15 methodology and other rate factors, it was supposed to come
16 into rates with no increase. That's not the case.

17 As our existence here today shows you,
18 they're asking for a rate increase. So the regulatory plan
19 did not do what it was supposed to do. It led to higher
20 costs for getting less than we initially thought.

21 Finally, Mr. Fischer -- I shouldn't say
22 finally.

23 Additionally, Mr. Fischer cited you ad
24 nauseam Mr. Elliott's credentials and wants you to rely
25 extensively on Mr. Elliott's findings. I want you to

1 recognize, Mr. Elliott did not do a construction audit.

2 Mr. Elliott only did an engineering review.

3 when he takes the stand, ask him the depth
4 of what he did. He didn't look at every invoice. He
5 didn't go into the depth that the Commission auditors did.
6 So to rely upon what he did in his allowances or
7 disallowances would be very shortsighted. It never did
8 what KCP&L wants to portray that he did.

9 And I want to emphasize a point that
10 Mr. Williams made. Mr. Williams pointed out that this
11 isn't a case about whether imprudent costs were incurred.
12 KCP&L own witness, a witness it is paying a lot of money
13 to, Dr. Nielsen, has concluded that there are costs that
14 should be disallowed -- disallowed. It's only a question
15 now of how much do you disallow.

16 Interestingly, even though they paid this
17 witness, and he's come up with disallowances, KCP&L still
18 rejects his conclusions.

19 That's basically all I had. We're going to
20 have more when we do the mini opening statements, so I can
21 address any issues you have then. But if you have any
22 questions, I'm free to answer those.

23 JUDGE PRIDGIN: Excuse me. I do believe we
24 have some questions.

25 Mr. Chairman.

1 COMMISSIONER CLAYTON: Mr. Woodsmall, I just
2 want to be clear on how many witnesses do you anticipate
3 your client engaging in this case?

4 MR. WOODSMALL: In --

5 COMMISSIONER CLAYTON: Off-system sales, for
6 sure.

7 MR. WOODSMALL: When you say "this case," I
8 want to be clear. On the KCP&L case, we will have three
9 witnesses -- Mr. Brubaker, Mr. Gorman and Mr. Meyer.

10 COMMISSIONER CLAYTON: Touching on which
11 issue?

12 MR. WOODSMALL: On the KCP&L case, they'll
13 be touching -- Mr. Brubaker, class cost of service rate
14 design and DSM recovery. Mr. Gorman addresses return on
15 equity. Mr. Meyer addresses a number of revenue
16 requirement issues. And I hope I hit them all.

17 He will address off-system sales level. He
18 will address jurisdictional allocations. He addresses some
19 cash working capital issues. He addresses Iatan 2
20 deprecation life, where we claim it's 60 years and the
21 company claims 50 years. And he addresses return of the
22 past juris-- past regulatory amortizations.

23 COMMISSIONER CLAYTON: If the plan -- the
24 comprehensive energy plan had not taken place and we were
25 putting in all of the costs that are involved in this case,

1 do you know the difference between KCP&L's revenue
2 requirement request here today versus what it would be
3 otherwise?

4 MR. WOODSMALL: No.

5 COMMISSIONER CLAYTON: Do you know the
6 answer to that question?

7 MR. WOODSMALL: I have no clue. I imagine
8 we could look into it if you want an answer, but I don't
9 know.

10 COMMISSIONER CLAYTON: And so, just to be
11 clear, from the perspective of your client, the
12 comprehensive energy plan has been a failure?

13 MR. WOODSMALL: It's been -- it has not been
14 the success the company would paint it to be. It hasn't
15 provided the things that we thought we were supposed to
16 get. And the things that we did get, it provided them at a
17 higher cost.

18 Not only now, but throughout this case, as I
19 mentioned, the Commission gave the -- during this point in
20 time, when they were given regulatory amortizations, as
21 well, the Commission still gave the highest return on
22 equity in the nation.

23 So throughout this process, not only are we
24 getting less now for our money, throughout this process, it
25 was more costly as we went through it.

1 COMMISSIONER CLAYTON: Thank you.

2 JUDGE PRIDGIN: Commissioner Davis.

3 COMMISSIONER DAVIS: Mr. Woodsmall, who are
4 the best witnesses to talk about the energy allocator and
5 the Kansas issue that you referenced in your opening
6 statement?

7 MR. WOODSMALL: The best witness from our
8 side is Mr. Meyer. He filed testimony, direct and
9 surrebuttal, on that issue.

10 COMMISSIONER DAVIS: And then on the KCP&L
11 side, if we're going to ask questions about that, who are
12 the witnesses that we need to question? Is it Tim Rush?
13 Is it --

14 MR. ZOBRIST: Commissioner, it would be
15 Larry Loos, L-o-o-s --

16 COMMISSIONER DAVIS: Okay.

17 MR. ZOBRIST: -- who is Black & Veatch, and
18 probably Mr. Rush, as well.

19 COMMISSIONER DAVIS: Okay. And with regard
20 to the off-system sales, Schnitzer's curve issue,
21 obviously, Schnitzer -- and then it is Brubaker or Gorman?

22 MR. WOODSMALL: Mr. Meyer. And it's
23 important --

24 COMMISSIONER DAVIS: Mr. Meyer.

25 MR. WOODSMALL: To clarify that for you,

1 it's important that you understand that Mr. Meyer uses
2 Mr. Schnitzer's analysis. We do not take issue with
3 Mr. Schnitzer's analysis. What we take issue with is then
4 when KCP&L takes it, Mr. Schnitzer doesn't do this.

5 Mr. Schnitzer provides a curve, and KCP&L
6 then says, Set it at the 25th percentile. We used the same
7 analysis, so it has all the same strengths as KCP&L's
8 analysis would. And we say, Set it at the 40th percentile;
9 set some greater expectations for the company to
10 participate in off-system sales.

11 COMMISSIONER SALES: Okay.

12 MR. WOODSMALL: But that is Mr. Meyer.

13 COMMISSIONER DAVIS: Okay. And then, last,
14 the rail car leasing issue, who are the witnesses on that
15 issue?

16 MR. WOODSMALL: Much like Mr. Mills, we
17 didn't have the money to engage in that. Mr. -- as I
18 understand, staff witnesses and probably company witnesses
19 on Iatan 2 issues would be able to address that.

20 COMMISSIONER DAVIS: Okay. But it certainly
21 has been the conventional wisdom here that utilities should
22 own their own rail cars -- that it was cheaper and you can
23 always extend the useful life of the rail cars. I mean,
24 is --

25 MR. WOODSMALL: I --

1 COMMISSIONER DAVIS: I mean, that's been my
2 impression. Is that your impression?

3 MR. WOODSMALL: I think it's certainly been
4 conventional wisdom that it's better in Missouri to own
5 rather than lease, not only rail cars but power plants.
6 It's also -- it was part of the expectation under the
7 initial -- under the regulatory plan when they did the
8 first comprehensive budget that it would be owned.

9 COMMISSIONER DAVIS: Now, is that actually
10 in writing in the comprehensive energy plan or anywhere?

11 MR. WOODSMALL: It -- it's not in writing
12 within the regulatory plan.

13 COMMISSIONER DAVIS: Okay.

14 MR. WOODSMALL: It would be in writing, to
15 some degree, within the comprehensive budget estimate.

16 COMMISSIONER DAVIS: Okay. And would the
17 comprehensive budget estimate -- would that be a schedule
18 or something attached, or --

19 MR. WOODSMALL: I couldn't tell you.
20 Mr. Schallenberg, I'm sure, would be able to tell you all
21 the items that were included within that budget.

22 COMMISSIONER DAVIS: Okay. Thank you,
23 Mr. Woodsmall.

24 MR. WOODSMALL: You're welcome.

25 JUDGE PRIDGIN: Okay.

1 Commissioner Kenney. Yes, sir.

2 COMMISSIONER KENNEY: Mr. Woodsmall, you
3 made several references to the burden of proof, and so I
4 want to ask you some quick questions about that.

5 The staff disallowances, the way I'm
6 understanding their legal analysis is that merely by virtue
7 of the fact that the project was over budget --

8 MR. WOODSMALL: Excuse me?

9 COMMISSIONER KENNEY: -- merely by virtue of
10 the fact that the Iatan 2 project was over budget, those
11 overruns should be disallowed because of the 2005
12 agreement. Is that your understanding?

13 MR. WOODSMALL: That is my understanding of
14 some of the staff's disallowances.

15 COMMISSIONER KENNEY: With respect to those
16 disallowances, then, what is the burden of proof for the
17 party raising doubt as to those -- the presumption that
18 those expenses were imprudent?

19 MR. WOODSMALL: Well, I think what you need
20 to understand is -- I -- I -- as I interpret staff's case
21 is that they are proposing disallowances because the
22 company has not provided the justification in whatever form
23 to support those numbers.

24 So we have dollars that the company is
25 seeking to have recovery to put in rate base where there's

1 no justification or support.

2 So the Staff has raised, I think, a
3 legitimate issue to overcome the presumption. We have
4 dollars that are unsupported.

5 So now the burden of persuasion, if you
6 will, goes back to the company to show how did they justify
7 all those dollars. So that's how I understand the dispute
8 between the Staff and the company on that issue.

9 But it becomes a matter of, to a large
10 degree, if the company won't provide the justification via
11 hiding behind attorney-client privilege or just doesn't
12 have the justification, how does Staff completely support
13 it? They can raise a reasonable doubt by just saying,
14 There is no justification. There is no support.

15 COMMISSIONER KENNEY: Mr. Williams, do you
16 want to add anything to that?

17 MR. WILLIAMS: I'll take a crack at it. I
18 think what the Staff is saying is that whenever an item is
19 within the budget, it's -- from an auditing perspective,
20 it's not going to be scrutinized necessarily as closely as
21 it is if it's over the budget.

22 It's kind of, if it's within the budget,
23 it's treated more as there's a justification to support it,
24 because you have it within the scope of the budget. But
25 whenever it exceeds the budget, you don't have that

1 justification, so it requires something more.

2 And if I've misspoke -- misspoken, I'm sure
3 Mr. Dottheim will correct me. But I believe that's Staff's
4 approach.

5 COMMISSIONER KENNEY: Thank you.

6 COMMISSIONER DAVIS: Can I go back and ask
7 one more question?

8 JUDGE PRIDGIN: Commissioner Davis.
9 Certainly.

10 COMMISSIONER DAVIS: Okay. Burden of proof
11 by a preponderance of the evidence?

12 MR. WOODSMALL: Yes.

13 COMMISSIONER DAVIS: So that's more likely
14 than not?

15 MR. WOODSMALL: Yes.

16 COMMISSIONER DAVIS: 50.1 percent?

17 MR. WOODSMALL: Yes.

18 COMMISSIONER DAVIS: Okay.

19 JUDGE PRIDGIN: Is there anything further
20 from the bench?

21 MR. WOODSMALL: Thank you.

22 MR. WILLIAMS: Judge, if I might.

23 JUDGE PRIDGIN: Mr. Woodsmall, thank you.

24 Mr. Williams?

25 MR. WILLIAMS: Commissioner Davis was asking

1 about witnesses on off-system sales margins allocations on
2 off-system sales levels. Staff has witnesses on those
3 issues, as well.

4 JUDGE PRIDGIN: Okay.

5 MR. WILLIAMS: Mr. Featherstone would be the
6 primary Staff witness on the off-system sales margin
7 allocation. And I believe it's Staff witness Harris on the
8 levels.

9 MR. ZOBRIST: And Commissioner, on behalf of
10 the company, it would be Burton Crawford on the non-model
11 issues, the non-Schnitzer issues.

12 COMMISSIONER DAVIS: Okay. That's a good
13 one, because that's not I'm familiar with. Okay. Thank
14 you.

15 JUDGE PRIDGIN: All right. If there's
16 nothing further from the bench.

17 Mr. Woodsmall, thank you.

18 MR. WOODSMALL: Thank you.

19 JUDGE PRIDGIN: This appears to be a good
20 time to take a break. We've been going for a couple hours.
21 We still have several opening statements to go. I'm going
22 to go by the clock here towards the back of the hearing
23 room that shows 10:35. I would like to readjourn at 10:50.
24 That would be ten 'til eleven.

25 Is there anything else from counsel before

1 we go into recess?

2 Hearing nothing, we'll go off the record.

3 We will resume at 10:50.

4 (Off the record.)

5 JUDGE PRIDGIN: All right. Good morning.

6 We are back on the record. I do want to proceed with

7 opening statements.

8 Before I do that, let me see if there's
9 anyone here who wishes to waive an opening statement for
10 now. I realize a lot of parties wish to not only make
11 opening statements now, but also reserve and have mini
12 opening statements, if you will, per topic.

13 Is there anyone who wishes to waive their
14 initial opening statement?

15 MR. STEINMEIER: St. Joseph would waive,
16 Your Honor.

17 JUDGE PRIDGIN: Mr. Steinmeier, thank you.
18 City of St. Joseph will not be making an opening.

19 MR. HEALEY: MJMUEC will waive general
20 opening, Your Honor.

21 JUDGE PRIDGIN: Mr. Healey, thank you; no
22 general opening for MJMEUC.

23 MR. AMASH: The local unions, Your Honor,
24 will waive.

25 JUDGE PRIDGIN: Thank you very much. Local

1 unions are waiving.

2 MS. MANGELSDORF: Department of Natural
3 Resources will waive the general statement, but we'll be
4 making issue-specific opening statements.

5 JUDGE PRIDGIN: All right. Ms. Mangelsdorf,
6 thank you. DNR will waive their general opening statement.
7 Thank you.

8 Anything further from counsel before we go
9 on with opening?

10 MR. SWEARENGEN: Empire will waive its
11 initial opening statement.

12 JUDGE PRIDGIN: Mr. Swarengen, thank you.
13 Empire will waive.

14 If there's nothing further.

15 All right. I believe United States
16 Department of Energy, Mr. Bruder.

17 MR. BRUDER: Thank you.

18 If it would please the Commission, I'll
19 speak from here, if I may, because I mean to be very brief,
20 indeed.

21 JUDGE PRIDGIN: Certainly.

22 MR. BRUDER: First, I want to say, the
23 Department cannot be here for all of these proceedings.
24 This I personally regret. I think we all do better work
25 when we're all present. But that simply isn't possible

1 given our budget constraints. So I appreciate the
2 Commission's willingness to permit us to be here as budget
3 permits and as our subjects would dictate.

4 we have two witnesses before the Commission
5 in this proceeding. The first is Mr. Gorman, who we
6 partially sponsored, and he has opined, as you know, about
7 return on equity.

8 The second is our own witness, Dr. Dennis
9 Goins, and he will speak largely on the subject of
10 interclass revenue allocation, our main concern.

11 Our main concern within that rubric, within
12 that topic, is a methodology that has been put forward and
13 referred to as BIP; that is, base intermediate and peak.

14 We will show that this is in an
15 inappropriate and entirely unacceptable methodology to use
16 to allocate revenues among the classes.

17 It contradicts other -- another methodology
18 that's used in the very same presentation. It is
19 illogically premised. It is certain to lead to illogical
20 outcomes, in terms of allocation. And it's not been
21 accepted anywhere. It's something that was developed way
22 back in the '80s under entirely different circumstances,
23 and has never achieved anything the way of acceptance.

24 We will ask that the Commission reject this
25 BIP methodology and continue to use 4 CP, or what is called

1 average-in-excess.

2 we also think it is worthwhile to suggest
3 and for the Commission to continue that allocation of any
4 increase that is here granted be done across the board.

5 And perhaps the Commission may want to
6 consider, as well, the possibility of a separate
7 freestanding proceeding on the subject of rate structure,
8 rate design, cost of service. That would happen at some
9 later time.

10 That concludes my opening statement, and I
11 thank you very much.

12 JUDGE PRIDGIN: All right. Mr. Bruder,
13 thank you.

14 On behalf of the Federal Executive Agencies.
15 Captain McNiell.

16 CAPTAIN MCNIELL: Judge, with your
17 indulgence, I will give my opening from here, since I'll be
18 so brief.

19 JUDGE PRIDGIN: That's fine. Thank you.

20 CAPTAIN MCNIELL: Captain Shayla McNiell on
21 behalf of the Federal Executive Agencies.

22 And in some of my other states where I'm
23 responsible for rate cases, I've often been asked by other
24 intervening parties, other parties in the audience, why is
25 the military here? why does the Air Force care about

1 utility rate cases?

2 And while it might seem kind of mysterious
3 at first, I think it's a really good question, and it's a
4 really basic answer. The military has to have electricity
5 to do our military mission at bases.

6 Every military installation in the Air Force
7 has what we call a wing commander. And a wing commander is
8 like the mayor. He's the boss of the base. And he gets a
9 budget appropriated to him by Congress.

10 And out of that budget, he's responsible to
11 handle lots of different costs on his base, to include jet
12 fuel for the mission, to include deployment personnel for
13 military members going overseas, and he also has to pay his
14 utility bills.

15 So every dollar increase in a utility bill
16 is one dollar less that that wing commander can spend on
17 jet fuel, national security mission, deployment mission, et
18 cetera. So something has to give when rates are increased.

19 And that's why the military is here. We
20 have an interest in making sure utility companies control
21 their costs, make prudent business decisions, while at the
22 same time still, you know, providing reliable service.

23 And so if you think that every wing
24 commander has more mission than he has money to run that
25 mission -- when Whiteman Air Force Base is looking at

1 potentially a 10 percent annual increase in utility bills,
2 that's daunting for an Air Force base to face.

3 So I just wanted to give you a little bit of
4 perspective of why we care and why we're here during rate
5 cases.

6 Thank you.

7 JUDGE PRIDGIN: Captain, thank you.

8 On behalf of the Hospital Intervenors,
9 please.

10 MR. ZAKOURA: Yes. Thank you. Jim Zakoura.
11 I'll be brief.

12 I want to be responsive to some of the
13 questions that have been raised by the commissioners, if I
14 could, in the opening statement.

15 I think one of the things, and maybe the
16 most important thing, that this body does is to balance the
17 interests of all the parties involved, from the utilities
18 to the residential users, to those who have missions and
19 business, and those who serve all levels of society.

20 And when you look at the level as put
21 forward by the company of various disputes, you can see
22 that the disputes come within basically four or five
23 categories -- the big dollar disputes, as we would say.

24 And it's within these areas that the
25 Commission must act, and their action will affect all of

1 the parties in the State of Missouri.

2 when we started down this path in 2005, the
3 predicted rate increases were in the 20 to 25 percent
4 range, as we indicated. This was indicated at the time.

5 That was the basis upon which the regulatory
6 plan was put forward, and those have been spoken to by
7 several parties, including Mr. Woodsmall.

8 To the extent that the company is granted
9 their full increase, it would vastly exceed what most
10 people thought would be the amount of rate increases when
11 we started down this path.

12 So what we would argue is that as the
13 Commission considers these items that they consider the
14 balance of all the people, not only the people who have to
15 pay for the plants but the people who have to put up and
16 pay rate increases each month, and that every segment of
17 the society has been hit by the recession.

18 And we would ask the Commission --
19 particularly when they're hearing the issue of the return
20 on equity -- whether it will be a range that goes from
21 about 8.5 percent to about 11 percent, that the Commission
22 look at that in terms of all the people that will have to
23 pay these bills, and will look at it in terms of balance,
24 and will look at that issue in a manner that will get
25 closer to what we believe was the original regulatory plan

1 presented to the Commission.

2 Thank you.

3 JUDGE PRIDGIN: Mr. Zakoura, thank you.

4 On behalf of AARP, Consumers Council of
5 Missouri, please.

6 MR. COFFMAN: May it please the Commission.

7 I'd like to first just clarify, I do have
8 two separate independent clients. There are -- is no
9 relationship between them, even though they do often, as
10 they are in this case -- are taking identical positions on
11 almost every issue.

12 I am going to be brief. And I would like to
13 concur in the comments made by Mr. Woodsmall on the revenue
14 requirement issues. I think he made a lot of very good
15 points.

16 On the burden of proof, clearly, there has
17 been an attempt to, I think, confuse the law somewhat by
18 KCPL as to the burden of production, burden of persuasion.
19 I would underscore what Mr. Woodsmall said; there is no
20 doubt that burden of persuasion is upon the utility.

21 So if you are -- if you have a doubt, if it
22 seems -- an issue does seem up in the air, it is the burden
23 of the utility to come forward with competent substantial
24 evidence.

25 And as to the various Iatan disallowances, I

1 think that the Staff of the Commission has raised some very
2 serious doubts. And we hope that you do approve those
3 disallowances.

4 And I'll just jump right into the regulatory
5 plan, because the regulatory plan does have provisions that
6 are very relevant to these issues.

7 The -- and although neither of my clients
8 were signatories to that process of developing the
9 regulatory plan, we have been hoping that -- that on
10 balance that the plan would have been both good for KCPL as
11 well as for consumers.

12 And I think that whether that regulatory
13 plan is a success still remains in doubt, and is going to
14 be partly dependent on how this case falls out.

15 Of course, when a plan is first inked, you
16 know, it's not uncommon that the different parties have
17 different understandings of how that plan is going to work
18 out, and that there will be disputes, especially when so
19 much money is involved.

20 But there has been a significant number of
21 disputes that have developed over this plan -- things that
22 have not necessarily occurred.

23 But there were some general overall
24 expectations -- at least, I think, on the consumer side --
25 that the regulatory plan itself would reduce risk for the

1 utility, and that would benefit both the utility and
2 consumers.

3 The subsequent returns on equity that have
4 been awarded have kind of minimized what was hoped to be a
5 benefit to consumers of that plan and what was understood
6 on the consumer side to be the interplay between what
7 profits or return on equity would come out under this plan.

8 I think it's important to understand that
9 while there were benefits of the plan, such as KCPL
10 foregoing a fuel adjustment clause and other accounting
11 benefits, there was also millions of dollars that were
12 through the -- that were charged to consumers through the
13 additional amortizations that consumers would not have
14 otherwise had to have paid.

15 And that's, you know, an important issue
16 that's going to be, I guess, ultimately resolved in this
17 case -- how those -- how that plays out.

18 I would also ask that you look closely at
19 the evidence on return on equity in this case. And, you
20 know, it seems sometimes, from my perspective, that return
21 on equity goes up very easily and comes down very slowly
22 and begrudgingly.

23 we would ask that you look at the evidence
24 and try not to focus on any psychological number, not focus
25 on whether it's a double digit or not. I think the

1 evidence is pretty substantial that return on equities need
2 to be in the nines or lower.

3 And so try not to get too fixated on whether
4 the number is an eight or a nine or a ten, and try -- do
5 your best to analyze the evidence on that.

6 I'll -- also, going back to the issue of the
7 disallowances in Iatan. A lot of the back and forth and
8 disagreement about the law relates to the issue of
9 prudence. I wanted to also remind you that not only is
10 there a requirement that the electric utility prove
11 prudence, but also reasonableness and necessity that
12 benefits the public.

13 There are -- there is clear precedent that
14 even if a facility is found to be prudent, it doesn't
15 necessarily meet the statutory requirement for being
16 reasonable and providing benefit to consumers. So that
17 prudence is just the first step in looking at a rate base
18 investment.

19 That's all that I have. And I'll have more
20 as some of the more important issues come up during the
21 hearing.

22 JUDGE PRIDGIN: Mr. Coffman, thank you.

23 On behalf of Missouri Retailers Association,
24 please.

25 MR. SCHWARTZ: May it please the Commission.

1 Red herrings, hindsight, responsibility.
2 Those words have been bandied about -- certainly the first
3 two terms have been bandied about in the testimony.

4 And I would encourage the Commission to pay
5 close attention as you go through the testimony in this
6 case, particularly on the issue that the Missouri Retailers
7 are addressing -- the prudence of the Iatan projects, as
8 the hearings progress.

9 Red herrings: Red herrings are like --
10 remind me of the last scene from The Wizard of Oz, when
11 you're -- don't look behind the curtain; don't look -- but
12 look somewhere else. And I think there's been a tendency
13 in this case to do that.

14 Fast-track, for instance. The process by
15 which the project is begun and the engineering proceeds
16 with it. Fast-track is not an issue in this case. I don't
17 believe that anyone has proposed an adjustment to the costs
18 of the Iatan projects based on fast-track.

19 EPC, that is engineering procurement and
20 construction -- a -- basically, a turnkey approach to
21 projects, versus the multi-prime system that KCPL chose to
22 follow in this case.

23 No one is proposing an adjustment based on
24 the fact that Kansas City Power and Light chose to proceed
25 on a multi-prime basis.

1 That choice carried with it certain
2 responsibilities, and the parties have a great deal of
3 difference over the way that KCPL met those
4 responsibilities:

5 Budget levels: Is it a -- indicative? Is
6 it definitive? Those terms have some import with respect
7 to the regulatory plan, but to the overall evaluation of
8 the project by this Commission, not so much. Certainly not
9 an issue.

10 The KCC, the Kansas Corporation Commission,
11 decision on Iatan prudence, a red herring in this case.
12 Kansas has a statutory 12-point definition of prudence,
13 which is required, of course, by statute to be used by the
14 KCC.

15 One of those 12 points is what Missouri
16 considers its prudence approach; that is, what would a
17 reasonable person do under the circumstances at the time
18 it's being faced with the choices he made?

19 So the -- if you -- the Kansas Corporation
20 Commission decision is simply a red herring.

21 This Commission has to base its decision on
22 the evidence presented to it, and based on the prudence
23 standard that applies in Missouri.

24 I think that the focus on decisions is a red
25 herring. That is, the decision made in 2005 was prudent

1 under the circumstances. The decision made in 2006 was
2 prudent under the circumstances. The decision made in
3 2008, in 2009, and 2010 -- each of those was prudent
4 decisions.

5 But it is a red herring insofar as it
6 distracts from the real critical issue in this case, which
7 is, How did you get from a prudent decision, say, in 2006,
8 to a requirement to dramatically alter the cost estimates
9 and the choices in 2008?

10 It is the intervening management of the
11 project that KCPL assumed when it chose to go multi-prime.
12 That's the key to focus on.

13 You can't focus on, we're facing a dilemma
14 in 2008, and the decision that we took in 2008 was
15 reasonable under the circumstances; and therefore say that,
16 we have discharged all obligation for getting from a
17 prudent point in 2006 to a crisis in 2008.

18 It's the management process that is the key
19 to the analysis in this case.

20 Hindsight. There is only one party in this
21 case that will tell you, You cannot -- you cannot rely on
22 the expert consultants' advice in 2005. You can't rely on
23 the expert consultants' advice in 2006. You can't rely on
24 the experts' advice in 2007. You can't rely on Schumacher
25 (ph), on Shiff Hardin's reports, on Ernst & Young's

1 reports, on SDS's reports, on GPE internal audits, on KCPL
2 internal audits.

3 There's only one party that will be telling
4 you that, and I think that's KCPL.

5 MRA's expert witness, Mr. Drabinski, relies
6 on and provides the Commission with references to hundreds
7 of contemporary internal KCPL documents as the basis for
8 judging whether the management of the project comported
9 with the advice and reflected the problems that were
10 predicted in those reports.

11 The CBE, the control budget estimate, was
12 finally published in November/December of 2006 by KCP&L.
13 As Mr. Fischer remarked, it was \$1.685 billion.

14 However, the top-down, bottom-up estimate of
15 cost to actually build the plant was \$1.465 billion. That
16 is, if you add up the expected costs of the concrete and
17 steel and whatnot, you get to 1.465 billion.

18 And then there was a \$220 billion -- or \$220
19 million component which was for contingencies -- for price
20 escalations, for additional labor costs, for compression of
21 the schedule, for -- for divergences from the path laid out
22 in the schedule which accompanied the control budget
23 estimate.

24 So the -- Mr. Fischer suggested that, well,
25 the engineering was only 20 to 25 percent completed at the

1 time. That may be correct.

2 However, at the time of the control budget
3 estimate, of the \$1.465 billion that the company
4 actually -- I mean, if you add up all the concrete and
5 whatnot, \$1.465 billion, over a billion dollars in
6 contracts had already been led.

7 Theoretically, fixed-price contracts. That
8 changed a little bit later on. So that the balance of
9 plant still at issue at the time of the CBE was \$4.65
10 billion -- or 4 point -- \$465 million, not the
11 \$1,685,000,000 as the company might suggest.

12 Also, of course, Iatan is not the first
13 super-critical coal-fired gas plant built in the world.
14 There are hundreds of them. The engineers and the experts
15 who were developing these processes were familiar with the
16 overall plant types and plant costs.

17 And more telling, the CBE itself said that
18 there was a 95 percent probability that it would come in at
19 1.465 billion, plus the \$220 million contingency -- 15
20 percent, by the way.

21 So the expectation was fully vetted at the
22 time that a reasonable, conservative cost expectation for
23 this plant was \$1.685 billion. And they exceeded that
24 estimate by 15 percent.

25 I'm not sure if that's a hindsight or a red

1 herring issue. But I think it's an issue, nonetheless.

2 The company bears the responsibility for
3 this project. They bear it because the statutes put it
4 there. That is, it is the company's responsibility to
5 provide the reasonable and necessary pertinences and
6 facilities needed to provide service.

7 The statutes also require that the
8 Commission permit only those costs which are reasonable.
9 It is the company's responsibility. The buck stops there.

10 Furthermore, by choosing the multi-prime
11 approach to this project, the company assumed for itself
12 the responsibilities basically of a general contractor.

13 They assumed the construction risk. They
14 assumed the responsibility to make sure the incredibly
15 complex schedules, and the intertwining of the boiler
16 contractor and the turbine contractor and the balance of
17 plant contractor, all -- and the myriad other contractors
18 involved in the project; that all of their schedules --
19 that they were all cognizant of each other's schedules, and
20 that they all meshed. That was Kansas City Power and
21 Light's project -- or responsibility in this case.

22 And, quite frankly, we think that -- we
23 think -- Mr. Drabinski opines that the company's failure to
24 initiate from the day construction started the effective
25 scheduling, cost control, productivity measure monitorings

1 contributed to the divergence of the actual path from
2 the -- from the planned path in the schedules.

3 And yes, once you made that diversion --
4 divergence, it is reasonable, it is prudent, to make
5 adjustments to bring it back into line. But that doesn't
6 mean that the divergence was appropriate or reasonable in
7 the first instance.

8 we believe that the evidence that you will
9 receive and consider in this case will indicate to you that
10 the adjustments proposed by Mr. Drabinski at the behest of
11 the Missouri Retailers Association are reasonable and fully
12 justified, both under the law and under the facts of the
13 case.

14 Thank you.

15 JUDGE PRIDGIN: Mr. Schwartz, thank you.

16 On behalf of Dogwood Energy, please.

17 MR. CURTIS: May it please the Commission.

18 My name is Leland Curtis. I represent Dogwood. I arrived
19 just a few minutes after the entries of appearance were
20 made earlier this morning.

21 By permission of the Commission, I would
22 like to make that entry of appearance now, if I might.
23 Dogwood Energy, LLC, represented by Leland B. Curtis and
24 Carl J. Lumley of the law firm of Curtis, Heinz, Garrett
25 and O'Keefe. We would now enter our appearance. Thank

1 you.

2 Dogwood is primarily interested in the
3 companion GMO case of this, not so much in the KCPL portion
4 of this case.

5 Dogwood's particular interest is in the
6 issues surrounding the Staff's recommended adjustments to
7 exclude the Crosswoods Generating Plant in Mississippi from
8 GMO's rate base and operating expenses. And in that
9 regard, Dogwood will be sponsoring two witnesses in the GMO
10 portion of the case.

11 Dogwood will continue to monitor the
12 proceedings in the KCPL portion of this case, but would
13 request leave to be excused when it's not present with
14 regard to any issues in KCPL.

15 Thank you.

16 JUDGE PRIDGIN: Certainly.

17 Commissioner Davis?

18 COMMISSIONER DAVIS: Mr. Curtis, what two
19 witnesses will you be proffering?

20 MR. CURTIS: I believe it is Jansen (ph) and
21 Rose. Jansen on the rebuttal and Rose in surrebuttal.

22 COMMISSIONER DAVIS: Okay.

23 MR. CURTIS: I think they have been filed.

24 COMMISSIONER DAVIS: Yes. Yeah. I'm -- I
25 know that they've been filed. I recognize them. I'm just

1 trying to mentally -- I'm trying to think if your witnesses
2 could shed any light on some of the other issues that have
3 been raised heretofore. But anyway, I'll --

4 MR. CURTIS: I'm not sure.

5 COMMISSIONER DAVIS: -- I'll take that up
6 with them later. Thank you.

7 MR. CURTIS: Thank you.

8 JUDGE PRIDGIN: Commissioner Davis, thank
9 you.

10 And I certainly have no problem with counsel
11 being excused if they do not believe an issue being tried
12 on a certain day is relevant to them.

13 opening on behalf of City of Kansas City,
14 Missouri.

15 MR. COMLEY: Your Honor, I just have a few
16 sentences to devote to Kansas City. And I thought I'd
17 voice them during my remarks about Lee's Summit, if that
18 would be permitted.

19 JUDGE PRIDGIN: That's certainly fine.
20 Thank you. In fact, Lee's Summit close to next on the
21 list, so Mr. Comley.

22 MR. COMLEY: May it please the Commission.

23 My name is Mark Comley, and our office,
24 Newman, Comley and Ruth, represents two municipalities in
25 these proceedings. One is the City of Kansas City. And

1 I'm not clear whether my written entry of appearance
2 reflects this, but the City is a party in both of the
3 proceedings, 0355 and 0356.

4 I think it has been established in past
5 cases before the Commission that the City itself is one of
6 the largest consumers of energy from Kansas City Power and
7 Light and GMO in both its service territories.

8 Consequently, rate adjustments to this
9 company will have definitive impacts on Kansas City, and
10 hence its participation in this case -- although it is
11 somewhat limited this time. We are not sponsoring a
12 witness, but we believe it's very important to be here and
13 be monitoring the cases.

14 I also represent the City of Lee's Summit,
15 and the City is a newcomer to the Commission. But the City
16 brings to your attention an objection to the manner in
17 which KCPL GMO expects to increase the rate for municipal
18 street lighting service for the City subscribes to.

19 Those objections are explained by
20 Mr. Michael Park in three sets of his written testimony.
21 Mr. Park serves as the City traffic engineer for the City
22 of Lee's Summit, but has looked citywide to make his
23 evaluation about the impact of the proposed GMO rate
24 increase.

25 By his calculations, the City will

1 experience overall an increase of approximately \$162,000 in
2 energy costs, \$116,000 of which will fall in its cost for
3 street lighting alone.

4 Mr. Park raises two important points for the
5 Commission to consider. The first involves how the rate
6 increase proposed crosses more than just the element of
7 energy supplied to the street lights.

8 The increase is also going to be applied to
9 other components that are integral parts of the service,
10 such as installation, maintenance and equipment.

11 The City's experience with these categories
12 of cost -- installation, maintenance and equipment -- are
13 that they have been very steady in the last several years.
14 In fact, they are declining.

15 He suggests that the 15.2 percent increase
16 proposed for this service be narrowly applied. He proposes
17 that the energy component be increased by that percentage.

18 And if that is done, there would be a 75
19 percent of the increased cost saved. That translates to
20 about \$87,000 in savings for the City.

21 It is his recommendation, therefore, that if
22 the Commission were to approve any increase in this
23 particular service, that the increase be applied strictly
24 to KCP&L's energy costs and no other.

25 Second, Mr. Park discusses how this proposed

1 increase would affect something unique to the City. There
2 is pending negotiations between the City of Lee's Summit
3 and KCP&L GMO for purchase of the street lighting system
4 that the City now leases from GMO, a system which,
5 technically, it's been paying for for some time.

6 Negotiations have been going on for over 12
7 months. Prior to pursuing those negotiations, the City
8 undertook a cost benefit analysis using KCP&L and GMO's
9 current rates for service.

10 If the rate for this service is raised as
11 proposed, there will be a concomittent and proportional
12 increase in the value of the system. As you would expect,
13 as the income from the system increases, the value to KCPL
14 increases at the same time.

15 The increase in the rate as proposed as KCPL
16 GMO is an external factor that affects the negotiations
17 which can be controlled by this Commission.

18 For purposes of these negotiations,
19 Mr. Park's recommendation now takes even more importance.
20 KCP&L cannot show you that it has a 15.2 percent increase
21 in installation, maintenance and equipment costs in
22 providing street lighting service.

23 If its rate is increased over these
24 components, it is receiving revenue for non-existent costs,
25 and artificially inflating the value of the system in the

1 ongoing negotiations.

2 It is fair and just for the Commission to
3 note this consequence and enter relief that will become as
4 close as possible a way to neutralize the effect that that
5 increase may have on the City's negotiations toward
6 purchase of the street lighting system.

7 This is also a rate design issue. In the
8 last week of the rate case, this would be heard by the
9 Commission in the February sequence of hearing days. And I
10 think we'll have a little mini-bio -- or, excuse me -- a
11 little mini opening at that time, too.

12 COMMISSIONER DAVIS: Wait. Mr. Comley.

13 JUDGE PRIDGIN: Mr. Comley, I think --

14 MR. COMLEY: Oh.

15 JUDGE PRIDGIN: -- Commissioner Davis has
16 some questions.

17 MR. COMLEY: Yes. Yes. I'm sorry.

18 COMMISSIONER DAVIS: Will there be a video?

19 MR. COMLEY: No, there won't.

20 COMMISSIONER DAVIS: Okay.

21 MR. COMLEY: I did have the urge to include
22 mythical creatures in my opening statement, but I went
23 upstairs and -- during the break and laid down until it
24 went away.

25 JUDGE PRIDGIN: I always have to follow the

1 funny guy.

2 Mr. Comley, thank you.

3 Jackson County, Missouri, please.

4 No opening.

5 Robert Wagner?

6 MR. WAGNER: May it please the Commission.

7 I am be hearing [sic] -- appearing upon
8 behalf of myself, intervening for public benefit. My
9 involvement in these cases is about increasing consumer
10 choice and improving the quality of service of outdoor
11 lighting offered by the companies.

12 I have a brief statement prepared, and I
13 will be presenting an opening when the issue is presented
14 later in this hearing.

15 The proposed tariffs will increase the
16 outdoor lighting costs to private individuals, businesses
17 and municipalities. To offset these increased rates and
18 keep basic lighting costs low, my position is to recommend
19 the adoption of voluntary part-night outdoor lighting rates
20 and the addition of lower wattage luminaires.

21 The third proposal is the shielding and
22 conversion of tariffs from listing initial lumens and
23 wattage to maintain illumination on the ground. This will
24 bring the rates in line with the service the customer
25 receives.

1 The final issue presented is the Company's
2 advertising claim, Turn lights off, turn crime off. I
3 propose the Commission discontinue allowing the marketing
4 of outdoor lights as safety or security devices without
5 backing these claims with a guarantee.

6 Overall, I seek to present evidence and
7 request the Commission review and reevaluate the outdoor
8 lighting practices of the companies and bring them in line
9 with providing adequate service, as service is the only
10 thing that a utility furnishes in consideration of the
11 rates paid.

12 JUDGE PRIDGIN: Mr. Wagner, thank you very
13 much.

14 On behalf of Missouri Gas Energy, please.

15 MR. JACOBS: Good morning. May it please
16 the Commission. My name is Todd Jacobs. I represent
17 Missouri Gas Energy. I plan to give just a very brief
18 overview today of MGA's position in this case, and provide
19 more detail on the day that we present our testimony.

20 MGA's objectives in this case are to promote
21 the right fuel for the right use; to promote
22 energy-efficient appliances; to decrease the demand for
23 electricity at targeted appliances; to provide more
24 complete energy efficiency information to customers; and to
25 eliminate KCP&L practices which have discounted rates and

1 only serve to promote inefficient energy uses.

2 To do this, we're providing support in this
3 case for a fuel switching program that provides information
4 to consumers and defrays up-front costs for conversion. We
5 are also proposing the elimination of KCP&L rates,
6 discounted rates, and also KCP&L practices which serve to
7 promote inefficient energy choices.

8 The framework for our proposal and what's
9 important to understand before we really dive into it is
10 that our proposal really -- the framework of it is a more
11 efficient and broader way to analyze energy use, and it's
12 known as the full-fuel cycle.

13 It's a change in the conceptual framework
14 for energy use analysis, and changes the perspective from a
15 narrow and myopic view of energy use to a broader view of
16 the entire energy cycle.

17 Energy efficiency is usually, and today is
18 analyzed solely at the appliance, at the site of the energy
19 use. It evaluates energy use at that appliance, but it
20 ignores the total energy used in the distribution and the
21 transmission generation of that energy. A site-based
22 energy analysis provides limited and incomplete information
23 to consumers.

24 If you only look at the appliance by way of
25 example, an electric water heater can sometimes be shown to

1 be 90 percent efficient. But what that rating does not
2 show, and what the full-fuel cycle makes clear, is that
3 when you factor in generation, distribution and
4 transmission, you factor in energy losses of up to 70 to 75
5 percent losses in the transmission of that energy.

6 The relative energy efficiency of that
7 appliance, therefore, plummets to 27 percent.

8 And only looking at that appliance at the
9 site gives consumers an incomplete information on energy
10 efficiency. And by providing that incomplete information,
11 site-based ratings lead consumers to make ill-informed
12 buying decisions.

13 And from an energy policy standpoint, this
14 incomplete information can actually promote incomplete and
15 poor energy choices.

16 So using this framework as a background, the
17 evidence in this case will show that natural gas is energy
18 efficient in certain applications, primarily space and
19 water heating.

20 The promotion and use of electricity for
21 these purposes, particularly when that electricity is
22 generated by coal plants, simply does not make sense from
23 an environmental or energy policy standpoint.

24 Using natural gas for water heat and space
25 heat results in increased energy efficiency, consumer cost

1 savings through lower operating costs, reduced
2 environmental impact, and it's a cost-effective way to
3 reduce electricity demand.

4 The proposed fuel switching program provides
5 this information to residential customers, encourages
6 conversions where they can have the most impact.

7 So KCP&L customers with water heat --
8 electric water heat or electric resistance heating would be
9 offered incentives to switch fuels for those applications
10 and those applications only, mainly to cover any conversion
11 costs.

12 And what MGE would provide as part of that
13 is incentives for energy efficient appliances as part of
14 our energy efficiency program, and also provide any lines
15 that it would take, if necessary, to provide service to a
16 customer's home.

17 Similar programs have been in place for
18 other utilities in Washington State, Oregon and Florida,
19 Texas. And they have served there, and they can serve here
20 as an effective demand-side management program with
21 long-term lasting benefit. And these programs are all
22 designed to reduce electricity use.

23 MGE also seeks to eliminate certain KCP&L
24 incentives that encourage inefficient energy choices.
25 Specifically, MGE seeks the elimination of KCP&L's

1 discounted all-electric space heating rates, as well as
2 KCP&L's line extension program, a program that encourages
3 developers to install electric space heating.

4 Both of these practices encourage consumers
5 and builders to choose less efficient space heating
6 choices, and just need to be eliminated.

7 MGE welcomes the opportunity in this case to
8 present this information to the Commission. We believe
9 that our proposals will serve KCP&L's demand-side
10 management program well, will provide more information to
11 consumers, and will result in cost savings for those
12 consumers.

13 Thank you.

14 JUDGE PRIDGIN: Mr. Jacobs, thank you.

15 On behalf of Ameren Missouri, please.

16 No opening for Ameren Missouri.

17 Have I overlooked anyone?

18 All right.

19 On my order of witnesses and order of cross
20 from KCP&L, I would show KCP&L has one overview of policy
21 witness, as does Staff.

22 And would the parties want to give mini
23 openings on that or simply proceed into evidence?

24 MR. FISCHER: KCPL has no desire to make
25 another opening. Our overview --

1 MR. WILLIAMS: Nor does Staff.

2 JUDGE PRIDGIN: All right. This looks to be
3 a pretty natural time to break for lunch. Otherwise we'll
4 probably be getting into some testimony and simply have to
5 interrupt. I've got about twenty 'til twelve, is the time
6 here. Let's try to resume at one o'clock.

7 Is there anything from counsel?

8 Anything further from counsel?

9 Guys, it's 11:40. Let's try more like
10 12:45. Let's get back at 12:45 and resume.

11 If there's nothing further, we will go off
12 the record until 12:45.

13 (Off the record.)

14 (Wherein; MGE's Exhibit Nos. KCP&L-2201NP,
15 KCP&L-2201HC, KCP&L-2202, KCP&L-2203, KCP&L-2203NP,
16 KCP&L-2203HC, KCP&L-2204. GMO-2201NP, GMO-2201HC,
17 GMO-2202, GMO-2203, and GMO-2204 were marked for
18 identification.)

19 (Wherein; Industrials' Exhibit Nos. KCPL
20 1201, KCPL 1202, KCPL 1203, KCPL 1204, KCPL 1205, KCPL 1206
21 KCPL 1207, KCPL 1208, GMO 1401, GMO 1402, GMO 1403,
22 GMO 1404, GMO 1405, GMO 1406, GMO 1407, and GMO 1408 were
23 marked for identification.)

24 (Wherein; Staff's Exhibit No. KCP&L-201
25 through KCP&L-247 and GMO-201 through GMO-248 were marked

1 for identification.)

2 (Wherein; Department of Natural Resources
3 Exhibit No. KCPL 602, KCPL 603, KCPL 604, KCPL 605, GMO
4 601, GMO 602 and GMO 603 were marked for identification.)

5 JUDGE PRIDGIN: Good afternoon. We are back
6 on the record. On my schedule, it says that we will begin
7 with overview and policy witnesses.

8 So is it Mr. Blanc or Mr. Blanc, I can't
9 recall?

10 MR. BLANC: Blanc.

11 JUDGE PRIDGIN: Mr. Blanc and then
12 Mr. Featherstone from Staff.

13 Is there anything from counsel before
14 Mr. Blanc takes the stand?

15 All right. Mr. Blanc, come forward to be
16 sworn, please.

17 (Witness sworn.)

18 JUDGE PRIDGIN: Thank you, sir. And the
19 direct and cross at your convenience, either from the
20 podium or from where you're sitting as long as you're near
21 a microphone.

22 MR. FISCHER: Thank you, Judge.

23 CURTIS BLANC testifies as follows:

24 DIRECT EXAMINATION BY MR. FISCHER:

25 Q. Please state your name and address for the

1 record.

2 A. Sure. My name is Curtis Blanc, spelled
3 B-L-A-N-C. My business address is KCP&L 1200 Main, Kansas
4 City, Missouri.

5 Q. Are you the same Curtis Blanc who caused to
6 be filed in this proceeding prefiled direct, rebuttal and
7 surrebuttal testimony?

8 A. I am.

9 Q. And for your purpose, I think we've marked
10 the direct as KCPL No. 7 HC and KCP&L 7 NP and then also
11 the rebuttal is KCPL 8 and your surrebuttal is KCPL 9.

12 (Wherein; Kansas City Power & Light's
13 Exhibit No. KCPL 7 HC, KCPL 7 NP, KCPL 8 and KCPL 9 were
14 marked for identification.)

15 BY MR. FISCHER:

16 Q. Mr. Blanc, do you have any corrections or
17 perhaps updates that you need to make to your testimony or
18 exhibits?

19 A. No corrections, but two updates just based
20 on the timing of when the direct testimony was filed. As
21 was pointed out in opening statements, the Company has
22 revised its ROE request in response to financial market
23 conditions. Dr. Hadaway's the expert on that, but my
24 direct reflects the request is 11 percent.

25 And as done in Dr. Hadaway's surrebuttal,

1 that's been reduced to 10.75 percent.

2 Q. Was there any other updates that you needed
3 to make?

4 A. Sure. At the timing of my direct testimony,
5 we had won the PA Reliability award three consecutive years
6 and since that time we won it for a fourth time. So it's
7 now four consecutive years.

8 Q. With those comments, if I were to ask you
9 the questions contained in your testimony today, would your
10 answers be the same?

11 A. Yes, they would.

12 Q. And are those answers true and correct to
13 the best of your knowledge and belief?

14 A. Yes, they are.

15 Q. And do the schedules or attached exhibits
16 accurately depict what you're trying to show in those?

17 A. Yes, they do.

18 MR. FISCHER: Your Honor, with that, I would
19 move for the admission of KCP&L Exhibit 7, 8, and 9, both
20 the HC and NP versions. And I tender the witness for
21 cross-examination.

22 JUDGE PRIDGIN: Mr. Fischer, I thank you.
23 Any objection to those exhibits?

24 MR. WOODSMALL: Your Honor, typically we
25 withhold admission of those until we've gone through

1 cross-examination on all the issues. So I don't want to
2 not object and then have an objection later when he takes
3 the stand on specific issues.

4 JUDGE PRIDGIN: I'll just show that I will
5 not rule yet, but that you may or may not withdraw your
6 objection later depending on cross-examination. Would that
7 be accurate?

8 MR. WOODSMALL: That'd be fine.

9 JUDGE PRIDGIN: All right.

10 MR. WOODSMALL: And then maybe a procedural
11 question: I know we're dealing with two cases here and
12 common issues; are we just taking up KCP&L testimony now or
13 is GMO testimony as well or when will he take the stand on
14 that?

15 JUDGE PRIDGIN: It's my intent that while
16 I'm on the bench for the three weeks that have been set
17 aside for the 0355 hearing that would include KCP&L only
18 issues, as well as joint issues between the two companies.
19 Now, looking at the schedule, it looks to me that when
20 people are taking the stand they're doing it for both
21 purposes. That's my understanding.

22 Now, if counsel disagrees or wants to do
23 something different, I'm certainly willing to listen. But
24 for the fourth week where Judge Dippell is supposed to be
25 on the bench, those should be the GMO only issues and

1 everything else will be tried while I'm on the bench. I
2 hope that answers your question.

3 MR. WOODSMALL: It does. Thank you.

4 MR. WILLIAMS: Judge, if I suggest a
5 procedure where the last time a witness appears on an issue
6 or is to appear -- I guess in this first three weeks versus
7 the last week that the testimony be offered at that stage
8 as opposed to earlier.

9 JUDGE PRIDGIN: That's certainly fine with
10 me if counsel want to do that. That's -- I mean we've
11 certainly done that in the past.

12 MR. WILLIAMS: I think that would address
13 Mr. Woodsmall's concern.

14 JUDGE PRIDGIN: All right. Anything further
15 before he stands for cross?

16 All right. Hopefully in the interest of
17 saving a little bit of time, instead of simply going
18 through and asking each party if they have cross, I may
19 take an educated guess as to who has cross. I don't mean
20 to exclude anyone and I'll always make sure that
21 everybody's got one chance to speak out.

22 Let me see who would have cross for
23 Mr. Blanc on overview and policy. I assume Staff will?

24 MR. WILLIAMS: Yes.

25 JUDGE PRIDGIN: Public counsel?

1 MR. MILLS: (Nodded.)

2 JUDGE PRIDGIN: Mr. Woodsmall?

3 MR. WOODSMALL: No, Your Honor.

4 JUDGE PRIDGIN: Who else wishes cross on the
5 overview and policy?

6 Mr. Wagner? Anyone else?

7 All right. Mr. Wagner, if you're ready,
8 sir.

9 CROSS-EXAMINATION BY MR. WAGNER:

10 Q. Good morning, Mr. Blanc. I just have a few
11 questions regarding the Company's policies and practices
12 related to energy conservation.

13 For a utility, can you explain -- can you
14 give me an overview of how many customers you have, just in
15 general?

16 A. Sure. Company-wide about 800,000. And that
17 would be KCP&L and GMO, Kansas and Missouri.

18 Q. Okay. For a com-- for a utility company,
19 your ideal power load is essentially a flat line; is that
20 correct?

21 A. I'm sorry. I'm not sure I know what you
22 mean by ideal power load.

23 Q. Your load, where you're not peaking, you're
24 dropping during the night and raising during the day.
25 You're ideal load is a flat line?

1 A. Sure. And I guess we would put that in
2 terms of load facture. And right, a load facture closer to
3 one is cheaper to serve.

4 Q. Okay. Would you agree that energy
5 efficiency -- that the definition of energy efficiency is
6 the goal to reduce the amount of energy provided to
7 products and services such as replacing incandescent bulb
8 with a compact fluorescent bulb?

9 A. I guess I would draw a distinction between
10 energy efficiency and conservation. And I'm not sure which
11 one your definition would apply.

12 Q. I'm going to get to the second one here in
13 just a second. This one was regarding to just energy
14 efficiency.

15 A. We would -- I would define energy efficiency
16 as teaching customers to use energy more wisely and that
17 may result in conservation.

18 Q. Would you agree that energy conservation
19 refers to energy efforts to reduce energy consumption such
20 as reducing the on time of lighting such as occupancy
21 sensors?

22 A. Conservation I would define as just doing
23 something that results in the usage of less energy.

24 Q. But not necessarily impacting the efficiency
25 of how that energy is used?

1 A. No. Not necessarily. And as a simple
2 example, you could set prices so that it wasn't economic
3 for a customer to run their air conditioner in the summer
4 and that would be conserving the energy, but that wouldn't
5 be helping the customer to manage their energy usage any
6 better.

7 Q. Okay. We're --

8 A. Is the distinction I would raise.

9 Q. Energy efficiency might be replacing that AC
10 unit with a unit that could use the watts for BTU output or
11 energy output more wisely?

12 A. A more efficient air conditioning unit, yes.

13 Q. Okay. Would you define the energy optimizer
14 program as energy conservation program as it seeks to
15 reduce the on time of peak demand?

16 A. Energy optimizer is a demand response
17 program. And not to split hairs, but that's a different
18 category than what we've talked about so far.

19 Q. And the energy optimizer program is aimed at
20 essentially peak demand?

21 A. It is and that's demand response. That's
22 what it does; it allows us to shave our peak demand.
23 Basically, on our hottest day we could call upon that
24 program to shave the peak, we call it.

25 Q. Okay. So it's aimed at peak demand?

1 A. Uh-huh. Yes.

2 Q. And basically without that program, the
3 company would have to run more expensive, what I would call
4 peaking plants -- if that's a term that's acceptable --
5 such as your oil plant?

6 A. Sure. Now, that's what we experienced this
7 past summer. We were able to avoid burning some -- or
8 firing up some more expensive generating resources because
9 of both the optimizer and the in-power programs.

10 Q. Do you encourage -- do the Companies
11 encourage energy conservation overnight? Reduce energy
12 usage for overnight?

13 A. We have a suite of energy efficiency
14 programs. I can't think of any that are specifically
15 geared toward nighttime usage, no.

16 Q. But in general, do you encourage customers
17 to reduce their overnight load through education or any
18 other activities?

19 A. Like I said, we've got a suite of energy
20 efficiency programs, but I -- I don't think any of them are
21 geared toward nighttime usage.

22 Q. Would you agree that the outdoor lighting
23 programs proposed by Mr. Wagner would generally reduce only
24 nighttime load?

25 A. I am trying to think. As I understand your

1 programs -- and maybe I don't -- I should summarize my
2 understanding -- is that there would be fewer street lights
3 on at night. So sure, less electricity would be consumed.

4 Q. Thank you. If the Companies adopted outdoor
5 lighting conservation programs instead of consumers paying
6 for electricity, what would happen to the excess
7 electricity if outdoor lighting conservation was enacted?

8 A. I guess just as a first point, I don't think
9 we could enact what you're discussing. We have street
10 lighting customers and the street lighting customers would
11 have to request that. I don't think it's something we
12 could impose on our street lighting customers.

13 But if our street lighting customers did
14 request that the lights be turned off, and we did that,
15 that power -- depending on what kind of generation was
16 being run to generate that power -- if there was economic
17 excess, it could be sold on the wholesale market.

18 Q. So that would go into the off-system sales
19 that was mentioned earlier?

20 A. If there was economic generation to run at
21 night, yes.

22 Q. And is it less profitable for the Companies
23 to sell their electricity wholesale off-system sales than
24 to sell it as outdoor lighting?

25 A. I'm not sure I understood that question.

1 I'm sorry.

2 Q. Does it -- do the Companies make more money
3 selling the electricity through outdoor lighting usage
4 through street lights than if that energy was withdrawn and
5 sold wholesale?

6 A. I guess there are two different issues
7 there: One, the off-system sales margins do go back to our
8 customers, so that's certainly true. But then the rates we
9 charge for street lighting are cost-based, so I guess it's
10 the making money part I'm not sure we -- I guess in your
11 example, would have the option of incurring the cost and
12 giving the recovery of those cost through rates of
13 providing street light service for municipalities or
14 selling power on the off system market if there's economic
15 generation to run.

16 Q. So which is more profitable; selling on the
17 open market or selling it to outdoor lighting customers?

18 A. I don't know the answer to that question.

19 Q. Many utilities have expressed concern with
20 the possibility of dramatically increased overnight loads
21 due to electric vehicles plug-in hybrid charging. Is this
22 still a concern for the Companies?

23 A. I don't know if it's a concern here today.
24 I've read articles that plug-in hybrids are coming. I read
25 articles that it would certainly make sense to introduce a

1 pricing structure to encourage people to charge at night.
2 But we're not experiencing any of that today.

3 Q. So as of today, it's not a concern for the
4 Company?

5 A. It's just not something we're seeing on our
6 system.

7 Q. Looking at energy conservation only, would
8 the Company support outdoor lighting changes if they reduce
9 peak load?

10 A. All other things being equal, no operational
11 concerns, no safety concerns, if it was just a peak
12 shaving, I would say first we peak during the day, but if
13 there was a nighttime peak and this would shave it and all
14 else being equal, sure.

15 Q. Is it true that other companies, such as
16 AmerenUE have the ability to use overnight electricity to
17 reverse pump hydroelectric facilities and centrally store
18 overnight electricities and use them to off set peak load
19 during the day?

20 A. They do have a hydro facility that allows
21 them to pump storage is what we call it. KCP&L does not
22 have such a system, but Ameren does.

23 Q. Thank you. If the Companies had energy
24 storage facilities to reduce overnight load and turn it
25 into daytime peak load reduction, would outdoor lighting

1 energy conservation measures be beneficial to the Company?

2 A. That would depend on a lot of factors. It
3 depends on the economics of the storage basically. Pump
4 storage is economic. We don't have one of those
5 facilities. I guess as I sit here, I can't think of a
6 storage option that we have that would be economic to do
7 that. But I guess, theoretically, if there was a storage
8 option that was cheap enough to do that, that would make
9 sense -- and we had a nighttime peak. That would make
10 sense.

11 Q. Is it prudent for the Companies to expand
12 capacity for projected load increases while not offering
13 customers the opportunity to reduce that load?

14 A. I would say we do exactly that. We have to
15 look forward and do basically our generation planning our
16 IRP process and what we forecast our load to be. And part
17 of that is what we think energy efficiency and
18 conservations measures will accomplish. That's -- we do
19 that today. That's an obligation we have.

20 Q. Is it prudent for the Companies to expand
21 capacity for projected increases in load while not
22 maximizing the opportunities that exist through energy
23 storage medium?

24 A. Once again, to go to my previous answer, you
25 have to look at the economics of what's available. That is

1 part of our IRP process; is we look at that and try and do
2 the least cost option for our customers.

3 Q. Do the Companies offer any outdoor lighting
4 energy conservation measures in their draft tariffs?

5 A. We have outdoor lighting and the service is
6 based on our cost to provide that service, so I wouldn't
7 say it creates an incentive to use or not to use outdoor
8 lighting. The cost reflects the -- the rates reflect what
9 the cost is to provide the service, so I wouldn't say
10 there's an incentive either way.

11 Q. But you're not proposing any changes or
12 additional programs at this time that would directly allow
13 customers to reduce their energy conservation measures with
14 regard to outdoor lighting? There's no additional programs
15 coming on?

16 A. No. Nor have our outdoor lighting customers
17 requested that of us.

18 MR. WAGNER: Thank you.

19 JUDGE PRIDGIN: Mr. wagner, thank you.

20 Mr. williams had cross.

21 Mr. Mills, I can't recall: Do you have
22 cross?

23 MR. MILLS: Yes.

24 JUDGE PRIDGIN: Anyone else?

25 Mr. Mills.

1 CROSS-EXAMINATION BY MR. MILLS:

2 Q. Good afternoon, Mr. Blanc.

3 A. Good afternoon, Mr. Mills.

4 Q. Did you have any role in the preparation of
5 the video that was shown during opening statements?

6 A. I just -- to review it.

7 Q. So you did review it?

8 A. I did.

9 Q. Do you recall in the opening video that
10 Mr. Downey referred to decades of stability and prices?

11 A. I do remember that phrase, yeah.

12 Q. When does that "decades of stability in
13 prices" start? Is that to be after this rate case?

14 A. I think that's the plan, especially if you
15 look at Iatan 2, which is what the video is about and what
16 he was speaking to. Is that unit will go in now at -- so
17 to speak -- it's most expensive to customers. It will
18 depreciate over time and become cheaper and is at the most
19 efficient -- on the most efficient of our baseload
20 resources. So from that perspective, it will provide
21 stability to our rates for the life of the unit.

22 Q. So what do you mean by stability in rates?
23 No more rate increases?

24 A. Certainly not attributable to Iatan 2. What
25 we are looking at -- and it is a concern for the Company --

1 are renewable energy standards and environmental
2 investments we're going to have to make. But none of that
3 has anything to do with Iatan 2.

4 Q. Okay. So when Mr. Downey talks about
5 decades of stability and prices, he doesn't mean that
6 there's going to be -- but you're anticipating decades of
7 no rate increases?

8 A. No. I wouldn't say that. What I would say,
9 he was saying -- you can ask Mr. Downey about it when he's
10 on the stand -- is that had we not built Iatan 2, we
11 wouldn't have the stability in the rates that Iatan 2 will
12 provide.

13 Q. In other words, if you hadn't had four rate
14 cases in four years, you might had some rate cases later?

15 A. If we didn't have an efficient generating
16 resource online for the next forty or fifty years, it would
17 cost us more to serve our customers over that time frame.

18 Q. So the reference of "decades of stability
19 and prices" really has nothing to offer a consumer advocate
20 in terms of hopes of a diminished level of rate increases
21 going forward?

22 A. I disagree. As I said, Iatan 2 will be
23 dispatched at the bottom of a resource stack. Basically,
24 when we go to serve our native load we start at the most
25 economic unit to dispatch and move up. By moving Iatan 2

1 in where we did, it shifts the whole stack up so we will be
2 able to provide cheaper service to our customers as long as
3 Iatan 2 is online.

4 Q. Do you have any plans for future rate cases?

5 A. We don't have a definitive time planned
6 right now, but as I said the renewable energy standards are
7 a concern of mine and the Company and environmental
8 retrofits that we're going to be required to do are our
9 concern.

10 Q. Do you anticipate filing a rate case to
11 recover your proposed investments in La Cygne?

12 A. Yeah. We'll have to look at our revenue
13 requirement model, but I would anticipate that's going to
14 be a significant enough investment to be a rate case
15 driver.

16 Q. And when do you anticipate the rate case to
17 recover those investments to be filed?

18 A. The decision to retrofit La Cygne has not
19 been made yet. It's at the preliminary point, but if we do
20 retrofit it, basically we have an obligation from the
21 Kansas, KDHE in Kansas to either retrofit or stop running
22 the unit by June 1, 2015.

23 So that's the deadline we're up against. So
24 those rates -- there would be a rate case around that time
25 frame, so those rates would go into effect late 2015 or

1 early 2016 depending on the time of the rate case.

2 Q. As you sit here today, do you see any other
3 significant investments that would drive a rate case before
4 that time?

5 A. Not of that magnitude. The renewables and
6 environmental mandates are the first ones that jump to my
7 mind.

8 Q. And do you think that either of those would
9 cause you to file a rate case that would have rates after
10 this rate case, I mean, that would cause rates to go into
11 effect before 2016 timeframe?

12 A. I just don't know. What we look at is part
13 of our budgeting process is the point at which the revenues
14 we received don't cover our cost to serve our customers
15 anymore. And I certainly can't guarantee that that won't
16 happen between now and 2015.

17 Q. Has your budget process identified the
18 possibility of another rate case between now and 2015?

19 A. Only the remote possibility, no decisions
20 have been made. That was my first answer to this line of
21 questions.

22 Q. So it's your testimony that it's only a
23 remote possibility?

24 A. Yeah. It's a possibility. Sorry if remote
25 was too strong of a word. It's possible.

1 Q. It's a good word for me. If you want to say
2 remote, I'm happy.

3 A. It's possible, but no decision's been made.

4 MR. MILLS: That's all I have. Thank you.

5 JUDGE PRIDGIN: Mr. Mills, thank you.

6 Mr. Williams.

7 MR. WILLIAMS: Thank you, Judge.

8 CROSS-EXAMINATION BY MR. WILLIAMS:

9 Q. Good afternoon, Mr. Blanc.

10 A. Good afternoon, Mr. Williams.

11 Q. I'm used to seeing you on the other side of
12 the chair. Turning to La Cygne, following up on some of
13 Mr. Mills questions. How much capacity are the
14 companies -- I guess it's Kansas City Power and Light
15 Company -- how much capacity is it getting from La Cygne?

16 A. I believe it's approximately 700 megawatts.
17 We have in there two coal-fired units there. We own each
18 50/50 with Westar. I believe our share is approximately
19 700, but that's not an exact number.

20 Q. And what does the company plan to do if
21 doesn't retrofit La Cygne?

22 A. We'll have to look at a variety of options
23 and go into the type of resource planning Mr. Wagner and I
24 were discussing. That basically the question will be, what
25 is the cheapest way to provide power to our customers if

1 it's not through retrofit La Cygne, what's the next best
2 option; is it CTS built slowly over time, is it a large
3 combined cycle at some point? I don't know the answer to
4 that.

5 Q. So you're planning to build replacement
6 capacity in the event you do not retrofit La Cygne?

7 A. Our load would show that we -- well, I guess
8 the other option would be purchase power contracts. But
9 our load shows that we need that capacity. La Cygne is not
10 excess capacity, so based upon what I know sitting here, we
11 would have to replace it with something, either steel in
12 the ground or purchase contracts.

13 Q. Turning to another topic: At the conclusion
14 of this rate case after the new rates are in effect, what
15 obligations does Kansas City Power and Light Company
16 believe it still has under the experimental alternative
17 regulatory plan the Commission approved in Case No.
18 EO-2005-0329?

19 A. Sure. The only one that comes to mind is we
20 made a commitment not to seek single-issue ratemaking under
21 Senate Bill 179 until June of 2015.

22 Q. For business planning purposes, do Kansas
23 City Power and Light Company and KCP&L Greater Missouri
24 Operations Company make their decisions as one entity or
25 are decisions made separately for each entity?

1 A. I'm sorry can you be more specific?

2 Q. well, I'm asking generally for -- if we can
3 get into something specific if you'd like, but for business
4 planning purposes, say to engage in the construction of a
5 new generating facility, is the planning done -- is the
6 business planning done on a KCP&L total wide basis; in
7 other words, Kansas City Power and Light Company and KCP&L
8 Greater Missouri Operations Company or is the planning done
9 by and for each entity separately, separately for Kansas
10 City Power and Light Company and separately for KCP&L
11 Greater Missouri Operations Company?

12 A. No. Under the current IRP rules and how
13 it's done today, the companies do separate planning. GMO
14 and KCP&L do separate IRP studies. The draft rules that
15 are in place that are before the Commission for
16 consideration is actually a -- some language there that
17 would resolve that from our perspective.

18 There's some language in the initial draft
19 that said two affiliated companies could plan together.
20 And we think that's the right way to go. But I know some
21 parties have been advocating striking the provision that
22 would allow us to plan together.

23 Q. I'm not asking what you've done for
24 compliance with the rules. I'm asking what you actually do
25 in your business planning.

1 A. Yeah. I'd say they're one of the same and
2 we try and integrate to the extent we can. But from a
3 resource planning perspective, the rules require us to look
4 at the separate utilities and so that's what we do.

5 Q. And then you make your business decisions
6 for each separate utility based on what your studies
7 indicate should be your -- I guess it's -- preferred
8 resource planning.

9 A. Yeah. Right. Each company has its own
10 preferred resource plan and because neither company is
11 building generation right now, the issue I think you're
12 getting to hasn't come up yet. But will be interesting --
13 and it hasn't occurred yet -- is when each company's
14 resource plan advocates each company building something
15 that together they wouldn't need.

16 That theoretical possibility hasn't happened
17 yet, but when it does it would make all the more sense for
18 the companies to plan together.

19 Q. Well, let's -- are you familiar with the
20 advanced coal income tax -- federal income tax credit
21 issue?

22 A. Only vaguely. Melissa Hardesty is our
23 witness on that issue.

24 Q. Well, you're aware that Kansas City Power
25 and Light Company got a \$125 million income tax credit by

1 the IRS?

2 A. I'm aware of that.

3 Q. And you're also aware that as a result of
4 arbitration a portion of that \$125 million credit was
5 reallocated to the Empire District Electric Company?

6 A. I'm aware of that.

7 Q. If -- why wouldn't KCP&L Greater Missouri
8 Operations Company had also sought a reallocation of a
9 portion of that \$125 million credit?

10 A. As I've said Melissa Hardesty is the witness
11 on that, but my general understanding of her position is
12 that there was a concern with the IRS rules that we would
13 put the entire tax credit at risk by seeking to do that.
14 And just economically that didn't make sense.

15 Q. well, that's at this point in time -- or a
16 later point in time. What about when -- at the time Kansas
17 City Power and Light Company was seeking the credit, why
18 didn't KCP&L Greater Missouri Operations Company also seek
19 the credit?

20 A. It's my understanding -- and again,
21 Melissa's the witness -- that that decision was made prior
22 to the acquisition and Aquila did what it did for the
23 reasons it did. I don't know that. But I believe the
24 decision was made preacquisition.

25 Q. Do Kansas City Power and Light Company and

1 KCP&L Greater Missouri Operations Company have any plans to
2 merge?

3 A. Yes. We do plan to merge at some point in
4 time. We've been in rate case mode for awhile. But after
5 the rate cases are over, we can think there are potentially
6 additional savings to be had by merging the two entities.

7 Q. Does it have any time verizon on when it
8 might seek to merge those two companies?

9 A. No definite date set, but I would anticipate
10 within the next few years we would file an application
11 before the Commission. But no -- no date has been set for
12 that.

13 Q. And with a view towards seeking to merge
14 those companies, have Kansas City Power and Light Company
15 and KCP&L Greater Missouri Operations Company taken any
16 actions towards moving their rates closer to parity?

17 A. Because I would see those as two separate
18 issues is why I'm a little puzzled. When we filed our rate
19 case parity among the three Missouri jurisdictions it was
20 not an objective that the rates reflect the cost to serve
21 those customers. And I think that's why historically their
22 rates have differed is their rates reflect cost.

23 Q. What involvement do you have in the making
24 of policy at Kansas City Power and Light Company?

25 A. What kind of policy? I'm afraid I don't

1 understand.

2 Q. well, you're listed as being an overview and
3 policy witness, so what participation do you have in making
4 policy?

5 A. I understand the question better now.
6 Basically, regulatory policy. There's senior leadership
7 team. And on significant issues, we would get together and
8 discuss and I would present to them on regulatory issues.
9 But if inserting the word "regulatory" before policy would
10 clarify things, that would be accurate.

11 Q. And would you give some examples of what
12 you're calling regulatory policy?

13 A. Sure. Basically, how we present our rate
14 case to the Commissions, how we interact with the
15 Commissions, how we formulate our applications before the
16 Commissions; those would all be regulatory policy.

17 Q. In your testimony you refer to PA Consulting
18 Group have awarded Kansas City Power and Light Company --
19 and I'm not sure, maybe perhaps also KCP&L Greater Missouri
20 Operations Company -- some awards. Do you recall that?

21 A. I do.

22 Q. Is there any relationship between Kansas
23 City Power and Light Company and PA Consulting Group?

24 A. Not that I'm aware of. Mr. Herdegen, who is
25 a witness in this case, is more familiar with PA Consulting

1 than I am, but I'm not aware of a relationship.

2 Q. Do you know if there's any relationship with
3 any members of the Board of Directors of Kansas City Power
4 and Light Company or Great Plains Energy and PA Consulting
5 Group?

6 A. Not that I'm aware of. But again,
7 Mr. Herdegen's more familiar with PA Consulting.

8 Q. Are you aware if any of the executive
9 officers at Great Plains Energy or Kansas City Power and
10 Light Company or KCP&L Greater Missouri Operations Company
11 have any relationship with PA Consulting Group?

12 A. Again, not that I'm aware of.

13 Q. Then turning to JP Power and Associates; is
14 there any relationship between Kansas City Power and Light
15 Company or KCP&L Greater Missouri Operations Company and JP
16 Power and Associates?

17 A. The only relationship I'm aware, JP Power's
18 service provider and they charge for they service, but
19 that's the only relationship I'm aware of.

20 Q. what service are you referring to?

21 A. The surveying they do. I believe there's a
22 fee associated with that.

23 Q. Is there any relationship between the Board
24 of Directors of Great Plains Energy or Kansas City Power
25 and Light Company or KCP&L Greater Missouri Operations

1 Company and JP Power and Associates?

2 A. Not that I'm aware of.

3 Q. Is there any relationship between the
4 executive officers of Great Plains Energy, Kansas City
5 Power and Light Company or KCP&L Greater Missouri
6 Operations Company and JP Power and Associates?

7 A. Not that I'm aware of.

8 Q. It's my recollection you also referenced
9 EER; is that correct? Edison Electric Institute
10 Reliability Survey?

11 A. (Nodded.)

12 Q. Is there any relationship between Greater
13 Missouri -- wait a minute -- Great Plains Energy
14 Incorporated, Kansas City Power and Light Company or KCP&L
15 Greater Missouri Operations Company and Edison Electric
16 Institute?

17 A. The only -- I'm not sure if it constitutes a
18 relationship, but I know our CEO participates in EEI
19 functions and may be on some different task force or
20 advisory boards, but I don't know beyond that.

21 Q. Is there another relationship of any
22 executive of Great Plains Energy or Kansas City Power and
23 Light Company or KCP&L Greater Missouri Operations Company
24 and Edison Electric Institute that you're aware of?

25 A. Just the same answer.

1 Q. So I think you're answer's no? There isn't
2 anyone else?

3 A. No. Mr. Chesser's the only example I can
4 think of that I'm aware of who participates in some of
5 their advisory boards and task force.

6 Q. And for the Board of Directors of Great
7 Plains Energy, Kansas City Power and Light Company and
8 KCP&L Greater Missouri Operations Company, is there any
9 relationship between any of members of the board of
10 directors and the Edison Electric Institute that you're
11 aware of?

12 A. Only to the extent that Mr. Chesser's also a
13 member of the Board of Directors.

14 MR. WILLIAMS: No further questions of this
15 witness at this time.

16 JUDGE PRIDGIN: Mr. Williams, thank you.

17 Questions from the bench, Commissioner
18 Davis?

19 QUESTIONS BY COMMISSIONER DAVIS:

20 Q. Mr. Blanc, let me go back. Can you describe
21 briefly again what the nature of the agreement between
22 KCP&L and the Kansas Commission is on the La Cygne plant?

23 A. La Cygne? Yeah.

24 Q. La Cygne.

25 A. There's no agreement between KCP&L and the

1 Commission. There's a requirement that did result from the
2 settlement agreement with KDHE that basically requires us
3 to have retrofits in place or shut down the unit by June
4 1st of 2015.

5 Q. And is Westar a part of that?

6 A. I don't believe so. We operate the unit.

7 Q. Okay.

8 A. So I wouldn't anticipate them to. So
9 technically are they a signatory to that; I don't believe
10 so.

11 Q. Okay. So --

12 A. KCP&L operates --

13 Q. So KCP&L operates the La Cygne plant and --
14 I mean, since they are a 50 percent owner, maybe you have
15 to consult and advise with them about this decision?

16 A. Sure. There's an ownership and operating
17 agreement that lays out the parties respective rights.

18 Q. And so is it -- the decision's solely at
19 your de-- is it solely at KCP&L's discretion or is it --
20 tell me what the -- tell me what the rights and obligations
21 are there?

22 A. Sure. I'm not familiar enough to tell you
23 all the rights and obligations, but I can tell you
24 functionally how it's working is we're coordinating very
25 closely with Westar on the analysis and the decision.

1 Q. Okay. And so when do you expect a decision
2 to be made as to whether you're going to retrofit or close
3 La Cygne?

4 A. I would say before this year is up we
5 anticipate -- Kansas has a predetermination statute that
6 basically gives us the ability to ask the Commission, yes
7 or no, is it prudent to retrofit the unit. We're going to
8 file that very shortly and that has a six-month clock on
9 it. So we'll have an answer from the KCC within six
10 months --

11 Q. Okay.

12 A. -- of filing the application.

13 Q. Okay. So would you anticipate filing before
14 July 1 or would you anticipate filing before December 31
15 or --

16 A. I would anticipate filing either the end of
17 the first quarter or the beginning of the second quarter,
18 so February or March or April of this year.

19 Q. Okay. So we're going to know one way or the
20 other before this rate case is concluded what your
21 intentions are with La Cygne? We may not -- we may not
22 know -- I mean, you're going to file for predetermination
23 with the KCC before the outcome of this case, if you're
24 going to do that. Correct?

25 A. Correct.

1 Q. Okay. And obviously, if you're not then
2 that's an indication that you're going to close the plant?

3 A. If -- I'm sorry. I didn't understand you.

4 Q. If you do not -- if you do not file for
5 predetermination in Kansas on the La Cygne plant, then can
6 we view that as a -- that you have in fact made a decision
7 that you're not going to keep the plant open?

8 A. We are filing for predetermination.

9 Q. Okay. So are --

10 A. So I guess, that's that. That decision has
11 been made. The decision to file --

12 Q. You are filing.

13 A. -- has been made.

14 Q. And then depending on what happens with the
15 Kansas Commission, then will determine whether or not
16 you're going to retrofit La Cygne?

17 A. Exactly. And I mean, simply put all of our
18 modeling and analysis shows it's economic to retrofit
19 La Cygne. But in speaking with the Kansas staff and the
20 Missouri staff, they've raised questions that indicate they
21 don't necessarily agree with that analysis.

22 So that makes the Kansas predetermination
23 critical and if we had a similar mechanism in Missouri, we
24 would seek that too. It's a significant decision.

25 Q. All right. That's an excellent point. Now,

1 I want to move on to modeling and analysis that you're
2 talking about. The latest report from SPP, the integrated
3 transmission plant 20 is assuming that there, at some
4 point, is going to be 16 gigawatts of wind. And SPP is out
5 there proposing that we build all of this transmission and
6 then -- which as a member of the illustrious members
7 committee of KCP&L I don't see KCP&L objecting to any of
8 those assumptions.

9 So I mean, can we count on seeing some of
10 that analysis in your next IRP filing?

11 A. Analysis as to how much wind might actually
12 get built in western Kansas? Is that the question?

13 Q. Well, western Kansas, Oklahoma, the Texas
14 panhandle. I mean, if you hear SPP tell it, they're going
15 to build all this wind. They're going to build all this
16 transmission and the meters will spin backwards. And I
17 want KCP&L to tell me whether they think those assumptions
18 are accurate or not.

19 A. We have to plan based on what we know and
20 based on what's going on in our system. And unfortunately,
21 these trends have trickled through the industry. I
22 remember ten years ago they were going to build 11
23 liquified natural gas receiving facilities up and down the
24 east and west coast of the US. And the gas transmission
25 companies were scrambling to build enough gas

1 transportation infrastructure to serve those.

2 I think looking back, one or two of those
3 actually materialized and SPP is struggling with modeling
4 because a developer comes to them and says, we plan to
5 build wind. And SPP doesn't have the information to say if
6 that developer's actually going to build the wind or not.
7 So that's a challenge.

8 Q. All right. So you're telling me that I
9 shouldn't put a lot of stock in those representations?

10 A. I can't say that because I don't know any
11 better than SPP if developers are going to build it or not.

12 Q. So you're saying that for KCP&L purposes, I
13 shouldn't put a lot of stock in those representations?

14 A. I'm saying we plan based on what we have
15 control over, based on what's in our system and making sure
16 we have the generation resources for our customers.

17 Q. Okay. And Mr. Blanc, who is the person here
18 that can talk about transmission issues? Who is the KCP&L
19 witness?

20 A. Okay.

21 Q. I mean, is there -- you know, is the -- I'm
22 trying to think of what the -- I would assume that the
23 annual transmission revenue requirement for SPP is going to
24 be an issue in this case, and I would assume at some point
25 you would have to present evidence of those expenses. So

1 who would be the witness on those issues?

2 A. For that specific one it would be me in
3 part, but also Mr. Rush. We're sponsoring a rule
4 requesting a transmission expense tracker as part of this
5 case, and that goes to the SPP fees that you mentioned.

6 COMMISSIONER DAVIS: All right.
7 Transmission expense tracker. All right. Thank you,
8 Mr. Blanc.

9 JUDGE PRIDGIN: Commissioner Davis, thank
10 you.

11 Commissioner Jarrett?

12 QUESTIONS BY COMMISSIONER JARRETT:

13 Q. Good afternoon, Mr. Blanc. How are you?

14 A. Good afternoon. Fine, thank you.

15 Q. I have some, just, I guess, general
16 questions relating to your testimony, your direct testimony
17 regarding cost controls.

18 A. Okay.

19 Q. It's on Page 6. I don't know if you may
20 want to refer to it. I just have some general questions.

21 A. I have it here.

22 Q. You indicate there starting on Line 8, that
23 Great Plains Energy is one of its cost control items
24 reduced its dividend by 50 percent. When did that occur?

25 A. In 2009. It was during the test year on

1 this case.

2 Q. Okay. And is that still the case? Is it
3 still at that rate?

4 A. That's correct. We haven't changed our
5 dividend policy since then.

6 Q. All right. Do you know from an
7 industry-wide standpoint how many regulated utilities that
8 cut their dividend rates? Ballpark?

9 A. Number of utilities, I don't. Mr. Klein is
10 our financial and investor relations person. And he's a
11 witness in this case. And he will probably have a better
12 idea, particularly from an industry-wide perspective of
13 what those statistics look like.

14 Q. And has reducing the dividend 50 percent
15 caused any problems for KCP&L to raise equity capital?

16 A. Yeah. It definitely had an adverse impact
17 on our stock price. And the situation we're in now, our
18 stock is trading below book value. It basically means it
19 isn't economic to issue equity to raise money for
20 investments. And I think cutting the dividend was part of
21 that story, absolutely.

22 Q. Okay. You also indicate in your testimony
23 that KCP&L has suspended external hiring for all but
24 essential skills and has left a significant number of open
25 positions unfilled. Do you have a ballpark on how many

1 open positions you have that are unfilled?

2 A. In my mind it's approximately 200, but
3 that's a ballpark.

4 Q. All right. And can you just give me a
5 general description of what types of positions those are?

6 A. It's broad, across the board. I'd say every
7 level of the company from administration support all the
8 way up to director levels. There are just few of us --
9 fewer of us now.

10 Q. And do you believe that leaving these
11 positions unfilled you're still able to provide safe and
12 reliable service?

13 A. Yes.

14 Q. You also say that KCP&L also tightened its
15 belt concerning its operations and maintenance expenses and
16 capital expenditures. Can you give me some examples of
17 that?

18 A. As far as concrete examples, we go through
19 budget cycles with supply and transmission, but I think
20 more concrete particularly from the Commission's
21 perspective, would be the components of our rate cases.
22 This is the fourth of four rate cases as you've heard
23 mentioned.

24 The O&M increase proportioned. Each of
25 those cases has just kept -- has kept coming down as the

1 cases progressed and that demonstrates that we've just
2 gotten -- we've tightened our belt and gotten more
3 efficient with our O&M expenses.

4 Q. And you also talked a little bit about some
5 of the savings from the merger. And I know that you have
6 another witness testifying to that. Do you have any
7 general information you can give regarding what types of
8 savings you're talking about, increased savings from what
9 you projected?

10 A. Darrin Ives is really the witness on that.
11 But I know part of what we've done -- and we've come to the
12 Commission for the applications to do it -- is to
13 consolidate service centers for example. We've been able
14 to maintain the same level of customer service with fewer
15 service centers. And so that's a direct savings.

16 Q. And I know you talked a little bit about
17 your awards that the Company's received. Did you attend
18 any of the local public hearings?

19 A. I did. I believe all but two of them.

20 Q. Two of them? What, in your memory, were
21 some of the complaints that KCP&L may have taken action on
22 as far as, you know, when people complained about service
23 issues?

24 A. Sure. I guess I would start out by saying I
25 think the vast majority of the customers who appeared and

1 gave testimony indicated they didn't have customer
2 reliability issues. I can think of two exceptions to that
3 and both of those issues were resolved.

4 At the Kansas City, Missouri public hearing
5 there was a gentleman who had gotten behind on paying his
6 bills and was having -- we'd tried to negotiate a couple of
7 payment plans with him unsuccessfully. And he raised those
8 concerns and we had customer service reps at the public
9 hearing and they were able to work one on one with them.

10 And my understanding is they came to an
11 arrangement and he has a payment plan that he believes he
12 can meet.

13 And the other example was at the Lee's
14 Summit public hearing. A gentleman from John Knox Village
15 basically said that some of the -- some of our equipment
16 there at John Knox Village was unsightly and in his
17 opinion, a potential safety hazard.

18 And our engineers looked at it and first,
19 obviously, confirmed that it wasn't a safety hazard, but
20 also addressed some of their esthetic concerns. But those
21 are the only two I'm aware of and we worked hard to address
22 them.

23 COMMISSIONER DAVIS: Yeah. I especially
24 remember the Lee's Summit because I was there and remember
25 the gentleman from John Knox Village. So I appreciate the

1 update on that.

2 I don't have any further questions. Thank
3 you, Mr. Blanc.

4 THE WITNESS: Thank you.

5 JUDGE PRIDGIN: Commissioner Kenney?

6 QUESTIONS BY COMMISSIONER KENNEY:

7 Q. I'm not going to ask too many questions,
8 Mr. Blanc. Thanks. Because I missed the first part of
9 your testimony and so I apologize for that.

10 I want to ask you two questions, one about
11 transmission. This is prompted by some of Commissioner
12 Davis's questions.

13 what percentage of the average customer's
14 bill is attributeable to transmission costs, if you know?

15 A. As a percent I don't know. Mr. Rush can
16 probably give that to you. But I know it's a very small
17 portion.

18 Q. And then, my second question is with respect
19 to rate case expense and specifically Shiff Hardin's fees
20 and that. I'm not going to delve too deeply, but who is
21 the party that's primarily responsible; one, for engaging
22 outside counsel, and second, for reviewing the bills and
23 invoices and the invoices from outside counsel?

24 A. Sure. As far as the hiring of outside
25 counsel, the law department, the General Counsel does that

1 and the law department reviews those invoices. Shiff
2 Hardin is a little expanded, as has been discussed in the
3 testimony. They provide a legal service and other services
4 in support of the Iatan projects.

5 And so the review of their invoices was a
6 little broader. It was the law department doing the legal
7 pieces and then the project folks doing the project pieces.

8 Q. So Shiff Hardin would hire consultants or
9 outside experts and then bill you for those -- and I mean,
10 you, the Company -- for those outside consultants; is that
11 more or less how that process would work?

12 A. Yeah. My only distinction would be that
13 they didn't go out and hire them. Part of what attracted
14 us to Shiff Hardin is they already have this team in place,
15 so we knew what we were getting up front; that they have a
16 longstanding relationship with J Wilson for example, who's
17 a scheduler, Danny Meyer who's a cost expert. And it's the
18 preexisting relationship, but yes. They contracted the
19 Shiff Hardin.

20 Q. So Shiff Hardin paid the consultants and
21 then submitted the bills to the Company or would you have
22 paid the outside consultants directly?

23 A. We would pay Shiff Hardin, but we would
24 receive the invoices from the subcontractors as well.

25 Q. And was there a process in place to review

1 the bills and invoices from those subcontractors as well?

2 A. Yes. Basically, they were just attached to
3 the back of the Shiff Hardin invoice. The Shiff Hardin
4 invoice would have a top sheet and it would say for Shiff
5 Hardin's time, X; J Wilson time, X; Dan Meyer, X; and then
6 there'd be a Shiff Hardin invoice, a J Wilson invoice and a
7 Dan Meyer invoice.

8 Q. were you involved in reviewing those outside
9 invoices?

10 A. when I was in the law department, yeah.

11 Q. How about the outside invoices from the
12 consultants that are attached to Shiff Hardin's invoices,
13 would you have been involved in the process of reviewing
14 those?

15 A. No.

16 Q. who would have?

17 A. That would have been members of the project
18 team and I know procurement also played a role in that.

19 Q. who's going to be testifying that would have
20 been involved in that process?

21 A. I know Bill Downey can speak to that. He
22 maintains strong relationship or may help manage the
23 relationship with the law firm.

24 Q. Okay. You were in the law department at the
25 time Shiff Hardin was working on this project as well?

1 A. In part. Basically, I left the law
2 department July 1st of 2009, so I -- it splits.

3 Q. And if I get into something that's highly
4 confidential, I'm sure somebody will stop me. Right?

5 A. Sure.

6 Q. Okay. Was there ever a time when you
7 objected to Shiff Hardin's bills and asked them to make
8 adjustments?

9 A. No. There were times that I would talk to
10 the people who were working closely with them and make sure
11 the type of work they were describing, just to verify what
12 was going on, so I questioned. But did I ever challenge in
13 the sense of ask them for a deduction; no. I never asked
14 for a deduction or recommended a deduction would have been
15 my role.

16 Q. Are you aware of anybody that did in the
17 legal department?

18 A. I don't know that.

19 Q. You're not personally aware of any
20 circumstances at which some bill was objected to and asked
21 for an adjustment?

22 A. No. I'm just not aware of any.

23 Q. How about with respect to the outside
24 consultants' bills?

25 A. Similar. I remember there certainly were

1 discussions around, you know, was so-and-so in town that
2 week. What were they working on? What were they doing?
3 But as far as if there was ever a formal challenge, I just
4 don't know. I wasn't part of that process.

5 Q. Okay. Mr. Downey might know?

6 A. Yes.

7 COMMISSIONER KENNEY: Okay. I don't have
8 any more questions. Thanks.

9 JUDGE PRIDGIN: Commissioner Davis?

10 FURTHER QUESTIONS BY COMMISSIONER DAVIS:

11 Q. All right. Mr. Blanc, I'm a little troubled
12 and I'm hoping that you can help me out here. When I go to
13 SPP meetings, Nick Brown says that he represents his
14 members, being the transmission-owning members of which
15 case KCP&L's one.

16 They hold their board meetings
17 simultaneously with the members, the transmission-owning
18 members. They're all present. And so when these numbers
19 are endorsed, you know, by SPP with the members all sitting
20 right there, I mean to me it certainly gives the impression
21 that KCP&L is vouching for those numbers or at least is not
22 objecting to them.

23 I mean, what is your response to that? I
24 mean, you know, should I just treat SPP numbers with a
25 grain of salt or are you going to stand behind them or how

1 should we treat -- how should I treat those numbers?

2 A. I think it's important to point out that
3 KCP&L and every other utility in essence has two
4 relationships with SPP. One is the transmission-owning
5 member, but then the other is a customer. And that goes
6 right to your point. Our power sales folk basically pay
7 SPP for transmission service to get power in to serve our
8 customers.

9 So we are a customer of SPP as well as a
10 participant. And so it's balancing that relationship. And
11 we recognize and have control and information about our own
12 transmission planning, what our resource needs are. But
13 going back to the wind example, we don't have any better
14 insight than anyone else as to how much wind is going to be
15 built or whether a transmission line is needed through
16 Arkansas. We don't have insight into that.

17 Q. Well, I mean, so is it just -- I mean,
18 here's my mental impression, is that, you know, as long as
19 KCP&L gets a project and gets a piece of the action here to
20 make 11 and a half, 12 percent with the hypothetical
21 capital structure and all sorts of other FERC candy that
22 you guys seem content to go along with it. I mean, is that
23 a fair impression?

24 A. No. I don't think that's a fair
25 characterization. There's a robust process, you're very

1 involved with SPP more so than I am. But there is a
2 planning process. But the problem is the complexity of it.
3 As we've talked about it's a very broad geographic area and
4 there are different cities, different utilities. And then
5 you have considerations like generation that someone says
6 they're going to build and that may or may not materialize.
7 It's a very complicated process. And I think SPP does the
8 best it can with the information it has.

9 Q. Okay. Now, Commissioner Kenney asked the
10 question earlier: would you agree with the
11 characterization that the cost of transmission on the bill,
12 customer bill right now is just a very small fraction of
13 the bill?

14 A. Absolutely.

15 Q. Has KCP&L done any forecasting of what those
16 transmission bills are going to be 20 years out? Ten years
17 out?

18 A. I'm pausing because I'm -- I know that kind
19 of work is being done, but I don't know the answer to your
20 next question. What is it? I don't know what the results
21 of that kind of forecasting is, but I think they have
22 looked at the impact, for example, if all of the projects
23 SPP is looking at ultimately get built, what would that
24 cost KCP&L as a customer, KCP&L power as an SPP customer.
25 We've looked at that.

1 Q. well, I mean I think it would be important
2 to, you know, if you could file something -- you know, I
3 don't know what the appropriate way to do this is. But if
4 you could file something and say, you know, identify what
5 the portion of the bill is right now for transmission and
6 then figure in the cost of balance portfolio, priority
7 projects and maybe you can make a strategic guess about
8 the -- I'm trying to think of what they call it -- the
9 what's going to be in ITP 10.

10 I think it's important to know what's going
11 to be -- what those customer bills are going to be in the
12 future because I think Mr. Mills' customers are going to be
13 getting a significant rate increase on the transmission
14 side.

15 A. We can get -- yeah. We can get that
16 information and figure out the best way to get it to the
17 Commissioner.

18 COMMISSIONER DAVIS: Thank you, Mr. Blanc.

19 JUDGE PRIDGIN: Any further bench questions?

20 Recross based on bench questions?

21 Mr. Mills?

22 RECROSS-EXAMINATION BY MR. MILLS:

23 Q. Just following up on that last question
24 first. To the extent that KCPL is awarded the transmission
25 cost tracker in this case, will KCPL have less incentive to

1 fight with SPP over transmission cost?

2 A. I would say no. It would still be subject
3 to a prudence review at this level. A tracker is not a
4 free pass. A tracker cost still get reviewed.

5 Q. Okay. But subject to a prudence review,
6 KCPL would have no other incentive to try and drive
7 transmission cost down, at least as far as we've heard
8 rates go; is that correct?

9 A. Yeah. I wouldn't agree with that. If we
10 were talking about a rider, theoretically, I could get to
11 where I understand what you might be saying. But a tracker
12 would be -- we would be out that from rate case to rate
13 case. Certainly between rate cases we would still have the
14 same incentives to keep what's accumulating in that tracker
15 to be as small of a number as possible.

16 Q. Do you have any trackers now? Do you have
17 any historical experience with trackers?

18 A. We do have trackers. We have a pension
19 tracker, for example.

20 Q. Can you recall any time in Missouri in which
21 costs you have tracked have not been recovered by the
22 company?

23 A. I'm not aware of us having a prudence issue
24 on any previous trackers, no.

25 Q. Now, you had some exchanges with

1 Commissioner Davis about the La Cygne construction and the
2 Kansas Corporation Commission. Let me see if I can just
3 sort of try and figure out what your answers mean.

4 At this point, KCPL believes that
5 retrofitting La Cygne is the right course; is that correct?

6 A. That's correct. Our modeling indicates it's
7 the cheapest way to serve our customers.

8 Q. All right. And if the KCC grants
9 preapproval in the case you're going to file shortly, does
10 that mean that you will go ahead with the retrofit at La
11 Cygne?

12 A. Well, as I said, that decision hasn't been
13 made and that will obviously be a very significant factor,
14 but as will our discussions over here.

15 Q. Okay. Conversely, if the KCC does not grant
16 preapproval, would that also be a very significant factor
17 in your decision?

18 A. Absolutely.

19 Q. Okay. I think you mentioned that you've had
20 some feedback from both the Kansas Staff and the Missouri
21 Staff and both have been -- well, let me ask you the
22 question: what has the feedback been from the two Staffs?

23 A. Primarily around the assumptions that go
24 into our modeling are questions about the gas prices we
25 used in our modeling, our CO2 assumptions in the modeling,

1 So largely about a fee; if the assumptions were reasonable
2 that resulted in the outcome.

3 Q. would it be fair to characterize their
4 position at this point as somewhere between significant
5 skepticism and outright opposition?

6 A. I don't think we've heard outright
7 opposition as of yet, but we have heard skepticism.

8 Q. Okay. And have you heard anything from the
9 Kansas consumer advocate?

10 A. He's David Springe, Mr. Springe. He is
11 skeptical as well. That's -- I would say Staff and CURB
12 are of the similar opinion.

13 Q. Have you heard anything from the Missouri
14 Public Counsel?

15 A. Yes. Mr. Mills, I think you've expressed
16 the same skepticism.

17 Q. Okay. Anyone that I've left out that's not
18 skeptical?

19 A. we've only discussed it with the Staffs and
20 the Public Counsels and they've both questioned the
21 assumptions.

22 Q. Now, did I hear your answer correctly to one
23 of the questions from the bench that your O&M expense
24 included in this case is less than it was four years ago?

25 A. No. I would -- what I would say and what I

1 was indicating in my answer is that if you look at the
2 component of the case that O&M increases are, O&M has gone
3 up, but that you would see that O&M, the increase is
4 smaller. And I think that that shows the discipline that
5 we've brought to the cases.

6 Q. So if you look at it from the perspective
7 that your rates will have gone up 50 percent over the last
8 four -- over four years including this rate case, what
9 you're saying is that O&M has not gone up fully 50 percent?

10 A. No. What I'm saying is if you look at each
11 of the cases, the O&M increase component has gone down. So
12 basically to go to your punchline, had we not implemented
13 the cost controls we did, we would be looking at more than
14 a 50 percent increase over the four cases.

15 Q. So you haven't quantified how much O&M has
16 increased over the last four years?

17 A. It would be in the -- I don't have that
18 before me, but it would be in all the schedules in our
19 prior cases. I mean, that data is part of the public
20 record.

21 Q. Now, you had some questions about rate case
22 expense and in particular Shiff Hardin components. What is
23 your anticipated total rate case expense that you're going
24 to be asking for in this case? KCPL alone, first.

25 A. Sure. I don't know that. Tim Rush would be

1 able to answer that for you. I don't have a number.

2 Q. Don't even have a ballpark?

3 A. I would just be guessing and I wouldn't want
4 to do that.

5 Q. Do you know whether it's higher or lower
6 than past cases in Missouri?

7 A. I would anticipate that it's higher given
8 the significance of the issue and the fact that that audits
9 continue and that we're litigating. I would anticipate for
10 example, that it would be more than last year because we
11 settled last year and didn't have three weeks of hearings.

12 Q. Do you anticipate that it will be
13 significantly higher than it was in the last case?

14 A. Again, that would be getting me to guess at
15 what it's going to be in this case and I just don't know.

16 Q. Tell me your title again.

17 A. Senior director of regulatory affairs.

18 Q. Okay. Isn't rate case expense a significant
19 concern for the senior director of regulatory affairs?

20 A. It is and Mr. Rush manages that process and
21 I have a lot of faith in his abilities.

22 Q. Okay. Is it KCPL's intent in this case to
23 recover the full cost of rate case expense from its
24 customers?

25 A. It is.

1 Q. Okay. So whatever it is, you want to get it
2 from customers rather than paying for it yourself?

3 A. Rate case expense is part of our doing
4 business and I believe customers benefit from our rates
5 being correct. And with that being the case, then we
6 should get to recover our rate case expenses unless they're
7 shown to be imprudently incurred.

8 Q. If it was a cost that was going to be borne
9 by shareholders, do you think you'd have a better knowledge
10 of what the cost was at this point?

11 A. No. I would trust Mr. Rush to manage that
12 process just as I do now.

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

15 JUDGE PRIDGIN: Mr. Mills, thank you.

16 Further recross?

17 Mr. Williams?

18 I'm sorry, Mr. Woodsmall. Go ahead.

19 MR. WOODSMALL: Yeah. Just briefly, Your
20 Honor.

21 RE-CROSS-EXAMINATION BY MR. WOODSMALL:

22 Q. I have some questions about O&M expenses.
23 And you say they --

24 JUDGE PRIDGIN: Mr. Woodsmall, I'm sorry.
25 Could you use the mic. I'm sorry, but for those listening.

1 Thank you.

2 MR. WOODSMALL: Thank you.

3 BY MR. WOODSMALL:

4 Q. You were asked some questions about O&M
5 expense and you say -- I think this is fair -- they haven't
6 gone up as fast as the other expenses; is that how you
7 would couch that?

8 A. Yeah. They've become a smaller component of
9 the cases, which maybe is a different way of saying what
10 you've said.

11 Q. Okay. And would it be fair to say that
12 they're a smaller component of the cases because plant
13 investment has gone up so high in the last five cases --
14 four cases?

15 A. No. As I mentioned the budgeting process,
16 we go through a budgeting process and where the budgets
17 begin and where they end are dramatically different. We
18 are -- we've worked very diligently from the T&D side and
19 the generation side to reduce O&M expenditures. And other
20 witnesses will be up and can speak to the specifics of what
21 they've seen on the T&D side and the supply side.

22 Q. I don't think that answers my question.
23 Would you agree that O&M expenses as a percent of the
24 overall increase in this case are smaller because you're
25 putting Iatan 2 in your rates in this case?

1 A. I would say that that's part of the optics
2 of what you're seeing, but that's only part of the story.
3 The other part of the story is the O&M discipline we've put
4 in place.

5 Q. But when you say they're not growing as fast
6 as the overall rates, it is at least part of the -- part of
7 the function is because you're putting large plant
8 investments in the rates; is that true?

9 A. My testimony is that the O&M component,
10 those increases have come down over the case. That was my
11 response to the commissioner question and that continues to
12 be true. I understand what you're asking, that relative to
13 plant investments, yes numerically that observation's
14 correct, but that's not the same thing is what I'm saying.

15 Q. Are you saying for every dollar of customer
16 rates the percent of that dollar that is O&M expense is
17 decreasing?

18 A. I'm not sure I understand what you're
19 asking. What I've said and I'll say again is that the O&M
20 component of a rate case is those increases have come down
21 over time. So basically getting to the punch line to
22 Mr. Mills' question without the O&M discipline we've had,
23 we would be looking at greater rate increases than what
24 we've seen.

25 Q. Okay. And maybe I need to couch it this

1 way: Have they decreased or are they less large over time?

2 A. They -- we have seen increases, inflation.

3 And I've tried to be clear about that. They've increased

4 less.

5 MR. WOODSMALL: They -- okay. That answers

6 my question. Thank you.

7 JUDGE PRIDGIN: Mr. Williams?

8 MR. WILLIAMS: Just briefly.

9 RECROSS-EXAMINATION BY MR. WILLIAMS:

10 Q. Mr. Blanc, are you the person who decides
11 what the level of rate case expense is, that companies seek
12 before this Commission?

13 A. No. Not unilaterally. My input is one of
14 many in that process.

15 Q. Who does make that decision?

16 A. I wouldn't peg it to a single person as I
17 described their process before. We look at our cost to
18 serve our customers and compare it to the revenues we're
19 receiving. And when the revenues we're receiving no longer
20 recover the costs, we quantify that and file a rate case.
21 But that's -- no one person makes that decision.

22 Q. I'm asking just about rate case expense.
23 Who makes the decision about what rate case expenses sought
24 by the companies in these cases before this Commission?

25 A. Similarly, we basically look at it as I

1 described it. The cost to serve our customer and unless a
2 rate case expense is imprudently incurred, we expect to
3 recover it.

4 Q. who are we?

5 A. The Company recovers it. It's our cost.

6 Q. well, the Company acts through personnel.

7 who makes the decision?

8 A. And that's what I tried to say; it's no one
9 single person.

10 Q. But, well who are the people?

11 A. I'm sorry. You're going to have to be more
12 specific with your question. If you're asking me who
13 decides whether we seek to recover rate case expense?

14 Q. I'm asking you who decides what level of
15 rate case expense to seek recovery of?

16 A. Sure. I guess my answer would be the same
17 that it's management of the company with input from the
18 regulatory affairs department. And in this case it would
19 be should we make an exception to the longstanding practice
20 of seeking to recover our rate case expense. And the
21 answer was no. The longstanding practice is you get to
22 recover your rate case expense and that's what we're
23 seeking to do here.

24 Q. well, is there a particular individual that
25 ultimately makes the decision or is there some kind of a

1 committee decision?

2 A. It's a discussion. As I said, I don't think
3 anyone unilaterally makes that decision.

4 Q. And who are the participants in the
5 discussion?

6 A. As I described, it would be senior
7 management with input from regulatory affairs.

8 Q. would you identify who the senior management
9 is and who provides the input from regulatory affairs?

10 A. Sure. For Missouri the input from
11 regulatory affairs would primarily be through Tim Rush and
12 myself. And that input would go to -- we call our senior
13 leadership team, and that's Mr. Downey, Mr. Bassham,
14 Mr. Chesser, representatives of our supply organization,
15 the General Counsel. It's a pretty broad group.

16 MR. WILLIAMS: Thank you.

17 JUDGE PRIDGIN: Redirect?

18 MR. FISCHER: Yes, just a few.

19 REDIRECT EXAMINATION BY MR. FISCHER:

20 Q. Mr. Blanc, let's start with the most recent
21 questions. There -- Mr. Williams just asked you questions
22 about rate case expenses. Are all of your rate case
23 expenses totally within the control of the company?

24 A. Yeah. No. For example, we pay the
25 assessment from the Missouri Public Service Commission, so

1 we would in essence pay Staff's rate case expenses as well.

2 Q. Does the data request process effect your
3 expenses?

4 A. Absolutely. If we get a data request for
5 any and all e-mails, for example, that requires us to
6 produce -- it hasn't been unusual to produce 10,000
7 e-mails. Those have to be reviewed for privilege and so a
8 lawyer has to read 10,000 and that certainly increases rate
9 case expense.

10 Q. In the last case I believe there was some
11 evidence that there were millions of pages of paper that
12 you produced. Did you do that in this case as well?

13 A. We did. And those copying cost -- and
14 typically the practice is to not only provide it
15 electronically, but to provide at least one and sometimes
16 multiple hard copies. And all those copy expenses would be
17 in a rate case expense as well.

18 Q. Do you know, has this Commission
19 historically allowed recovery of rate case expenses?

20 A. As far as I know, without exception.

21 Q. Does the Commission sometimes amortize those
22 over a period of years?

23 A. Yes. I believe it's done so in our cases.

24 Q. Mr. Mills asked you about trackers. Do you
25 recall that?

1 A. I do.

2 Q. And whether there were trackers that never
3 recovered -- or did not always recover their costs? Do you
4 recall that conversation?

5 A. I do.

6 Q. Does the off-system sales tracking mechanism
7 always recover its cost?

8 A. I think about how it works. No. Not
9 necessarily. The way it's set up, if we don't hit that 25
10 percentile then that's just an unrecovered cost. But the
11 tracker would only come into play after we surpassed that
12 25 percentile number.

13 Q. And have there been years where you didn't
14 hit the 25th percentile?

15 A. Yes. There's been years that's it been very
16 close and we've come in under it.

17 Q. I just wanted to make sure you understood
18 Commissioner Davis' questions regarding the information you
19 were to give him regarding percentage of bills for
20 transmission and priority projects and balance portfolio.
21 And I believe another item. Do you have it clear in your
22 mind what he wants?

23 A. I do. My understanding of what he requested
24 was a comparison of what part of our retail rates is
25 comprised of our transmission expense now versus after the

1 SPP priority projects and balance portfolio projects are in
2 place.

3 Q. There were some questions about Shiff
4 Hardin. What -- who is Shiff Hardin? Can you explain what
5 they do?

6 A. Sure. Shiff Hardin is a law firm and
7 basically they provided support since -- I'd say since
8 before the beginning of the Iatan projects. They came in
9 and advised us on contracting structure and helped us
10 negotiate the contracts.

11 They've provided a broad array of services
12 over the life of the contract; contract negotiation,
13 administration, dealing with the disputes with vendors that
14 inevitably come up.

15 And as I mentioned before in response to
16 Commissioner Kenney's questions that they also have a
17 project control team and they're non-lawyers. They're J
18 Wilson and Dan Meyer, who are widely respected schedule and
19 cost experts. And so they provided those services to the
20 Company.

21 Q. You mentioned that -- I believe in one of
22 your answers -- that the team was already in place and you
23 were talking to Shiff Hardin. What were some of the other
24 advantages to Shiff Hardin?

25 A. Sure. First was just that, that they

1 already the team in place. We knew up front that we would
2 be getting -- I would call it one-stop shopping -- with
3 them and we wouldn't have to piece together a team and hope
4 they share and coordinate information as well as they would
5 be expected to.

6 This was a team that came to us together and
7 had all the expertise we needed both in the construction
8 area and the law area. But the other and maybe even more
9 important than that, is they shared our philosophy for the
10 project.

11 The Company wanted to make sure it wasn't in
12 a position to respond to bad things after they occurred.
13 We wanted to make sure we were in a position to see the
14 train wreck coming and stop it as opposed to waiting for
15 the train wreck to occur and then clean up the damage.

16 So those two things; one whole team, the
17 one-stop shopping, and then wanting to avoid problems
18 before they arose.

19 Q. You mentioned Mr. Dan Meyer. What was his
20 role at Shiff Hardin?

21 A. Dan Meyer is a -- I'd say a cost expert.
22 He's prefiled testimony with his resume attached, but he
23 basically made sure that we had the information we needed
24 to know where the cost of the project was going on a pretty
25 regular basis.

1 And as evidence of, I believe, how well that
2 system worked, when we redid -- when we had our first
3 reforecast back in 2008, we reforecast the cost at \$1.901
4 billion for Iatan 2 and ultimately a couple years later we
5 landed within 2 percent of that. And I think that's a
6 benefit of Dan Meyer's expertise.

7 Q. Is he one of your cost control witnesses in
8 this case?

9 A. He is indeed.

10 Q. You were asked some questions about whether
11 the Company may seek to merge at some point, KCPL and the
12 GMO operations. Do you recall that?

13 A. I do.

14 Q. And I believe that you mentioned that you
15 thought there were ways that you could streamline or be
16 more efficient if you did that. Short of a merger, are
17 there things the Company can do perhaps in the planning
18 area that would streamline the costs to the customers?

19 A. Sure. The way we've always looked at it is
20 they're kind of three areas of merger, savings we can go
21 after. Some are just business practices, things we can
22 just do better on a consolidated basis. And that's what
23 we've been focused on very hard since the merger.

24 A second category would be tariff changes,
25 basically coming in and consolidating our rules and

1 regulations. And that would be a more extensive effort and
2 we've only begun to embark on that. But then the third
3 category are things that we would have to be legally merged
4 to reap those benefits.

5 Q. Could you streamline the IRP planning
6 process?

7 A. Absolutely. It would be obviously more
8 efficient to only have to do it once every three years on a
9 consolidated basis, than have two companies do it
10 independently every three years.

11 Q. Have you received some opposition or
12 pushback on that topic?

13 A. Yes, we have.

14 Q. And where is that coming from?

15 A. Basically in our talks with Staff we are
16 basically trying to get an understanding up front that we
17 could file our next IRP on a consolidated basis. And the
18 response has largely been that's not how you structured the
19 merger, so you can't do it that way.

20 Q. Commissioner Jarrett asked you about some
21 belt-tightening measures that the Company has taken. Do
22 you recall that?

23 A. I do.

24 Q. How would cutting the dividend be considered
25 belt-tightening?

1 A. well, cutting the dividend would reduce our
2 cost of capital and that would be a direct savings to
3 customers.

4 Q. There were some questions about the JD Power
5 Associates relationship. Do you recall that?

6 A. I do.

7 Q. would you explain what JD Power and
8 Associates is and --

9 A. Sure. It's not specific to the electric
10 industry. Basically, they go out and survey the public at
11 large and come up with statistics about customer
12 satisfaction. And you'll see advertisements for cars, for
13 hotels. They survey across the board. Generally, their
14 expertise is measuring customer satisfaction.

15 Q. And I believe you mentioned the JD Power
16 awards that the Company received. Do you recall that?

17 A. Yes.

18 Q. Could you expand on what those awards were
19 about?

20 A. Now, basically --

21 MR. WILLIAMS: Judge, if I might, I'm going
22 to object at this point. I think he's getting beyond the
23 bounds of cross-examination and redirect on this line of
24 questioning.

25 JUDGE PRIDGIN: Mr. Fischer?

1 MR. FISCHER: Judge, I think they opened it
2 whenever they asked about JD Powers.

3 MR. WILLIAMS: The only thing we asked about
4 was the relationship of the directors, the executives in
5 the Company to JD Powers. That's it.

6 JUDGE PRIDGIN: All right. I'll overrule.
7 Go ahead.

8 BY MR. FISCHER:

9 Q. Do you know -- do you still have in mind my
10 question?

11 A. Yes. I believe I do. Basically, over the
12 past couple of years, the Company's been recognized very
13 highly in the JD Power customer satisfaction survey
14 results. The particulars of those results are in the
15 testimony, prefiled testimony of Jim Alberts. But
16 basically that the Companies continue to improve on its
17 customer satisfaction in the Midwest region relative to our
18 peers.

19 Q. You were also asked about PA Consulting
20 Group and what they're relationship was with KCPL. Do you
21 recall that?

22 A. I do.

23 Q. Did PA Consulting Group also acknowledge
24 KCPL's -- in some area?

25 A. They did. Their focus is measuring

1 reliability. And basically we've gotten the best in Plains
2 region, so the Midwest for the past four years and then in
3 2007 largely in response to the regulatory plan and the
4 commitments in the regulatory plan around reliability and
5 transmission distribution, we were nationally recognized by
6 the group in 2007 and won best in the country that year.

7 Q. You were also asked some questions about
8 your plans for retrofitting La Cygne. Do you recall those?

9 A. I do.

10 Q. And I believe you were asked questions about
11 what would effect those decisions. Do you recall that?

12 A. I do.

13 Q. would a significant prudence disallowance in
14 this case have any effect on the Company's view about
15 whether it wanted to spend a significant sum to retrofit
16 La Cygne?

17 A. well, we would still have to look at it as
18 far as what's the best resource for our customers. But as
19 far as a track and capital to actually make that
20 investment, absolutely a significant disallowance would
21 make it more difficult to attract investment capital to
22 make that investment.

23 Q. Assuming the Company and the regulators
24 thought retrofitting La Cygne would be a good idea, would
25 it be important that the Company be financially healthy to

1 do that?

2 A. Absolutely. Just as we were five years ago
3 when we talked about embarking on this plan, protecting the
4 Company's credit quality is key. If the Company loses its
5 credit rating, it's more expensive for customers ultimately
6 and that's not a good thing. So credit quality, the
7 Company's financial health is critical.

8 Q. If the Company maybe at the instance of the
9 regulators or the Commission staff and others decided it
10 was in the best interest to shut down La Cygne, what would
11 the alternatives be for the customer?

12 A. That's a good question, especially a lot of
13 people just assume that means we won't have to spend any
14 money. As I responded in a question earlier, that capacity
15 is needed so it's not simply a matter of not spending money
16 to retrofit La Cygne.

17 You're going to have to replace that
18 capacity with something and that's either steel in the
19 ground, a CT or a combined cycle or it's power purchase
20 agreements. But spending nothing isn't an option. It's
21 where you spend it and what's the best investment for our
22 customers.

23 Q. In recent pleadings, I think the Staff has
24 addressed alternatives to La Cygne; is that true?

25 A. Yes. I do seem to recall that, yes.

1 Q. And what are the -- is one of those
2 alternatives to build a new plant?

3 A. Yes. One of the options that were discussed
4 was building a new plant either coal or gas at one of our
5 existing sites.

6 Q. If the Commission adopts a significant
7 prudence disallowance in this case, will there be an
8 incentive to build a new plant?

9 A. No. It would be the same issue as before,
10 we would have a hard time attracting capital at reasonable
11 rates.

12 Q. Mr. Wagner asked the questions about
13 improving your -- I think he said -- flat load, or -- and
14 you replied something about load factor. Do you recall
15 that conversation?

16 A. Yes, I do.

17 Q. Does off peak load building improve your
18 load factor?

19 A. Yes, it does.

20 Q. would you describe what off peak load
21 building is?

22 A. Basically, if you look at us and you look at
23 us over the course of year or over the course of a day and
24 you're going to see a triangle. And the way our system has
25 to operate is we have to design our system to meet the

1 demands placed upon our system at that peak point. And
2 that basically if we can't meet the demands of our system
3 at that peak point, people don't have power.

4 And so the idea behind load factor during
5 increasing load factor is you can -- you can fill in the
6 gaps so you're not having to ramp things up and down. You
7 can just run them at a steady state. We call that
8 improving our load factor, making it less of a peak and
9 either more of a hump or a flat line. And the data says
10 it's cheaper to serve if that's the case.

11 Q. Finally, is street lighting typically
12 metered, do you know?

13 A. Separately metered for street lighting? I
14 don't know the operational answer to that.

15 MR. FISCHER: Okay. That's all I have.
16 Thank you very much.

17 THE WITNESS: Thank you.

18 JUDGE PRIDGIN: Mr. Fischer, thank you.

19 Any more bench questions?

20 Mr. Blanc, thank you very much.

21 THE WITNESS: Thank you.

22 JUDGE PRIDGIN: Mr. Featherstone is the next
23 witness if I'm not mistaken.

24 Madam court reporter?

25 Let me give madam court reporter five

1 minutes.

2 (Off the record.)

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

4 Mr. Featherstone is taking the stand, but not been sworn.

5 Is there anything before he takes his oath?

6 MR. WILLIAMS: Judge, I'll point out that in
7 his direct testimony for the 0356 case Staff has a pending
8 motion for a late-filed exhibit but it does pertain to
9 matters that are specific only to 0356 case.

10 JUDGE PRIDGIN: Fine. Mr. Williams, thank
11 you.

12 Mr. Featherstone if you would raise your
13 right hand to be sworn, please.

14 (Witness sworn.)

15 JUDGE PRIDGIN: Thank you very much, sir.
16 Please have a seat.

17 Mr. Williams when you're ready, sir.

18 CARY G. FEATHERSTONE testifies as follows:

19 DIRECT EXAMINATION BY MR. WILLIAMS:

20 Q. Please state your name.

21 A. Cary G. Featherstone.

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

24 A. I'm a regulatory auditor with the Missouri
25 Public Service Commission.

1 Q. Did you cause to be prepared what's been
2 marked for identification as Exhibit No. KCP&L-201, which
3 is a revenue requirement reconciliation. I believe it's as
4 of January 12th, 2011 for the Kansas City Power and Light
5 Company rate case?

6 A. Yes. It was done under my division at my
7 request.

8 Q. And have you reviewed that reconciliation
9 and to the best of your knowledge, information and belief,
10 is it accurate?

11 A. To my knowledge, it is.

12 Q. And is there two portions to that exhibit?
13 One page is HC, that pertains to Iatan-related adjustments
14 and another part which is not HC?

15 A. I believe that's correct. And I should say
16 that this was correct as of January the 12th when we filed
17 it. Of course we're always making changes to the case, so
18 when the revenue requirement changes, then aspects of the
19 reconciliation changes as well.

20 Q. Mr. Featherstone, could you either move the
21 microphone or make an effort to be close to it so you can
22 be heard?

23 A. Sure.

24 MR. WILLIAMS: And I'll offer Staff Exhibit
25 KCP&L-201, which in part is HC.

1 JUDGE PRIDGIN: KCP&L-201 has been offered.

2 Any objections?

3 Hearing none, that is admitted.

4 (WHEREIN; Staff Exhibit KCP&L-201 and
5 KCP&L-201HC was received into evidence.)

6 MR. FISCHER: I'm sorry, Judge. What was
7 the number on that?

8 JUDGE PRIDGIN: It's 201.

9 MR. FISCHER: 201, thank you.

10 JUDGE PRIDGIN: You're welcome. That is NP
11 and HC, is that correct?

12 MR. WILLIAMS: There's one page that's HC,
13 but the remainder of the document is NP.

14 JUDGE PRIDGIN: All right.

15 MR. WILLIAMS: Rather than preparing two
16 separate NP and HC, there's just one page that's HC.

17 JUDGE PRIDGIN: All right. Thank you.

18 BY MR. WILLIAMS:

19 Q. And Mr. Featherstone, did you also cause to
20 be prepared a similar revenue requirement reconciliation
21 for the KCPL Greater Missouri Operations Company case
22 that's been marked for identification as Exhibit
23 No. GMO-201?

24 A. Yes. There were two of them, one for MPS
25 and one for Light and Power or L&P.

1 Q. And both of those reconciliations have been
2 given the same exhibit number?

3 A. Yes.

4 Q. And like the reconciliation that was
5 prepared for Kansas City Power and Light Company, was that
6 reconciliation for KCP&L Greater Missouri Operations
7 Company prepared under your direction?

8 A. It was.

9 Q. And is that reconciliation accurate to the
10 best of you knowledge, information and belief as of -- I
11 believe it would be January 12th of 2011?

12 A. Yes, with the same caveats as the revenue
13 requirement changes, this reconciliation also changes. It
14 was as of January the 12th.

15 Q. And this would be reconciliations for both
16 MPS and L&P?

17 A. Yes.

18 MR. WILLIAMS: Staff offers what's been
19 marked for identification as Exhibit GMO-201.

20 JUDGE PRIDGIN: Before I ask if there's any
21 objections, it was my understanding that the GMO only
22 evidence would be withheld and be offered in that final
23 week of hearing, did I --

24 MR. WILLIAMS: This is not just GMO only.

25 JUDGE PRIDGIN: This includes some joint --

1 MR. WILLIAMS: Yes.

2 JUDGE PRIDGIN: All right. With that
3 understanding, let me see if there's any objection.

4 All right. No objection. GMO-201 is
5 admitted.

6 (WHEREINL; Staff Exhibit No. GMO-201 was
7 received into evidence.)

8 BY MR. WILLIAMS:

9 Q. Mr. Featherstone, there has been marked for
10 identification as Exhibit No. KCP&L-202, cost of service
11 accounting schedules as of November 10th, 2010. Did you
12 participate in preparation of those accounting schedules?

13 A. Yes.

14 Q. Were they prepared under your direction and
15 supervision?

16 A. Yes.

17 Q. And is the information contained in those
18 accounting schedules true and accurate to the best of your
19 knowledge, information and belief as of the date they were
20 prepared, which was November 10th, 2010 based on a test
21 year ended December 31 of 2009 updated through June 30th,
22 2010 and an estimated true-up through December 31, 2010?

23 A. Yes. I should say that this has -- this
24 November 10th filing -- it was a direct filing and it has
25 changed substantially since. But at the time of November

1 10th, when we filed it it was correct.

2 Q. Are there any changes due to errors as
3 opposed to updates to be made to any of this exhibit?

4 A. Well, there was a number of errors and
5 omissions and discussions that we had with the parties and
6 in particular the Company that we've made substantial
7 changes to this November 10th filing, which is the reason
8 why revised it on January the 12th.

9 Q. So there's another exhibit that addresses
10 those changes?

11 A. Yes.

12 Q. And Exhibit No. KCP&L-203 is a revised cost
13 of service account schedules that was filed in File No.
14 ER-201-0355. Is that the revised accounting schedule you
15 just referenced?

16 A. It is.

17 Q. And is -- are those schedules true and
18 accurate to the best of your knowledge, information and
19 belief at this time or are they still changing as well?

20 A. Well, they are still changing. We are now
21 in the process of starting to do the true-up. And this was
22 the foundation of the start of the true-up. So we have
23 made some changes literally within days after this was
24 filed.

25 Q. But as of the date it was filed, was it the

1 best information that was available to be provided?

2 A. It was.

3 MR. WILLIAMS: With that, I'd offer Exhibit
4 Nos. KCP&L-202 and KCP&L-203.

5 JUDGE PRIDGIN: Any objections?

6 Hearing none, KCPL-202 ad KCPL-203 are
7 admitted.

8 (WHEREIN; Staff Exhibit No. KCPL-202 and
9 KCPL-203 were received into evidence.)

10 BY MR. WILLIAMS:

11 Q. Did Staff prepare a similar cost of service
12 staff accounting schedules for the KCPL Greater Missouri
13 Operations Company case?

14 A. We did. We prepared two separate, what we
15 call the EMS runs or Exhibit Modeling Systems runs. It's
16 our revenue requirement models. We did one for MPS and one
17 for L&P.

18 Q. And both of those runs are reflected in
19 what's been marked in the cost of service Staff accounting
20 schedules that have been marked for identification as
21 GMO-202 and GMO-203; is that correct?

22 A. Yes.

23 Q. And are the accounting schedules that have
24 been marked for identification and GMO-202, the Staff's
25 accounting schedules as of the time it filed direct

1 testimony on November 17th of 2010?

2 A. Yes.

3 Q. And as of that date, is the information
4 contained therein true and accurate to the best of
5 Staff's -- your knowledge, information and belief regarding
6 Staff's position in these cases?

7 A. It was.

8 Q. And then as the revised cost of service
9 Staff accounting schedules that were filed on January 12th
10 of 2010 and have been marked for identification as GMO-203,
11 do those reflect Staff's positions as of the date they were
12 filed to the best of your knowledge, information and
13 belief?

14 A. Yes.

15 Q. And has Staff's position changes subsequent
16 to that time?

17 A. Again, with the understanding that these are
18 ever changing, we are starting the true-up process with the
19 GMO cases as well. And so these numbers have changed
20 shortly after the January 12th, filing.

21 Q. That the GMO -- the second -- the revised
22 Staff accounting schedules that have been marked for
23 identification as GMO-203 would be a better reflection of
24 Staff's current case than those that have been marked for
25 identification as GMO-202?

1 A. Absolutely.

2 MR. WILLIAMS: With that, Staff offers
3 Exhibit Nos. GMO-202 and GMO-203.

4 JUDGE PRIDGIN: Any objections?

5 Hearing none, GMO-202 and GMO-203 are
6 admitted.

7 (WHEREIN; Staff Exhibit Nos. GMO-202 and
8 GMO-203 were received into evidence.)

9 BY MR. WILLIAMS:

10 Q. Did Staff prepare a revenue requirement cost
11 of service report that it filed on November 10th, 2010 in
12 the Kansas City Power and Light Company rate case that has
13 been marked for identification as KCP&L-2010 [sic]?

14 A. Yes.

15 Q. And was that report prepared under your
16 direction?

17 A. It was prepared under my direction and that
18 of Mr. Curt wells, who is my counterpart in operations
19 division.

20 Q. And for the portions for which you're
21 responsible, did you rely on the work product of other
22 experts?

23 A. Yes.

24 Q. And likewise, did Mr. wells?

25 A. Absolutely.

1 Q. And does that Staff report both contain some
2 information that's highly confidential?

3 A. It does.

4 Q. Are you aware of any changes that should be
5 made to any part of that Staff report?

6 A. Not that I'm aware of. I'm sure that as
7 individual witnesses take the stand that they will be
8 reviewing their sections and there may be some changes at
9 that point.

10 Q. Did Staff prepare a similar revenue
11 requirement cost of service report in the KCP&L Greater
12 Missouri Operations case that's been marked for
13 identification as GMO-210?

14 A. Yes.

15 Q. And are you responsible for a portion of
16 that report as well?

17 A. I am and as well as many other staff
18 members.

19 Q. Did you rely on the work product of other
20 Staff experts in preparing the report?

21 A. Yes.

22 Q. And are you aware of any changes that should
23 be made to that report?

24 A. The same answer I gave with respect to the
25 Kansas City Power and Light report, that as individual

1 Staff members take the stand, they will correct their
2 sections if needed.

3 MR. WILLIAMS: At this time, I'd like to
4 offer what's been marked as Exhibit No. KCP&L-210, which is
5 part is HC.

6 JUDGE PRIDGIN: Any objections?

7 MR. FISCHER: No objection.

8 JUDGE PRIDGIN: Hearing none, that is
9 admitted.

10 (WHEREIN; Staff Exhibit No. KCP&L-210 and
11 KCP&L-210HC was received into evidence.)

12 MR. WILLIAMS: And similarly, I'd like to
13 offer at this time what's been marked for identification as
14 Exhibit GMO-210, which in part is HC material.

15 JUDGE PRIDGIN: All right. Any objections?
16 Hearing none, GMO-210 is admitted.

17 (WHEREIN; Staff Exhibit Nos. GMO-210 and
18 GMO-210HC was received into evidence.)

19 JUDGE PRIDGIN: And both of those are both
20 NP and HC; is that correct, Mr. Williams?

21 MR. WILLIAMS: Yes.

22 JUDGE PRIDGIN: All right. Thank you.

23 MR. WILLIAMS: And Judge, I will point out
24 that these both, I'm sure, contain some matters that are
25 specific to the fourth week, so there may be some

1 objections at that point.

2 JUDGE PRIDGIN: I understand.

3 BY MR. WILLIAMS:

4 Q. Mr. Featherstone, did you also prepare
5 testimony that's been prefiled in a question and answer
6 format that's been prefiled in the Kansas City Power and
7 Light rate case?

8 A. Yes.

9 Q. Did you prepare and prefile direct, rebuttal
10 and surrebuttal testimony?

11 A. I did.

12 Q. And your direct testimony, do you have any
13 revisions to make to that?

14 A. Not that I'm aware of at this time.

15 Q. That particular testimony has been marked
16 for identification as KCP&L-215.

17 A. Yes.

18 Q. Is Exhibit No. KCP&L-215 your testimony in
19 part here today?

20 A. Yes.

21 MR. WILLIAMS: Staff offers at this time
22 KCP&L-215.

23 JUDGE PRIDGIN: Any objections?

24 MR. FISCHER: Judge, I'm not sure based on
25 your earlier discussion with Mr. Woodsmall, I believe

1 Mr. Featherstone will probably be back for some other
2 issues. If that's correct, I guess whatever your plan is
3 is as far as submission. I'd object until we have all the
4 testimony -- all the cross done.

5 MR. WILLIAMS: And he will be in further, if
6 he's -- that's fine.

7 JUDGE PRIDGIN: I'll leave that up to you,
8 Mr. Williams, if you want to withdraw that offer until
9 Mr. Featherstone's finished testifying we can take up any
10 objections we might have later.

11 MR. WILLIAMS: I think I'd rather leave the
12 offer pending subject to objections later.

13 JUDGE PRIDGIN: We can do that as well.

14 BY MR. WILLIAMS:

15 Q. Mr. Featherstone, has your rebuttal
16 testimony in the Kansas City Power and Light Company rate
17 case that's been marked for identification as KCP&L-216, do
18 you have any revisions to that testimony?

19 A. I found one so far. It's on Page 27 at Line
20 14. There's a table and under the line ER-2009-0089 the
21 number 12 should be changed to 4. So it should read 4CP.

22 Q. And that's under the column, Demand
23 Allocation Method Proposed by KCP&L?

24 A. Yes, it is.

25 Q. With that revision, is Exhibit No. KCP&L-216

1 part of your testimony here today?

2 A. It is.

3 MR. WILLIAMS: I offer Exhibit No.

4 KCP&L-216.

5 JUDGE PRIDGIN: Objections?

6 MR. FISCHER: Yes. Same objection.

7 JUDGE PRIDGIN: So I'll show both 215 and
8 216, I'll reserve ruling on that pending any potential
9 objections.

10 BY MR. WILLIAMS:

11 Q. And Mr. Featherstone, your surrebuttal
12 testimony in the Kansas City Power and Light Company case
13 has been marked as Exhibit No. KCP&L-217. Do you have any
14 revisions to that testimony?

15 A. Not that I'm aware of.

16 Q. And is that testimony part of your testimony
17 here today? Is that exhibit part of your testimony here
18 today?

19 A. It is.

20 MR. WILLIAMS: Staff offers what's been
21 marked as Exhibit No. KCP&L-217.

22 MR. FISCHER: Same objection.

23 JUDGE PRIDGIN: Same ruling.

24 BY MR. WILLIAMS:

25 Q. Mr. Featherstone, with regard to the KCP&L

1 Greater Missouri Operations Company case, did you prepare
2 and file in question and answer format testimony -- direct
3 testimony that's been marked for identification as GMO-215?

4 A. Yes.

5 Q. And are parts of that testimony highly
6 confidential?

7 A. Yes.

8 Q. Are you aware of any revisions to that
9 testimony at this point in time?

10 A. I have one that I'm aware of at this time
11 and it's on Page 39, Line 3. Schedule 3 should be Schedule
12 4 and it pertains to the late-filed exhibit that you spoke
13 and referenced earlier.

14 Q. Has there been late filed -- was there a
15 schedule that was originally admitted from your prefiled
16 direct testimony that's been marked as Exhibit No. GMO-215?

17 A. Yes.

18 Q. And pending the Commission granting that
19 motion, is the purpose of your change to your -- change to
20 your Exhibit No. GMO-215 on Page 39, based on the
21 Commission granting that motion?

22 A. It is.

23 Q. And is GMO -- what's been marked as Exhibit
24 No. GMO-215 your testimony regarding Kansas City Power and
25 Light Company for purposes of the first three weeks of this

1 hearing with the change you just provided?

2 A. Yes.

3 MR. WILLIAMS: With that, Staff offers
4 Exhibit No. GMO-215.

5 JUDGE PRIDGIN: Any objections?

6 MR. FISCHER: Same objection.

7 JUDGE PRIDGIN: Same ruling.

8 MR. FISCHER: Judge, can I just have a
9 continuing objection so we don't have to go through that
10 and just --

11 JUDGE PRIDGIN: You may.

12 MR. FISCHER: -- reserve the right to object
13 at the end whenever it's finally completed?

14 JUDGE PRIDGIN: Yes, sir.

15 BY MR. WILLIAMS:

16 Q. And Mr. Featherstone, did you also prepare
17 rebuttal and surrebuttal testimony in the KCP&L Greater
18 Missouri Operations Company rate case?

19 A. Yes.

20 Q. And are the issues that are addressed in
21 that rebuttal and surrebuttal testimony germane only to
22 KCP&L Greater Missouri Operations Company?

23 A. They are.

24 MR. WILLIAMS: Judge, with that I tender the
25 witness for examination.

1 JUDGE PRIDGIN: All right. We have
2 cross-examination. KCP&L will have cross?

3 MR. FISCHER: Yes, sir.

4 JUDGE PRIDGIN: Any other parties wishing
5 cross?

6 All right. Mr. Fischer?

7 CROSS-EXAMINATION BY MR. FISCHER:

8 Q. Good afternoon, Mr. Featherstone.

9 A. Good afternoon.

10 Q. Can you hear me okay?

11 A. I can.

12 Q. Okay. As I understand your purpose for
13 taking the stand today, you're taking the overview
14 questions on the KCPL case; is that right?

15 A. Yes.

16 Q. Okay. I'd like to refer you to Page 6 of
17 your direct testimony.

18 A. Yes, sir.

19 Q. At Lines 9 through 11, there you say because
20 of the significant cost increases relating to the plant
21 additions and substantial fuel cost increases resulting
22 primarily from new freight contract that goes into effect
23 on January 1st, 2011, Staff has included estimates for them
24 in its direct case; is that right?

25 A. That's right.

1 Q. And then you go on, I think, on Line 13 to
2 talk about those. You say Staff is presenting its estimate
3 based on Staff's construction audit and prudence review,
4 Iatan construction project for cost reported as of June 30,
5 2010 report of what it believes will be the results of the
6 true-up of KCPL's revenue requirement through the period
7 ending December 31st, 2010; is that right?

8 A. That's right.

9 Q. And then in your direct testimony, the
10 schedules that were accompanying your direct filing there
11 was an allowance for a known and measurable changes or --
12 and the impact of the true-up of 65 million; is that right?

13 A. That's correct.

14 Q. Would it be correct to conclude that the
15 allowance for known and measurables of 65 million was
16 included in the Staff's direct case filing that that -- at
17 the time that you made your filing, that's what you thought
18 the impact of the plant additions and the fuel cost changes
19 and other true-up items would be?

20 A. I think that it was a conservative estimate
21 in attempt to give a -- to portray what we think what might
22 have occur -- might occur when the true-up is completed.
23 There are other items beyond what you just referenced in my
24 testimony that could drive a revenue requirement in a
25 true-up.

1 Q. Okay. If we turn to those -- to the
2 accounting Schedule 1, Page 1 of 1, it indicates that Staff
3 was recommending a change in the Company's gross revenue
4 requirement between a negative 149,411 and a positive
5 14,121,139. That would be after taking into account your
6 estimate of that true-up, that \$65 million allowance; is
7 that right?

8 A. Yes.

9 Q. Then your revised accounting schedules that
10 Mr. Williams talked about, those schedules now reflect a
11 Staff revenue requirement -- a gross revenue requirement in
12 the range of a negative 6 point -- almost 5 million to a
13 positive 8.4 million, depending on what returns authorized;
14 is that -- is that how I should read that?

15 A. Yes.

16 Q. So at the lower end of the Staff's rate of
17 return range, Staff is actually recommending a rate
18 decrease of almost six and a half million?

19 A. That's what was reflected as of the time
20 when we filed this on July -- January the 5th.

21 Q. Okay. In Staff's revised accounting
22 schedules, the allowance for known and measurable changes
23 for the true-up impact is identified as a zero; is that
24 right?

25 A. That's correct.

1 Q. Is zero Staff's estimate of what the impact
2 of the true-up proceeding will be on your Staff
3 recommendation in this case?

4 A. No. I think we're in the process of just
5 starting the true-up. We're working on payroll even as we
6 speak. And the plan numbers largely have been reflected in
7 our schedules. And these numbers that we filed in this
8 case January the 5th, and GMO's case, January the 12th,
9 will change.

10 Q. Okay. What is your current estimate of the
11 impact of the True-Up proceeding on the gross revenue
12 requirement of your case, if you know?

13 A. I do not know. We have not -- largely the
14 \$65 million number was developed very late in the process.
15 And it was driven at that time by where our case -- where
16 the numbers were coming out. And because we wanted to --
17 we did not want to file a large negative case because we
18 didn't think the case was negative. We didn't think
19 ultimately the case would end up negative with the true-up
20 process.

21 We arrived at the allowance and basically
22 just so that we could make sure that we were covering
23 sufficiently any true-up items or any errors and omissions
24 that we may have had in the case.

25 Q. Do you have a ballpark at all about what

1 you're currently estimating that true-up impact might be?

2 A. I do not.

3 Q. Okay. In your direct testimony, you cited a
4 significant cost increases related to plant additions and
5 the substantial fuel costs increases resulting primarily
6 from the new freight contract that I think you said goes
7 into effect the first of January of 2011.

8 And you cited those as reasons for your
9 original \$65 million allowance for the true-up; is that
10 right?

11 A. That's right.

12 Q. Are you expecting that there will be no
13 impact on Staff's case for the plant additions at Iatan 1
14 and 2 in the true-up?

15 A. well, the way we structured our direct
16 filing, we included Iatan 2 plant as of -- I believe it was
17 September the 30th. Any addition to that number will be
18 through October 31. I believe there were some additions
19 for Iatan 2, and that will be reflected in the true-up.

20 Q. will that be much of a significant movement,
21 do you think?

22 A. I don't know.

23 Q. well, the Staff is recommending, as I
24 understand it, that all costs that exceed the definitive
25 estimate of Iatan 1 and 2 will be disallowed from rates.

1 Is that your understanding?

2 A. I believe so. That's out of my area.

3 You're really going to have to discuss that with

4 Schallenberg and Mr. Hyneman.

5 Q. Okay. But if that's the case, would that
6 effect your estimate of how the impact of the true-up will
7 be?

8 A. I don't believe so. We, in our direct
9 filing, I believe made those adjustments. I wasn't
10 involved directly in developing those adjustments. But I
11 believe those were already reflected in our November 10th
12 filing.

13 And to the extent, of course, that they may
14 or may not change, they will be part of the true-up. But I
15 think largely those adjustments were already in our
16 November 10th filing.

17 Q. And as you do additional auditing through
18 the true-up, if you're disallowing everything above the CBE
19 already, wouldn't that follow that you're going to continue
20 to disallow whatever comes in as a part of the true-up?

21 A. I think that's a question that you're going
22 to have to ask Mr. Schallenberg and Mr. Hyneman.

23 Q. Okay. I noticed in your schedule on your
24 summary rate case involvement, on your Schedule 1-2, you
25 indicated that you were a witness in the Wolf Creek rate

1 case several years ago; is that right?

2 A. You're talking about the 1985 KCPL rate
3 case?

4 Q. Yeah.

5 A. Yes.

6 Q. I think it's ER-085-128 and EO-085-185.

7 It's reflected on your schedule 2-1.

8 A. Yes, sir.

9 Q. Do you recall, did the Staff recommend that
10 all costs that exceeded the definitive estimate for that
11 wolf creek plant be disallowed in rates?

12 A. I do not.

13 Q. You don't recall or you don't know?

14 A. I mean, as you said it's been 25 years.

15 Q. Okay.

16 A. There was a different process undertaken for
17 the wolf creek -- what can be thought of as the
18 construction audit. The ownership of wolf Creek primarily
19 then Kansas Gas and Electric and Kansas City Power and
20 Light developed a group of individuals who did
21 reconciliation in packages. And they developed and
22 identified the cost overruns of which when then audited.

23 Q. Let me go at it a little different way. The
24 report and order indicates that the total cost of the wolf
25 Creek plant was approximately \$3 billion and the cost

1 overrun was approximately \$2 billion. Is that your
2 recollection?

3 A. I think so. I think there was substantial
4 cost overruns however you look at it. A good part of the
5 cost overruns was the allowance the plant used during
6 construction. But there was substantial overruns at wolf
7 Creek, yes.

8 Q. Do you know, did the Commission make a \$2
9 billion disallowance of that plant?

10 A. I don't believe there was any disallowance
11 made at that magnitude, no.

12 Q. Okay. You've been around the Commission a
13 long time based on your 12 pages of rate case activity. In
14 any of the cases that you participated in, did Staff
15 recommend the disallowance of all costs of a new power
16 plant from rates on the ground, the company's cost control
17 system did not identify and explain cost overruns?

18 A. well, I haven't been -- well, really since
19 wolf creek there really haven't been any baseload
20 generation built. Most of the generation or most of the
21 major construction projects that were completed during the
22 interim were done on a turnkey or a EPC contracts. That
23 really doesn't generate a cost overrun. So I don't -- I
24 can't recall any specific to your question.

25 Q. So that's a no?

1 A. I -- it's no with a sort of a qualified no.

2 Q. And the qualification was what?

3 A. It's that there really hasn't been any
4 baseload generation built of any magnitude, the
5 construction project with the magnitude of an Iatan 2.

6 Q. well, do you recall any case in your time at
7 the Commission where the Staff recommended the disallowance
8 of all costs of a new power plant for rates on the ground
9 that the Company's cost control system did not identify and
10 explain cost overruns?

11 A. I cannot.

12 Q. Okay. And in any of the cases in which you
13 participated, did the Staff recommend the disallowance of
14 all costs of a new power plant from rates on the ground
15 that the final cost of the plant exceeded the definitive
16 estimate or other budget estimate?

17 A. None that I directly was involved in, no.

18 Q. In that wolf Creek case we talked about, do
19 you remember a John Rankin?

20 A. I do.

21 Q. Was he an engineer who was employed by the
22 Commission during the mid-80s?

23 A. Yes. He was part of the -- what was then
24 referred to as the generating facilities. That was a
25 department in -- the structure was different in the

1 Commission, but it was a department that was specifically
2 developed and brought on to look at the Callaway and Wolf
3 Creek nuclear power plants.

4 Q. Do you recall if he looked at concrete work,
5 structural steel work, building finishes and things like
6 that in his analysis?

7 A. As I recall, he was the -- we had a lot more
8 staff to work on Wolf Creek, so the -- there was a line of
9 demarcation. He had the responsibility as I recall --
10 again, going back 25 years now -- of being involved with
11 the structural steel. That was his -- he did the -- all of
12 the what was called the direct costs for the power plant.

13 Q. Well, do you recall that he was involved in
14 quite a number of other engineering issues as well besides
15 structural steel?

16 A. They were the direct costs of the power
17 plant.

18 MR. FISCHER: Thank you very much. That's
19 all I have.

20 JUDGE PRIDGIN: Mr. Fischer, thank you.
21 Let's see if I have any bench questions.

22 Commissioner Gunn?

23 QUESTIONS BY COMMISSIONER GUNN:

24 Q. I just have a quick kind of a procedural,
25 how-you-do-things-generally. And if you're not the right

1 person to talk with, that's fine. And I apologize if this
2 was done before.

3 So generally, if costs come in above the
4 definitive estimate, is there some sort of presumption that
5 the auditors place on that as being imprudent? And then
6 they talk to other folks to determine what those specific
7 amounts were or is there a -- is there a dollar-for-dollar
8 analysis of those cost overruns?

9 I'm just trying to figure out what -- both
10 the interaction between the auditors and the engineers as
11 well as if some of these dollars are presumed imprudent,
12 and as a general matter. We don't even have to talk about
13 it in this case, just so I understand kind of the process
14 that's gone through.

15 A. I certainly don't believe there's any
16 presumption on any dollar level of imprudence. That's
17 something that staff would look at, evaluate the
18 circumstances. And as events and circumstances warrant,
19 they would make a determination as to whether something was
20 prudent or not.

21 Q. Which is -- if it's within the budget or
22 within the estimate, then is there -- there's less scrutiny
23 over that than if it's over?

24 A. I think it's certainly -- there certainly is
25 less although it doesn't -- it doesn't go away. I can

1 think of a plant -- I think it was state line cycle where
2 they were within close budget and we had an issue with one
3 of the contractors that we made a disallowance on.

4 So I don't believe that if you have a
5 significant increase over a budget control or a definitive
6 estimate, I think that has a higher degree of scrutiny or
7 you can put under a microscope a little more than you would
8 if it was within budget.

9 But I don't believe that you necessarily
10 would just ignore cost imprudence if it was even within
11 budget.

12 Q. So let me -- in reference to some of the
13 opening statements today, if a determination is made -- and
14 again, as a general matter, from the auditing folks that
15 there is an expenditure that is questionable, in
16 determining the analysis of whether that is disallowed or
17 not, is there an automatic discussion with engineering
18 folks to determine whether there may be a reason for that
19 or is that -- does that discussion happen automatically or
20 does it happen based on the discretion of the auditor?

21 A. I'm not sure what took place in terms of the
22 Iatan 2 review in terms of the involvement between the
23 audit staff or the auditors assigned to the Iatan 2
24 construction audit with the engineers.

25 Q. Let's just talk in a general matter.

1 A. Okay.

2 Q. If you were doing a hypothetical case and
3 you had something that you had questions about and it
4 was -- let's say it was a safety improvement that cost a
5 lot more than what you would have expected a reasonable
6 cost to have been for that item. Would you as a matter of
7 practice talk to engineers to determine whether that was a
8 reasonable or prudent cost or would it be based upon
9 your -- an auditing judgment about whether or not that was
10 appropriate to spend?

11 A. I think it would depend on circumstances, of
12 course and the dollar magnitude. But if it -- and it
13 was -- necessitated a review of the cost with the
14 engineering department, we would identify the need and then
15 sit down with them, probably through meetings and maybe
16 exchange of documents and have those discussions.

17 Q. But it's not an automatic procedure? There
18 are occasions as you said -- there may be circumstances
19 under which that decision would be made by audit staff
20 alone and not -- and not with consultation with engineers?

21 A. I -- I don't -- I can't say with 100 percent
22 certainty. I certainly can't speak to what was done in
23 the -- in this case.

24 Q. Sure. Sure. Okay.

25 COMMISSIONER GUNN: Thank you. I don't

1 think I have anything else.

2 JUDGE PRIDGIN: Commissioner Gunn, thank
3 you.

4 Commissioner Kenney?

5 QUESTIONS BY COMMISSIONER KENNEY:

6 Q. Mr. Featherstone, thanks for your time. I
7 just have a few questions. And this is particularly with
8 respect to the cost overruns and Staff's basis for
9 disallowances is essentially that they weren't -- the
10 Company did not adequately explain and justify those cost
11 overruns, in a nutshell?

12 A. In some cases I think there has been that
13 and maybe a lack of documentation or lack of support.
14 That's my understanding. I'm not the best witness to
15 answer it for the Staff. But it's my understanding.

16 Q. Who would be?

17 A. I would say Mr. Schallenberg and Mr. Hyneman
18 will be presenting evidence for the staff.

19 Q. Then I will reserve the balance of my
20 questions until then.

21 A. All right.

22 COMMISSIONER KENNEY: Thank you.

23 JUDGE PRIDGIN: Commissioner Kenney, thank
24 you.

25 Any recross based on bench questions?

1 Mr. Schwartz?

2 RE-CROSS-EXAMINATION BY MR. SCHWARTZ:

3 Q. Mr. Featherstone, if a construction project
4 came in absolutely on budget, would that indicate that no
5 prudence review was necessary?

6 A. No.

7 MR. SCHWARTZ: Thank you.

8 JUDGE PRIGDIN: Any further recross?

9 Mr. Fischer?

10 RE-CROSS-EXAMINATION BY MR. FISCHER:

11 Q. Yes. And answer to -- I think Commissioner
12 Gunn I think I heard you say there was no presumption of
13 imprudence?

14 A. That's right.

15 Q. As a layman that's been around the
16 Commission for a while, isn't it correct that there is
17 actually a presumption of prudence?

18 A. I think you can probably say it either way.
19 When we are looking at cost for anything, we don't assume
20 that there's wrongdoing or imprudence or bad
21 decision-making. We first find out -- we try to undertake
22 an evaluation of what the costs are, to identify what those
23 costs are, what they're for and then try to determine if
24 they were -- if there was any problems with the cost
25 expenditures.

1 Q. Is that a yes. There is a presumption of
2 prudence?

3 A. I don't think that there is either a
4 presumption of imprudence or a presumption of prudence.

5 Q. Is that how your Staff approached this case?

6 A. I don't know.

7 MR. FISCHER: That's all the questions I
8 have.

9 JUDGE PRIDGIN: All right. Thank you.

10 Commissioner Gunn:

11 COMMISSIONER GUNN: Yeah. I just wanted to
12 clarify: when I was asking about that, I wasn't
13 necessarily talking about a legal definition of
14 presumption. I was talking about the mind set of the
15 auditors when they went in to look at -- were they -- would
16 this -- would that automatically through up a red flag in
17 which that particular one would be given more scrutiny
18 before it was determined to be disallowed or not
19 disallowed.

20 So I don't know if your question -- if the
21 answer changes. I just wanted to clarify what I was
22 asking. It wasn't meant to put any legal definition of
23 presumption to my question.

24 JUDGE PRIDGIN: Any further recross?
25 Redirect?

1 MR. FISCHER: Judge, can I ask one before we
2 do a redirect?

3 JUDGE PRIDGIN: I'm sorry. Go ahead.

4 MR. FISCHER: Let me clarify and make sure I
5 didn't misunderstand.

6 FURTHER RECROSS-EXAMINATION BY MR. FISCHER:

7 Q. Mr. Featherstone, are you saying that if
8 it's within the budget, you're less likely to scrutinize
9 the cost, but if it's over a definitive estimate, the
10 auditors are more likely to look for imprudence?

11 A. No. I'm not saying that at all. I think
12 that you are -- you might even be at -- in some
13 circumstances vaguely aware of what the budget is. I think
14 what you want to do is you want to look at the cost
15 expenditures and evaluate the cost expenditures. I won't
16 say in a vacuum.

17 You know, obviously, you're aware of --
18 certainly we were in Iatan 2, we were aware of what the
19 costs were. We were aware of events.

20 Q. The auditor --

21 A. In just --

22 Q. I'm sorry.

23 A. Just in general practice, I'm not sure that,
24 you know, you get too wrapped up on just looking strictly
25 at the budgets. There may be reasons to do that, but there

1 are also reasons to look at just the expenditures
2 themselves.

3 Q. The auditor looks for specific evidence of
4 imprudence; isn't that correct?

5 A. I think you do -- you look for specific
6 evidence for imprudence, but really you're not at a
7 juncture. That's what I was trying to point out before;
8 you're not really looking at imprudence. You're just
9 trying to get an understanding of what the costs are and
10 then evaluate those cost to see if those costs were
11 appropriate or not.

12 Q. And as and auditor, you don't presume that
13 anything above the budget is necessarily imprudent; is that
14 right?

15 A. You may.

16 Q. Why would you do that?

17 A. It depends on the circumstances. If you
18 have -- if you have a budget and you go over the budget,
19 and you haven't satisfactorily explained the reasons for
20 going over the budget or you haven't properly documented
21 the reasons for the budget increase, then you may make a
22 disallowance.

23 Q. So you -- well, I'm not asking you about a
24 disallowance. I'm asking are you presuming that anything
25 over the definitive estimate is necessarily imprudent?

1 A. Again, I'll restate it: I don't think that
2 you necessarily assume that's it's either imprudent or not.

3 Q. If there's no evidence of imprudence, if
4 it's above the definitive estimate, do you then presume it
5 is imprudent?

6 A. well, if can't document it or you don't
7 support it, then you have to assume that it's imprudent.

8 Q. So you do assume it's imprudent if it's
9 above the definitive estimate?

10 A. Not when you start the process. Not when
11 you start the review. Not when you start doing the
12 discovery and start doing the analysis. But clearly at
13 some juncture, you do start making decisions based upon the
14 lack of documentation or lack of support.

15 Q. And that's -- what documentation are you
16 talking about there as an auditor in a hypothetical sense?

17 A. well, certainly documents -- you know, they
18 range anywhere from invoices and purchases orders and
19 contracts and --

20 Q. If you have contracts and change orders and
21 other documents that show the price -- the costs went up by
22 \$300 million above the estimate, do you presume that that
23 \$300 million is necessarily imprudent?

24 A. Again, I don't know the circumstances. You
25 may or you may not.

1 MR. FISCHER: That's all I have. Thank you.

2 JUDGE PRIDGIN: Thank you. Redirect?

3 MR. WILLIAMS: Thank you, Judge.

4 REDIRECT EXAMINATION BY MR. WILLIAMS:

5 Q. Mr. Featherstone, do you recall Mr. Fischer
6 directing you to accounting schedules 1 for Kansas City
7 Power and Light Company accounting schedule 1 for the
8 November 10th filing and the January 5th filing, which has
9 been marked as Exhibit Nos. KCP&L 202-and KCP&L-203?

10 A. Yes, sir.

11 Q. And he focused on the difference in the
12 allowance for known and measurable changes, true-up
13 estimate and the gross revenue requirements between those
14 two exhibits, did he not?

15 A. Yes.

16 Q. would you explain a little bit more about
17 why those are so different?

18 A. well, you know, when we were doing the
19 direct filing that was -- the numbers were principally put
20 together in October, early November time frame. We
21 expected that there would be some plant additions above and
22 beyond what we would call the non-Iatan, non-Spearville
23 plant additions.

24 So we knew that there were going to be some
25 changes to the case that we were filing when we actually do

1 the true-up that we are in the process of doing right now.
2 And do consequently, when we saw where the numbers were
3 coming in at, if you look at Line 10 and you see a negative
4 \$65 million and \$58 million and \$15 million, I don't think
5 that any of us, myself in particular, believe that those
6 were numbers that I would bet the farm on.

7 So consequently, as we were developing
8 our -- making final decisions about how we were going to
9 publish and release this to the public, we decided that we
10 would factor in the \$65 million allowance to make sure that
11 one, we were covering not only the true-up -- estimated
12 true-up items, that we didn't reflect in the case, but also
13 any errors or mistakes or omissions that we may have left
14 out. And indeed, we did have some of those.

15 Q. And are those the cause of the differences
16 between the two schedules, then?

17 A. They are largely the cause. There are
18 some -- we had some discussions -- when we get into the
19 details we had some discussions with the parties and the
20 Company at our settlement conference, our prehearing
21 conference. And so there was some revision to some of the
22 positions that we were taking based upon some of those
23 discussions.

24 Q. Do you recall you were asked questions about
25 the wolf Creek cases?

1 A. Yes.

2 Q. Did Staff accountants sponsor wolf Creek's
3 adjustments in that case?

4 A. Absolutely. In fact, the auditing
5 department, I think for that case, was placed in charge.
6 We coordinated the effort of the wolf Creek construction
7 review as well as the Callaway nuclear plant review.

8 Q. Do you recall what some of the same
9 accountant adjustments that were proposed regarding wolf
10 Creek were in that case?

11 A. That some of the auditors sponsored?

12 Q. Right.

13 A. Your testing me. Yeah, it has been in 1985.
14 I'll keep that -- I hope you understand. I haven't thought
15 about this in a long time. There was issues that dealt
16 with welding that I think one of the auditors sponsored.
17 There were issues that dealt with unit 2 cost. They
18 actually anticipated at some point possibly down in the
19 future a second unit at wolf Creek. And so there was some
20 costs associated with that second unit planned, second
21 unit.

22 They -- the auditors work very closely with
23 the engineers at that point so that the adjustments that
24 Mr. Fischer referred to as Mr. Rankin's adjustments, those
25 were largely worked with -- those were auditors that were

1 working with Mr. Rankin.

2 And he would identify what the -- we use the
3 term man hours to disallow and then there were auditors who
4 priced out and then provided overheads and indirect costs.
5 So the auditor would have taken Mr. Rankin's -- I use the
6 word disallow -- that was the term we used. The
7 disallowances were jointly then supported.

8 Q. Is there anything in addition to what you've
9 already testified to that the Staff accountants did in the
10 audit of the wolf Creek cost?

11 A. As I said we were primarily, I think -- we
12 were -- we had a much larger staff that worked on wolf
13 Creek and they were dedicated for -- in some cases, two and
14 a half years. And the -- and solely dedicated. That's all
15 they did. That's all they were assigned to.

16 And so the auditing department called the
17 accounting department, but that department was replaced and
18 charged and responsible for delivering the construction
19 audit of Callaway and wolf Creek.

20 So we were placed in a -- I guess it was a
21 leadership role, if you -- if you -- we were responsible
22 for managing the project.

23 Q. Did Staff accountants propose disallowance
24 of any unexplained wolf Creek costs?

25 A. Well, as I was eluding to earlier, there was

1 a different process that's been undertaken by KC Power and
2 Light and the partners at Wolf Creek. They had designed a
3 group that identified the cost overruns. And they were
4 pretty substantial as Mr. Fischer referenced.

5 And those overruns were put into different
6 categories of structural steel, and start up and there was
7 a whole host of categories that we called -- we referred to
8 them as a reconciliation packages. And those were given to
9 the audit staff. They reviewed them and given them to then
10 engineers and they reviewed them. And there were revisions
11 made.

12 They were -- at some point there was an item
13 referred to as unexplained differences. We referred to
14 those as plug numbers. And those were, I think -- they
15 were the basis of a disallowance. I believe the Commission
16 accepted or adopted.

17 Q. Do you recall Commissioner Gunn asking you
18 about auditors working with engineers?

19 A. Yes.

20 Q. Have you worked with Staff member David
21 Elliott on construction audits in the past?

22 A. Of the one that -- of the construction
23 audits that Mr. Elliott identified in his deposition as
24 Mr. Fischer stated in his opening, I think I worked on all
25 of them except for the Meramec and the Energy Center.

1 Q. And which audits were they?

2 A. There was the state line combined cycle unit
3 at Empire, Hawthorn 6, 7, 8 and 9. We started the Hawthorn
4 5 rebuild in the '06 case and did not complete it. And I
5 believe it was carried over to the '07 case. And I don't
6 know what was done. I didn't work on the '07 case. '07,
7 Kansas City Power and Light case.

8 west Gardner 1 through 4. There was four
9 units. And Osawatomie there's one unit. Those are
10 turbines, peaking units. I may have left out one, but I
11 can't remember.

12 Q. Are you able to identify the -- those
13 construction audits that you just referenced to the cases
14 in which they were performed?

15 A. well, the Kansas City Power and Light
16 Hawthorn 6 through 7 -- 6, 7, 8, and 9 and the West Gardner
17 and Osawatomie, those units were reviewed in the KCPL 2006
18 rate case. That case number was ER-2006-0314. The state
19 line unit was the 2001 Empire case. That was ER-2001-299.

20 It seems like we worked on another project
21 together, but I can't quite place it. But we worked on --
22 that construction audit was done -- these construction
23 audits were done differently in that the engineers and the
24 accountants worked jointly on the project.

25 Q. I believe you also listed Hawthorn 5

1 rebuild. Are you able to identify that to any particular
2 case?

3 A. Well, that was the 2006 Kansas City Power
4 and Light rate case. We started that review. I did not
5 complete it. I don't know what Mr. Elliott did with that
6 completion of that project in the 2007 case.

7 Q. Do you know if Mr. Elliott has worked with
8 any other auditing member of Staff on construction audits?

9 A. I believe he has.

10 Q. And who and on what audit, if you know?

11 A. I know it was the Energy Center, which is an
12 Empire District electric combustion turbine. I believe
13 there were two units that probably came into service some
14 time in maybe 2004 or '5. And I believe it was a St. Louis
15 office audit staff. And I don't know who specifically,
16 perhaps Mr. Steve Rackers.

17 But I believe he worked with that audit
18 group on the Energy Center, construction audit. They were
19 called construction audits at that point.

20 Q. And in the cases with which you worked with
21 Mr. Elliott, what did he do in the cases? what was his
22 role?

23 MR. FISCHER: Judge, I think I'm going to
24 object. I think this is well beyond the scope of any cross
25 or any questions from the bench.

1 JUDGE PRIDGIN: Mr. Williams?

2 MR. WILLIAMS: I don't believe it is and
3 Mr. Fischer asked a number of questions -- a number of
4 questions regarding Wolf Creek and the Commissioners asked
5 a number of questions regarding the relationship between
6 staff auditors and staff engineers and conducting
7 construction audits.

8 JUDGE PRIDGIN: I'll overrule.

9 BY MR. WILLIAMS:

10 Q. I'll repeat the question in case you don't
11 recall.

12 Based on the cases with which you worked
13 with Mr. Elliott on doing construction audits, what role
14 did he play in doing those construction audits?

15 A. I would say we worked jointly. We went to
16 the audit sites or to the plant sites. We were -- the
17 effort was coordinated, I think jointly. So it was -- I
18 would characterize it more of a partnership. And we would
19 interview Company personnel. We would look at documents,
20 change orders, and certainly high on the list, contracts.

21 We would do tours of the plant and interview
22 construction management. We would get an overview of how
23 the projects were first structured and then defined how
24 they were -- how they were managed.

25 Q. And may I take it from your response that

1 you've also provided what role you did in those
2 construction audits?

3 A. what role that I did?

4 Q. Yes.

5 A. I typically sponsored the adjustments to the
6 extent that there were any.

7 Q. well, who filed testimony in the cases
8 regarding adjustments in the cases you've worked with?

9 A. In the cases that I've worked they were --
10 it was myself and I believe in the case of the auditors in
11 St. Louis, I think it might be Mr. Rackers, but I think
12 they are the ones that sponsored the adjustment.

13 Q. The auditors?

14 A. The auditors.

15 Q. Thanks. what type of adjustments did the
16 staff auditors propose in those cases?

17 A. The adjustment that I sponsored was a
18 contract that dealt with schedule and that was ultimately
19 breached. That was in the Empire case and we made a
20 disallowance. I think we identified the -- the contract
21 dealt with the lowest estimate, it was the low bid. And I
22 think we made the adjustment to the second highest bid.
23 And that increment was what was the disallowance.

24 Q. And you sponsored the testimony regarding
25 that disallowance?

1 A. Yes.

2 Q. In the cases with which you worked with
3 Mr. Elliott -- in the cases in which you worked with
4 Mr. Elliott on construction audits, do you know if
5 Mr. Elliott reviewed change orders?

6 A. I can't -- I can't state with certainty. I
7 wasn't in the room when he did it, but it would be highly
8 likely that he did. Both of us did. We both looked at --
9 he would go to the plant site generally earlier than I
10 would. And he would have information that he would provide
11 me. He would call me. We would talk as the rate case
12 approached or as it was filed, and then we would work
13 together on coordinating the effort, coordinate the
14 meetings and certainly coordinating the document review,
15 which would include change orders.

16 MR. WILLIAMS: Thank you, Mr. Featherstone.

17 THE WITNESS: Thank you.

18 JUDGE PRIDGIN: Thank you. There's nothing
19 further from the bench.

20 All right. Mr. Featherstone, thank you very
21 much.

22 MR. FISCHER: Judge, in light of the
23 extensive discussion on the Wolf Creek case, could I ask
24 the Commission to take administrative notice of its
25 decision in Case No. EO-085-185 and EO-085-224, which is

1 found at 28 MoPSC New Series 228? And particularly, and
2 Page 346, where the decision of the Commission rejecting
3 Staff's proposed disallowances on the reconciliation
4 packages as discussed.

5 JUDGE PRIDGIN: Any objections?

6 MR. MILLS: Well, just to the extent that
7 you're taking judicial notice 536.070 says that you can
8 take official notice of matters of which courts take
9 matters take judicial notice. And essentially it's
10 technical or scientific facts. And so I don't think that
11 you literally can take official notice of an entire
12 decision.

13 You can take judicial notice of certain
14 facts within that decision or passages within that
15 decision, but as I recall that's a very, very lengthy
16 decision. And there may be significant portions of it that
17 are not relevant to this case. And so I would object to
18 the extent that Mr. Fischer's asking you to take official
19 notice of the entirety of the decision.

20 If he's asking you to take official notice
21 of that one particular passage that he cited, I have no
22 objection.

23 MR. DOTTHEIM: Judge, I would concur with
24 Mr. Fischer in that I routinely cite to the Commission and
25 when I have representative of the Commission before the

1 Western District Court of Appeals and Circuit Court cited
2 Missouri Public Service Commission cases. And I am shortly
3 going to give a short opening statement on Iatan where I am
4 going to quote from the Commission's decision in the Wolf
5 Creek Case.

6 So I, on occasion, disagree with Mr. Mills
7 and this is one of those occasions. But in fact, I
8 routinely do not even ask the Commission to take judicial
9 notice of its own reports and orders. If it's a routine
10 order of the Commission, a procedural order or some
11 interlocutory order, I may well -- in fact, I generally do
12 seek to make it an exhibit.

13 But if it's a report and order in a rate
14 case, I mean, a major case like the Wolf Creek case and the
15 Callaway case -- and I'm also going to cite to the
16 Commission from the Callaway case. I do not even go to the
17 official point that Mr. Fischer has of asking the
18 Commission to take official notice.

19 I just cite to the Commission's published
20 reports.

21 JUDGE PRIDGIN: And I would agree. I see.
22 I think the Commission can take official notice of its own
23 reports and orders, so that objection will be overruled.

24 Anything else before we, I think, will take
25 a brief recess before Mr. Blanc takes the stand on Iatan 1

1 and 2. And I understand we will go to mini opening
2 statements for that as well?

3 MR. DOTTHEIM: Yes. And I may be the only
4 person who has a mini opening statement because it appears
5 that the other parties -- it wasn't clear whether other
6 parties were going to put their Iatan statements in their
7 general opening statements or not, but I have -- if I beg
8 the Commission's indulgence, I have a short opening
9 statement. If that's all right.

10 JUDGE PRIGDIN: That's fine. Anything
11 further before we take a quick break?

12 All right.

13 COMMISSIONER DAVIS: Can I inquire of
14 Mr. Mills?

15 Mr. Mills, and it's my understanding that a
16 commission decision is a public governmental document.

17 MR. MILLS: Yes.

18 COMMISSIONER DAVIS: I mean, you're arguing
19 that we cannot take notice of what would be contained in
20 that public government document?

21 MR. MILLS: Taking notice means admitting
22 certain facts into the record as though they are proven in
23 a case. There are many, many facts in that case. So for
24 example, 536.070(6) says that the agency must give the
25 parties notice and reasonable opportunity to contest such

1 facts.

2 So there are a lot of facts in that case
3 that are probably no longer true. There's probably many
4 facts in that case that are no longer relevant. I
5 certainly have no problem with the parties citing to it,
6 but the effect of taking notice means to admit things as
7 fact into the record.

8 And what the judge's ruling has in fact done
9 is take notice of all the facts contained within that
10 100-page decision as though they are true sitting here
11 today. I think that's an error, but that motion's already
12 been ruled upon.

13 COMMISSIONER DAVIS: Okay. Thank you,
14 Mr. Mills.

15 JUDGE PRIGDIN: Okay. If there's nothing
16 further, let's take a brief recess. We'll go back on the
17 record at 3:40.

18 (Off the record.)

19 JUDGE PRIDGIN: All right. We're back on
20 the record.

21 And I believe, from the list of witnesses,
22 that Mr. Blanc will be taking the stand to be
23 cross-examined on the Iatan 1 and 2 and common rate base
24 issues.

25 And I also understand that some parties have

1 requested to make mini opening statements as the topics
2 arise. And I see Mr. Dottheim at the podium.

3 Is there anything else from counsel before
4 Mr. Dottheim gives his opening?

5 All right.

6 Mr. Dottheim, when you're ready, sir.

7 MR. DOTTHEIM: Yes. Thank you. May it
8 please the Commission.

9 This is the commencement of the presentation
10 of the issues regarding the amount of costs to be included
11 in rates for KCPL's and GMO's customers for the Iatan
12 construction project.

13 It is not clear whether The Empire District
14 Electric Company may recommend to the Commission to
15 determine the Iatan construction project issues in its
16 pending rate increase case stand on the record in these
17 cases.

18 Earlier today, I believe Empire waived its
19 opening statement. So there's no indication from Empire
20 regarding that matter. I don't know that there's anything
21 in its pending case regarding that matter.

22 So the Commission may be deciding the Iatan
23 issues in this proceeding, not just for KCPL and GMO, but
24 also for Empire, because Iatan 1 AQCS, the air quality
25 control system; that is the environmental enhancements; and

1 Iatan 2 and Iatan Common Plant are in the Empire District
2 Electric Company rate case that is pending before the
3 Commission.

4 The Staff members who worked on the Staff's
5 review of the construction of Iatan 1 AQCS, Iatan 2 and
6 Iatan Common Plant are David W. Elliott, Robert E.
7 Schallenberg, Charles R. Hyneman and Keith A. Majors.

8 Mr. Featherstone, who just a short while ago
9 was on the witness stand, I think, went a long way in
10 correcting the misinformation that was conveyed this
11 morning in the opening statement on Iatan by Kansas City
12 Power and Light.

13 In the opening statement of Kansas City
14 Power and Light, there was various statements regarding the
15 deposition of Mr. Elliott and other testimony. There was
16 no reference to his surrebuttal testimony that he filed,
17 which was very brief, which there are few questions and
18 answers.

19 Question to Mr. Elliott, that Mr. Giles
20 makes the following statement: Question: "However, I note
21 that Staff's Mr. David Elliott has had no such difficulties
22 identifying or explaining the cost variances or the Iatan
23 project CBEs, control budget estimates," closed quote.

24 Giles' rebuttal, Page 12, Line 7/8. "Do you
25 agree with this statement?"

1 Answer: "No. I do not identify or explain
2 cost variances over the Iatan project CBES. I reviewed the
3 approved change orders over \$50,000 to understand the
4 reason for the change order and determine if there were any
5 engineering issues or concerns with the change order.

6 I explain this review on Page 28 in the
7 Staff's construction audit and prudence review of Iatan
8 construction project for costs reported as of June the 30,
9 2010 filed on November 4, 2010."

10 And then it goes on.

11 Question to Mr. Elliott: "Mr. Giles makes
12 the following statement, quote, 'Mr. Elliott's analysis
13 clearly shows that cost overruns to Iatan project CBES are
14 both identified and explained,' closed quote.

15 Giles rebuttal, Page 15, Lines 10 and 11.

16 "Do you agree with that statement?"

17 Answer: "No. I do not identify or explain
18 cost overruns to the Iatan project CBES. I reviewed the
19 approved change orders over \$50,000 to understand the
20 reason for the change order and determine if there were any
21 engineering issues or concerns with the change order.

22 I explain this review on Page 28 of the
23 Staff's construction audit and prudence review of Iatan
24 construction project for costs reported as of June the 30,
25 2010, filed on November 4, 2010, as described in the detail

1 above."

2 Question: "Are you the staff member
3 responsible to make the recommendation of what cost
4 overruns of the Iatan project should be allowed?"

5 Answer: "No. I am not."

6 The facts are that the Iatan construction
7 project was completed late, with cost overruns. The other
8 fact is that even one of KCPL's principal consultants
9 filing testimony in the case on behalf of KCPL found that
10 KCPL was imprudent to some degree regarding the Iatan
11 construction project.

12 KCPL has already had its Iatan 1, Iatan 2
13 and Iatan Common Plant case heard in August 2010, and
14 decided in November 2010 by the Kansas Corporation
15 Commission, the KCC.

16 The recent KCC order is being used by KCPL
17 to provide this Commission assurance that only the minimal
18 adjustments proposed by one of KCPL's consultants is the
19 full extent of the disallowance for KCPL actions relative
20 to the lack of success of the Iatan construction project in
21 meeting its own established goals regarding safety,
22 quality, schedule and cost.

23 In Kansas, there is a specific statutory
24 provision regarding factors which the KCC is to consider in
25 making the determination of prudence or lack thereof in

1 determining the reasonable value of electric plant.

2 The KCC November 22, 2010 order respecting
3 Issue 3 -- that is, what party bears the burden of proof,
4 Staff to prove imprudency or KCPL to prove prudence -- and
5 is either party entitled to any presumptions or permitted
6 to shift the burden states at Page 13 to 14, quote, "As to
7 Issue 3, burden of proof, only Staff filed testimony
8 challenging the prudence of KCPL's construction
9 expenditures.

10 Neither disputed, an order placing the
11 burden of proving imprudence on them, and neither allege
12 that the presumption in 66-128(G)(B) applies. That
13 presumption is triggered when costs exceed 200 percent of
14 the original cost estimate.

15 In its post-hearing brief, Staff claims an
16 error, that it only carries a seemingly lesser burden of
17 persuasion and not the burden of proof. However, Kansas
18 law provides no distinction between those two burdens.

19 It also provides that the requisite level of
20 proof to satisfy the burden of proof is a preponderance on
21 the evidence. Therefore, the Commission concludes that
22 Staff must prove by the preponderance of the evidence that
23 KCPL under KSA 66-128(G) imprudently incurred costs that
24 should be excluded from the rate base.

25 In other words, Staff's evidence of KCPL's

1 imprudent actions must be of greater weight or more
2 convincing than KCPL's evidence that it acted imprudently.
3 And Staff must show that its alleged facts of imprudent
4 actions by KCPL are more probably true than not true.

5 In Missouri, section 393.150.2 RSMo 2000
6 provides, in relevant part, that, quote, "At any hearing
7 involving a rate sought to be increased, the burden of
8 proof to show that the increased rate or proposed increased
9 rate is just and reasonable shall be upon the electrical
10 corporation."

11 The Staff made fewer than 20 individual
12 discreet adjustments and disallowances to the Iatan 1 AQCS
13 environmental enhancement, and Iatan 2 construction
14 projects.

15 The Staff made transfers from Iatan 1 AQCS
16 indirect costs, and certain costs of a permanent auxiliary
17 electric boiler to Iatan 1 Common Plant that KCPL had
18 assigned to Iatan 1 AQCS.

19 In addition, the Staff made an Iatan 1 AQCS
20 and Iatan 2 disallowance based on KCPL not fulfilling its
21 very significant commitment.

22 On Page 28 of the stipulation and agreement
23 in the Kansas City Power and Light company experimental
24 alternative regulatory plan necessary for audit of KCPL's
25 costs, that's the language that has previously been cited

1 to the Commission today.

2 It's under Section Q, Cost Control Process
3 for Construction Expenditures. It's one sentence, quote,
4 "KCPL must develop and have a cost control system in place
5 that identifies and explains any cost overruns above the
6 definitive estimate during the construction period of the
7 Iatan 2 project, the wind generation projects, and the
8 environmental investments."

9 The record will show that the Iatan
10 construction project's cost control system does not
11 identify and explain the cost overruns above its definitive
12 estimate as specified in KCPL's regulatory plan, but only
13 provides fragmented information regarding budget variances,
14 leaving for the Staff to identify and explain the cost
15 overruns.

16 The KCPL cost control system is deficient
17 when compared to the cost control system used at Wolf Creek
18 and Callaway approximately 25 years ago.

19 At least, the companies in those cases made
20 an after-the-fact attempt to identify and explain the cost
21 overruns, while KCPL's answer here is that there is the
22 construction project information for Staff and other
23 parties to identify the cost overruns and then search
24 project documentation for the explanations.

25 The problem is that the documentation

1 containing the supposed identifications and explanations
2 does not track to the dollar that KCPL is seeking to
3 include in the rates it charges its Missouri customers.

4 Not only is there the deficiency of the KCPL
5 cost control system, but there is an inability of the
6 project management to be able to identify the cost overruns
7 and provide appropriate documentation for approval of the
8 expenditures.

9 The Iatan construction project was not under
10 appropriate control, as evidenced by the inability of the
11 project team to be able to identify and explain the items
12 that caused the project costs to exceed its budgeted costs.

13 There were periods when the Iatan
14 construction project knew that its current budget was not
15 sufficient, but did not know what would be sufficient for
16 its budget, thus causing the project to go into a
17 reforecast.

18 Regarding KCPL's cost control system, among
19 other things, on February 21, 2008, the Staff sent a letter
20 to counsel for KCPL regarding the relevant language noted
21 in the KCPL regulatory plan, asking for a meeting. The
22 Staff had learned in the context of the GPE acquisition of
23 Aquila, Inc. case that KCPL was engaged in a reforecast on
24 the cost and schedule of the Iatan construction project.

25 In its report and order in the Wolf Creek

1 case, the Commission said, quote, "The definitive estimate
2 is the proper starting point for an investigation of cost
3 overruns, and a determination as to whether costs incurred
4 on the project are reasonable," closed quote.

5 The Commission noted the statutory provision
6 section 393.230(1), that every unjust or unreasonable
7 charge is prohibited.

8 The Commission further stated in its wolf
9 Creek report and order that although it is sometimes
10 contended that management prudence is presumed, the
11 Commission agreed with the Washington D.C. Circuit Court of
12 Appeals in Anaheim, Riverside, et cetera v. FERC, 669 F.
13 2nd 779 D.C. Circuit, 1981, quoting a FERC opinion order
14 that, quote, "where a participant in the proceeding creates
15 a serious doubt as to the prudence of an expenditure, then
16 the applicant has the burden of dispelling these doubts and
17 proving the questioned expenditure to be prudent," closed
18 quote.

19 The Commission stated that, quote, "The
20 existence of almost \$2 billion in cost overruns raises
21 doubts as to the prudence in this case. Therefore, KCPL
22 has the burden of proof regarding prudence," closed quote.

23 The Commission in its report and order in
24 the wolf Creek case related, quote, "The Commission
25 reiterates its position set out in re Union Electric

1 Company, 27 MoPSC, New Series 183, 1985.

2 Industry comparisons do not establish a
3 standard of prudence. General statements regarding
4 regulatory changes do not explain cost overruns. Finally,
5 general statements regarding the complexity of the project
6 with respect to design evolution and fast-track
7 construction do not explain cost overruns," closed quote.

8 The Commission's Wolf Creek report and order
9 states that the owners of Wolf Creek, which were and are --
10 well, were KCPL 47 percent, Kansas Gas and Electric 47
11 percent, and the Kansas Electric Power Company 6 percent,
12 determined that a cost reconciliation process was needed in
13 order to respond to Staff's inquiries into the underlying
14 reasons for various cost overruns above the definitive
15 estimate.

16 This resulted in the development of a Wolf
17 Creek reconciliation group and numerous reconciliation
18 packages.

19 The reconciliation process was deemed to be
20 deficient. The Wolf Creek owners' first set of
21 reconciliation packages, rather than being corrected as the
22 Staff desired, were substituted by the owners with new
23 reconciliation packages, which the Staff still found to be
24 deficient.

25 In the Callaway report and order, the

1 Commission held, in part, as follows, quote, "The
2 Commission has found herein that some aspects of UE's
3 management of the Callaway project were inefficient,
4 imprudent and unreasonable.

5 In particular, the Commission has found that
6 UE failed to adequately integrate the construction and
7 engineering schedules, resulting in waste and inefficiency
8 at the project.

9 Secondly, the Commission has found that UE
10 failed to correctly assess the remaining amount of work to
11 be completed until very late in the project.

12 In addition, the Commission has found that
13 UE failed to fully implement an effective cost accounting
14 system.

15 Based upon these findings, the Commission
16 has made specific adjustments to rate base related to
17 inefficiencies, direct labor, indirect costs, and AFUDC
18 associated with these costs," closed quote.

19 The Commission went on in the Callaway
20 report and order, quote, "The Commission has a statutory
21 duty to set just and reasonable rates, and in doing so must
22 consider all relevant factors while balancing the interests
23 of shareholders and ratepayers."

24 The Commission then quoted from State, ex
25 rel. Valley Sewage Company v. Public Service Commission,

1 and quoted, "Ratemaking bodies within the ambit of their
2 statutory authority are vested with considerable discretion
3 to make such pragmatic adjustments in the ratemaking
4 process as may be indicated by the particular circumstances
5 in order to arrive at a just and reasonable rate."

6 The Commission in its Callaway report and
7 order then made the following adjustment, quote, "In
8 considering all relevant factors considering the prudence
9 and efficiency of the company's management in relation to
10 the Callaway project, the Commission finds and includes
11 that an additional \$100 million should be excluded from
12 rate base.

13 In arriving at this adjustment, the
14 Commission has considered the interest of ratepayers is not
15 being solely responsible for bearing the risk of imprudent
16 management by the company. The Commission has balanced
17 this ratepayer interest with the shareholders' interest in
18 the financial integrity of the company," closed quotes.

19 And that appears in the Commission's
20 reported decisions. It's in the Commission's Callaway
21 report and order re Union Electric Company, 27 MO PSC, New
22 Series 183 at 252, 1985.

23 That was \$100 million excluded from rate
24 base by the Commission in its Callaway report and order, in
25 addition to the other adjustments made by the Commission.

1 In Missouri, the Commission is not limited
2 to disallowing costs for imprudence. For example, the
3 Commission can disallow costs that are not of benefit to
4 ratepayers. And there does not need to be a showing of bad
5 faith or abuse of discretion for the Commission to disallow
6 costs.

7 Two Missouri appellate court cases have made
8 this finding -- State ex rel Laclede Gas Company v. Public
9 Service Commission, 600 S.W.2d 222 at 228 to 229, MoApp
10 Western District, 1980, appealed dismissed 449 U.S. 1072,
11 101 Supreme Court 84866, lawyers edition, 2D795, 1981; and
12 State ex rel Southwestern Bell Telephone Company v. Public
13 Service Commission, 645.

14 Now, there have been some questions as to --
15 I think, today -- if a project comes in even at budget,
16 might the Staff take a look at it or might there be any --
17 might there be any questions? Yes. The Staff would look
18 at construction projects.

19 In fact, you saw a video today that you
20 might think about that video, and you might think about
21 your trips to the Iatan site. And you might recall in that
22 video you saw today, and that -- your trips to the Iatan
23 site, that you saw two chimneys.

24 You might also think about some drawings,
25 renderings of what Iatan Station was going to look like

1 when it was completed after the comprehensive energy plan.
2 And you might recall that it had one chimney, a new
3 chimney.

4 The original plan was that the old chimney
5 was going to be torn down. Well, the old chimney hasn't
6 been torn down, because I think it was on the order of \$4
7 million has been saved by not tearing down that old
8 chimney.

9 So you can save budget by changing scope,
10 amongst other things. So as they say, that tired old
11 expression about a picture being worth a thousand words.
12 When you look at a -- at a picture and look at the Iatan
13 Station, the question is: Yes, it's completed, it's up and
14 running; there are two chimneys there because the original
15 chimney hasn't been torn down, but what other changes in
16 scope are there from the original project to the -- to
17 the -- to the -- to the present -- to the present project?

18 It's addressed amongst the testimony that's
19 filed. And I'm not going to go in -- I'm not going to into
20 that detail. That will be addressed, in part, in the
21 days -- in the days ahead, or it may not be and it will be
22 just left for -- possibly for briefing purposes.

23 I do have something that I'd like to
24 distribute that may be of benefit. It is something -- it's
25 a -- a document that is part of the reconciliation that was

1 filed last wednesday. It is the page which is highly
2 confidential that has the Iatan issues denominated on it
3 that you're about to hear.

4 It is actually in the testimony that you
5 have. It is part of the Staff's schedules. It is Staff
6 schedule 1-1 and 1-2.

7 But it -- when it was filed last wednesday
8 by the Staff as part of the reconciliation, it was filed
9 legal size on one page. And it was marked -- it's part of
10 the -- the Staff exhibits. And I have copies that --

11 JUDGE PRIDGIN: Thank you.

12 MR. DOTTHEIM: It's a highly confidential
13 document, so -- I would point out to you that when you look
14 at the proposed disallowances, Items Number 51 and 50, the
15 temporary auxiliary boilers and the Alstom WSI welding
16 services adjustment, are the items that have been referred
17 to as having been identified as adjustments by KCPL's own
18 consulting witness, Dr. Kris Nielsen, that he filed in
19 Kansas and has filed here in Missouri, and the Staff, in
20 essence, has adopted.

21 The others are Staff adjustments that you'll
22 see. 49 is -- those are KCC Staff adjustments that the
23 Missouri Staff, in essence, has -- has -- has adopted.

24 I had referred to, also, the reallocation.
25 If you go to the top portion of the -- of the sheet, Item

1 31 and 47. 31, Iatan 1 AQCS indirect costs related to
2 common, the reallocation from Iatan 1 AQCS to Common Plant
3 and the cost transfer of the permanent auxiliary electric
4 boiler to Common Plant.

5 The -- when you go to -- at the -- towards
6 the bottom of the page, which I would say maybe is the
7 bottom third of the page, those are the AFUDC adjustments
8 that are for the -- the -- that are basically made by Staff
9 witness Keith Majors. And the other adjustments are by
10 Staff witnesses Chuck Hyneman and Bob Schallenberg.

11 And the -- if I -- I would direct you to
12 Line -- it's really under Note A -- under Note A, where it
13 shows the -- under "Less," where it says, Staff
14 disallowance adjustments -- those -- that's the total --
15 the 51 million is the total for the -- I believe the
16 discreet adjustments that are made by the Staff -- 51
17 million for Iatan 1 AQCS and 36 million for Iatan 2.

18 And then you've got the unidentified and
19 unexplained cost overrun adjustment, which for Iatan 1 is
20 the approximate 18 million and for Iatan 2, the 93 million.

21 And then, the bottom third of the page,
22 that's -- those adjustments, that's AFUDC. Now, my
23 understanding is the AFUDC adjustments at the bottom of the
24 page, that's taken down to Missouri only.

25 But those -- the adjustments up at the --

1 the upper two-thirds of the page, the non-AFUDC
2 adjustments, that's total company. So it's a little apples
3 and oranges. But we'll have the staff witnesses to go into
4 detail.

5 COMMISSIONER DAVIS: Mr. Dottheim, I'm sorry
6 to interrupt. Can you identify who those witnesses are?
7 Is that Chuck Hyneman and Bob Schallenberg?

8 MR. DOTTHEIM: Yes. And Keith Majors.

9 COMMISSIONER DAVIS: And Keith Majors. And
10 they are the three people who are responsible for this
11 document?

12 MR. DOTTHEIM: Yes. Yes. And again, in
13 particular, Keith Majors is -- his adjustments are the
14 AFUDC adjustments. And Mr. Hyneman -- which are the
15 bottom -- the bottom third, basically.

16 COMMISSIONER DAVIS: Okay.

17 MR. DOTTHEIM: And Mr. Hyneman and
18 Mr. Schallenberg are the top two-thirds. Now, in the staff
19 report, by each adjustment is the name of the staff witness
20 who is sponsoring the adjustment. It's not on this list.

21 And it's my understanding that when you
22 literally go to the AFUDC section, the very first line for
23 KCPL direct cost, property tax, AFDC, KCPL only, that KCPL
24 project AFUDC amounts related to proposed disallowances,
25 that very first line, that is a fallout for the proposed --

1 the discreet proposed disallowances being made by
2 Mr. Hyneman and Mr. Schallenberg. The other -- Mr. Majors
3 has discreet AFUDC adjustments.

4 And when you go to the GMO AFUDC
5 adjustments, that very first line, GMO AFUDC adjustment
6 related to Staff-proposed disallowances that's a fallout
7 for Mr. Schallenberg's and Mr. Hyneman's discreet
8 adjustments -- the AFG -- the AFUDC portions. I'm sorry to
9 be so confusing, but I thought I might make an attempt to
10 explain this a little bit.

11 COMMISSIONER CLAYTON: Are you finished,
12 Mr. Dottheim, or still going?

13 MR. DOTTHEIM: No. I'm done.

14 COMMISSIONER CLAYTON: You're done.

15 May I ask -- Judge, may I ask a few
16 questions, just for clarification? I didn't want to
17 interrupt you, Mr. Dottheim. You kind of threw me off
18 there just for a second.

19 COMMISSIONER CLAYTON: I weren't [sic] sure
20 if you were going to keep going and --

21 MR. DOTTHEIM: No.

22 COMMISSIONER CLAYTON: You looked like you
23 had a thought, and I didn't want to interrupt it.

24 MR. DOTTHEIM: I often look like I have a
25 thought, and I don't.

1 COMMISSIONER CLAYTON: You said that; I
2 didn't.

3 MR. DOTTHEIM: I -- I --

4 COMMISSIONER CLAYTON: I wanted to ask a
5 couple of things. First of all, for context with the
6 recitation of history from the wolf Creek case and the
7 Callaway case, which case was decided first, the Callaway
8 or the wolf Creek?

9 MR. DOTTHEIM: The Callaway case was decided
10 first. The Callaway case was decided in 1985. It was
11 decided, in my recollection, it was, like, fall of 1985
12 that the Commission issued its order. And the Commission
13 issued its wolf Creek order in April of 1986.

14 COMMISSIONER CLAYTON: And do you recall --
15 and this may be asking for too specific information, going
16 back a number of years. Do you recall what the budget
17 control estimate for the Callaway project was? And, I
18 mean, I'm -- it's -- what --

19 MR. DOTTHEIM: The budget control estimate
20 or the definitive --

21 COMMISSIONER CLAYTON: Approximately?

22 MR. DOTTHEIM: I'm sorry.

23 COMMISSIONER CLAYTON: Do you recall the --

24 MR. DOTTHEIM: I --

25 COMMISSIONER CLAYTON: -- amount of overruns

1 from that estimate?

2 MR. DOTTHEIM: well, it --

3 COMMISSIONER CLAYTON: what was the total
4 overrun?

5 MR. DOTTHEIM: I think the reference is, I
6 think, 200 percent that I cited. And the -- and actually,
7 in the Kansas statute that's been referred to on occasion
8 today, there is -- there is a -- part of the Kansas
9 statute, there is a -- there is a reference to a -- there's
10 a presumption associated with the 200 percent excess.

11 COMMISSIONER CLAYTON: well, there was a
12 reference, I think, in Mr. Fischer's opening statement
13 about wolf Creek being \$2 billion in overruns. And then
14 I -- I wrote down that there was around a \$200 million
15 disallowance.

16 And since we're going back to these, I just
17 wanted to get context in terms of the scope of the
18 construction project, the scope of the overrun, staff's
19 recommendation, and then the ultimate Commission decision.
20 And I'm just looking for approximations.

21 MR. DOTTHEIM: well, I mean, to be blunt,
22 Mr. Blanc has, at Pages 17 and 18 of his testimony, a table
23 where he has a calculation where he shows what he purports
24 to be the disallowances from wolf Creek, which the Staff
25 believes is an inaccurate number.

1 So, I mean, it -- Mr. Fischer came up with
2 this number of 200 million, and if it came out of that --
3 out of -- out of that -- out of that table, then I would
4 say that that is an inaccurate number.

5 So I -- you know, I don't know how else to
6 answer your question, frankly.

7 COMMISSIONER CLAYTON: well, I guess I asked
8 the question -- I think, in your opening statement, you
9 made reference to Wolf Creek having a number of cost
10 control mechanisms or that the project perhaps was done in
11 a better manner.

12 And then in Mr. Fischer's statement, there
13 was a suggestion that it was a \$2 billion overrun, but the
14 Commission only disallowed 200 million.

15 And I just -- I was trying to reconcile the
16 scope and scale of that project, which was, I assume,
17 bigger, and get a sense of how you made your statement.
18 And if you could give me any more information.

19 MR. DOTTHEIM: At the moment, no. I mean,
20 if you'd like me to provide you something in the record, I
21 can --

22 COMMISSIONER CLAYTON: I'll review the
23 orders that have been cited, since the judge said --

24 MR. DOTTHEIM: Okay.

25 COMMISSIONER CLAYTON: -- we can take

1 judicial notice of them.

2 MR. DOTTHEIM: Okay. Yeah. And I think in
3 the next couple of days there may be some further
4 information that's developed in the -- in the hearing room
5 that may provide you some further information on that.

6 COMMISSIONER CLAYTON: Do you remember the
7 total project cost for wolf creek? Yes or no? And then
8 I'll --

9 MR. DOTTHEIM: well, you know, I don't -- I
10 don't know if it originally was projected at 1 billion and
11 wound up being 3 billion. You know, my reference was, you
12 know, the reference to the Commission stating that the
13 existence of almost \$2 billion in cost overruns, you know,
14 raises doubts as to the prudence. And so --

15 COMMISSIONER CLAYTON: How about Callaway?
16 Do you know what the total over -- budget overrun on the
17 Callaway project was?

18 MR. DOTTHEIM: Not off the top of my head.

19 COMMISSIONER CLAYTON: Okay. I have a
20 number in my mind -- I'm not sure if it's accurate -- that
21 the total disallowance for Callaway was around \$380
22 million. Does that sound accurate to you?

23 MR. DOTTHEIM: I just don't recall with that
24 level of accuracy that I'd want to say yes or no.

25 COMMISSIONER CLAYTON: Okay. I guess my

1 last question, looking at this document, does this have an
2 exhibit number, or is this a --

3 Judge, did you give this a number?

4 JUDGE PRIDGIN: I've not given it a number.
5 I understood it was already a prior exhibit.

6 COMMISSIONER CLAYTON: 1-1 and 1-2. And
7 these are total project costs. Is there a percentage on
8 the Iatan 1 and a percentage for the Iatan 2 piece, which
9 would make it KCP&L-specific in terms of computing a number
10 off of each of the columns to get an idea of what it means
11 in terms of a revenue requirement? And that may be too
12 complicated of a question.

13 MR. DOTTHEIM: I don't have a percentage --

14 COMMISSIONER CLAYTON: Okay.

15 MR. DOTTHEIM: -- for you.

16 COMMISSIONER CLAYTON: Thank you.

17 JUDGE PRIDGIN: Any further bench questions?

18 COMMISSIONER GUNN: I just have a real quick
19 question.

20 You mentioned in your opening that -- and
21 this may be more appropriate to -- for a witness. But you
22 mentioned that -- and I understand the concept -- that just
23 because a change order was approved by Mr. Elliott from an
24 engineering standpoint, that didn't necessarily make it
25 approved.

1 My question is: Is the converse true, that
2 if Mr. Elliott had not approved a change order, would have
3 the audit staff financially have been declared imprudent
4 almost automatically?

5 MR. DOTTHEIM: My understanding, Mr. Elliott
6 is looking from an engineering perspective of a change
7 order that did -- that, didn't that pipe need to be placed,
8 as opposed to from a cost accounting perspective.

9 If -- and again, Commissioner, your question
10 is, if Mr. Elliott would have questioned a change order,
11 would -- I'm sorry.

12 COMMISSIONER GUNN: Right. No. If he said,
13 The pipe didn't need to go there, would -- and it -- and
14 the pipe went there, would it be declared -- I mean, would
15 that be presumptively imprudent?

16 MR. DOTTHEIM: It's something I -- I assume
17 that presumptively imprudent or would have led to some sort
18 of further investigation on the part of the operations --

19 COMMISSIONER GUNN: Was Mr. --

20 MR. DOTTHEIM: -- by -- that you should --

21 COMMISSIONER GUNN: Was Mr. Elliott's review
22 prior to the work being done? Was it preapproval, or was
23 it just in connection with an engineering review?

24 MR. DOTTHEIM: When you say "preapproval" --

25 COMMISSIONER GUNN: Would Mr. Elliott have

1 to sign off on a change order before it would happen, or
2 would he be looking --

3 MR. DOTTHEIM: No.

4 COMMISSIONER GUNN: He was looking
5 backwards?

6 MR. DOTTHEIM: It's my understanding, he was
7 looking backwards. He -- he -- he did not have to sign off
8 on -- I mean, the -- the staff is not in the position of
9 signing off on anything before actual work takes place on a
10 plant site.

11 COMMISSIONER GUNN: So I just want -- and I
12 just want to be clear on this. So his disapproval raises
13 more questions or brings prudence into question, but his
14 approval has nothing to do with prudence?

15 MR. DOTTHEIM: Other than there is -- there
16 is -- from the engineering section in the operations
17 division, there has been no question raised as far as -- as
18 far as the prudence of --

19 COMMISSIONER GUNN: So you --

20 MR. DOTTHEIM: -- of the -- of the
21 engineering --

22 COMMISSIONER GUNN: So you get past --

23 MR. DOTTHEIM: -- that is --

24 COMMISSIONER GUNN: You get past the
25 threshold question of whether it was needed or not. And

1 then you go to the question about what the cost was,
2 essentially? It's -- according to Staff, it's a threshold
3 hurdle that you get over with the engineering review?

4 MR. DOTTHEIM: Yes. And that's not to say
5 that the accountants wouldn't have questions for
6 Mr. Elliott if they reviewed something, or Mr. Elliott
7 might go to the accountants with some questions that he
8 might have.

9 COMMISSIONER GUNN: Okay. All right. Thank
10 you. That's all I have.

11 JUDGE PRIDGIN: Commissioner Kenney.

12 COMMISSIONER KENNEY: Mr. Dottheim, just a
13 couple of brief questions about the burden -- the
14 respective burdens. And I want to make sure I understand
15 kind of the crux of Staff's case with respect to the cost
16 overruns for the Iatan construction projects.

17 Is the thrust of Staff's case essentially
18 that the cost control system doesn't adequately justify the
19 cost overruns? And is that a separate question from
20 whether the cost overruns themselves are prudent or
21 imprudent?

22 MR. DOTTHEIM: Well, yes.

23 COMMISSIONER KENNEY: Okay.

24 MR. DOTTHEIM: Your answer, yes.

25 COMMISSIONER KENNEY: All right.

1 MR. DOTTHEIM: We received the question --
2 first of all, from the Staff's perspective -- and this
3 is -- and this is not any intent to go behind any
4 negotiations or discussions or what have you -- but from
5 Staff's perspective, the KCPL regulatory plan, Section Q on
6 Page 28 was a very significant part of the KCPL regulatory
7 plan. It was --

8 COMMISSIONER KENNEY: I'm sorry. Section Q
9 on Page 28 of which document?

10 MR. DOTTHEIM: Of the KCPL regulatory
11 plan --

12 COMMISSIONER KENNEY: Regulatory plan.

13 MR. DOTTHEIM: -- stipulation and agreement.

14 It was borne of the Staff's experience in
15 the wolf creek and the Callaway cases. And it was -- it
16 was an effort to try to push something, in effect -- or try
17 to effectuate something to address those prior experiences.

18 And so when -- from the Staff's perspective,
19 the adjustment cannot be separated from the existence of
20 that section in the KCPL regulatory plan.

21 Part of the adjustment is the fact that we
22 thought we had an agreement that there would be a cost
23 control system that would address our concerns.

24 And that's, in part, why -- but also to try
25 to address your question, Commissioner, once -- if there

1 were a cost control system, that's not the end of it. If
2 there's a cost control system that identifies and
3 explains --

4 COMMISSIONER KENNEY: Any cost overruns --

5 MR. DOTTHEIM: -- overruns --

6 COMMISSIONER KENNEY: -- of the definitive
7 estimate during the construction period --

8 MR. DOTTHEIM: -- then -- then you have to
9 make the determination as to prudence, reasonableness,
10 appropriateness. There are also questions of even -- even
11 if -- for example, even -- questions of, even if you make
12 budget, even if there are cost overruns, there are
13 questions of backcharges; there are questions of liquidated
14 damages.

15 COMMISSIONER KENNEY: Sure.

16 MR. DOTTHEIM: Some of the Staff's
17 adjustments are related to backcharges and liquidated
18 damages. Did the company adequately, sufficiently,
19 properly, prudently, reasonably pursue backcharges or
20 liquidated damages?

21 COMMISSIONER KENNEY: Those are other
22 disallowances?

23 MR. DOTTHEIM: Yes.

24 COMMISSIONER KENNEY: And I'm just asking
25 about the cost control issue --

1 MR. DOTTHEIM: Okay.

2 COMMISSIONER KENNEY: -- cost overruns. Let
3 me just limit my line of inquiry --

4 MR. DOTTHEIM: But that also -- but that
5 also ties into the question --

6 COMMISSIONER KENNEY: Sure.

7 MR. DOTTHEIM: -- of the cost control
8 system. If you have the cost control system in place, then
9 you get, potentially, to those other questions. If the
10 cost control system is in place, that doesn't mean --

11 COMMISSIONER KENNEY: That the inquiry ends.

12 MR. DOTTHEIM: That's right.

13 COMMISSIONER KENNEY: Well, that's my next
14 question. So is it staff's position, then, that that
15 additional inquiry was conducted or was not conducted --

16 MR. DOTTHEIM: Was not conducted.

17 COMMISSIONER KENNEY: Okay. So -- all
18 right. So this is -- this is, then, not strictly based
19 upon a substantive examination of whether the cost overruns
20 were or were not imprudent, it's a violation of Paragraph Q
21 of the regulatory plan for not having a sufficient cost
22 control system?

23 MR. DOTTHEIM: Yes.

24 COMMISSIONER KENNEY: So the -- all right.

25 So was there ever any discussion of what "identify" and

1 "explains" means? Because that seems to be the crux of the
2 issues, that staff is not -- is not satisfied that there
3 were sufficient identification and explanation of the cost
4 overruns above the definitive estimate. Right?

5 MR. DOTTHEIM: Yes.

6 COMMISSIONER KENNEY: Was there a discussion
7 of what -- and if -- if you know, of what identification
8 and explanation means in the context of Paragraph Q of the
9 regulatory plan?

10 MR. DOTTHEIM: There were meetings.
11 There -- I made reference to a September -- excuse me -- a
12 February 21, 2008 letter, that there are -- there are -- a
13 number of the commissioners, I think -- other than
14 yourself, I think all the commissioners -- all the other
15 commissioners were here at the time of the GPE acquisition
16 of Aquila -- the Aquila case.

17 And there was a suspension of the hearings
18 in that case. And during the suspension of the hearings,
19 the Staff became aware that KCPL was undergoing a
20 reforecast of cost and schedule of Iatan 1 and Iatan 2.

21 And the -- associated with that, the
22 Staff -- I, on behalf of Staff, relating to the KCPL
23 regulatory plan stipulation and agreement, sent a letter on
24 February 21, 2008 to counsel for KCPL, asking for a
25 meeting, which occurred on March 12. One of the items --

1 COMMISSIONER KENNEY: Of what year?

2 MR. DOTTHEIM: 2008.

3 COMMISSIONER KENNEY: That's after the
4 agreement was negotiated in 2005, though. Right?

5 MR. DOTTHEIM: Right.

6 COMMISSIONER KENNEY: I'm talking about
7 contemporaneously with the negotiation of the agreement.

8 MR. DOTTHEIM: I don't recall that -- that
9 contemporaneously --

10 COMMISSIONER KENNEY: Okay.

11 MR. DOTTHEIM: -- with the negotiation. I
12 wasn't -- I was in, I'd say, most but not literally all of
13 the sessions.

14 COMMISSIONER KENNEY: All right. Let me
15 just ask another question. And I just want to stay focused
16 on this -- the regulatory plan and the issues surrounding
17 that.

18 And this is a hypothetical question. So
19 assuming that the company had put forward a cost control
20 system that satisfactorily identified and explained cost
21 overruns, there is a possibility that those overruns may be
22 deemed to be prudent. Is that a fair statement?

23 MR. DOTTHEIM: Yes. I think so.

24 COMMISSIONER KENNEY: Okay.

25 MR. DOTTHEIM: But I -- and I think, you

1 know, you best -- should ask the Staff witness. But then I
2 think --

3 COMMISSIONER KENNEY: Mr. Elliott and
4 Mr. Schallenberg, Mr. Hyneman and Mr. Majors?

5 MR. DOTTHEIM: Yes.

6 COMMISSIONER KENNEY: Okay.

7 MR. DOTTHEIM: In particular,
8 Mr. Schallenberg and Mr. Hyneman.

9 COMMISSIONER KENNEY: Great.

10 MR. DOTTHEIM: Yes.

11 COMMISSIONER KENNEY: Thank you very much.
12 I don't have any other questions.

13 JUDGE PRIDGIN: Further bench questions.
14 Commissioner Gunn.

15 COMMISSIONER GUNN: I just -- you mentioned
16 Mr. Elliott here, and I don't think you had mentioned him
17 earlier. Are you planning on putting Mr. Elliott up for
18 these issues?

19 MR. DOTTHEIM: Yes. Yes. Definitely.

20 COMMISSIONER GUNN: Okay.

21 MR. DOTTHEIM: Mr. Elliott is definitely
22 going to take -- is definitely going to take the stand. He
23 has -- he is in the report, and he has surrebuttal
24 testimony filed. He is definitely taking the stand.

25 JUDGE PRIDGIN: Commissioner Davis.

1 COMMISSIONER DAVIS: Okay. Mr. Dottheim,
2 first of all, I apologize. I missed the first piece of
3 your opening remarks. But rest assured, I will go back and
4 read the transcript.

5 Earlier -- and this came up in opening
6 arguments, as well as in your opening mini statements -- or
7 mini statement here about the smokestack that the company
8 said they were going to tear down as part of this -- part
9 of their regulatory plan and what they represented to you
10 at some point, and then obviously that happened -- hasn't
11 happened. We have two smokestacks now.

12 And so my question to you is: I'm a little
13 unclear as to what your solution is. Should we disallow \$4
14 million here, or would you order them to tear down the
15 smokestack at the company expense, or what? I mean, how do
16 you -- how would you propose resolving this issue? Or is
17 it just --

18 MR. DOTTHEIM: No, Commissioner. I was just
19 citing that --

20 COMMISSIONER DAVIS: As an example?

21 MR. DOTTHEIM: -- as an example. No. I
22 wasn't suggesting, by any means, that the smokestack --
23 that the chimney should be demolished.

24 COMMISSIONER DAVIS: So leave it up?

25 MR. DOTTHEIM: Yes.

1 COMMISSIONER DAVIS: And that --

2 MR. DOTTHEIM: So long -- I would think -- I
3 mean, I'm not -- I don't presume to be an expert. I assume
4 it's not a safety hazard or anything.

5 I assume that for some reason it was decided
6 originally there's a reason for taking it down, because it
7 wasn't necessary. But it's -- it -- there's no reason to
8 take it down, no. I was just -- I was just using it as a
9 visible example of a change in scope where dollars are
10 saved that -- that is -- that can be easily seen. And that
11 was an example easily seen today.

12 COMMISSIONER DAVIS: Okay. And I didn't
13 bring a copy of my non-unanimous stip from the 2005 case.
14 I'm going to go upstairs and get a copy of it here -- or
15 get my copy of it here shortly. But what does that
16 paragraph -- could you summarize what Paragraph Q says for
17 me?

18 MR. DOTTHEIM: Can I read it to you?

19 COMMISSIONER DAVIS: Read it to me.

20 MR. DOTTHEIM: Okay. Q -- and it has the --
21 the title of section Q is Cost Control Process for
22 Construction Expenditures.

23 KCPL must develop and have a cost control
24 system in place that identifies and explains any cost
25 overruns above the definitive estimate during the

1 construction period of the Iatan 2 project, the wind
2 generation projects, and the environmental investments.

3 COMMISSIONER DAVIS: Okay.

4 Thank you, Mr. Dottheim.

5 MR. DOTTHEIM: Certainly.

6 JUDGE PRIDGIN: Any further bench questions?

7 All right. Seeing none, this looks to be a
8 convenient time to stand in recess for the day.

9 Is there -- and my plan would be to have
10 Mr. Blanc take the stand at 8:30 in the morning, be the
11 first witness on Iatan 1 and 2 and common rate base
12 additions.

13 Is there anything further from counsel
14 before we stand in recess for the evening?

15 MR. FISCHER: Judge, it was my understanding
16 that we'd be given an opportunity to give a mini statement,
17 as well.

18 JUDGE PRIDGIN: That's correct. You will be
19 given that. Yes.

20 Anything further?

21 All right. Hearing nothing, we will stand
22 in recess until 8:30 a.m.

23 Thank you. We are off the record.

24 (WHEREUPON; the hearing was adjourned until
25 8:30 a.m. January 19, 2010.)

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CERTIFICATE OF REPORTER

I, Lisa M. Banks, CCR within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; the testimony of said witness was taken by me to the best of ability and thereafter reduced to typewriting under my direction; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this deposition was taken, and further, that I am not a relative employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the of the action.

Lisa M. Banks, CCR

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SOUTHERN UNION COMPANY d/b/a MISSOURI GAS ENERGY:

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Exhibit No. KCP&L-2201HC 225
Direct testimony of John J. Reed-HC

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Direct testimony of Michael R. Noack

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Exhibit No. KCPL 1201 225
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Direct testimony of Charles R. Hyneman

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16	Surrebuttal testimony of David Murray	
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25	Surrebuttal testimony of John A. Rogers	

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E X H I B I T I N D E X (Continued)

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KANSAS CITY POWER AND LIGHT (Continued):

Exhibit No. KCPL 66 139
Meetins with MPSC Staff regarding KCP&L's
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