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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

October 17, 2012
Jefferson City, Missouri
Volume 14

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
File No. ER-2012-0174

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

JUDGE DANIEL JORDAN, Presiding
SENIOR REGULATORY LAW JUDGE

KEVIN D. GUNN, Chairman,
TERRY M. JARRETT,
STEPHEN STOLL,
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1 P R O C E E D I N G S

2 JUDGE JORDAN: We're on the record. The
3 Commission is calling the actions in File Nos.
4 ER-20120174 and ER-2012-0175. These are respectively the
5 general rate actions for Kansas City Power & Light Company
6 and KCP&L Greater Missouri Operations.

7 My name is Daniel Jordan. I'm the Regulatory
8 Law Judge assigned to this action. I'll ask everyone to
9 silence their cell phones and similar devices. You don't
10 have to turn them off, but please do silence them. I
11 don't want them to distract anyone.

12 We'll begin by taking entries of appearance.
13 And let's begin with Kansas City Power & Light Company.

14 MR. FISCHER: Judge, on behalf of both of the
15 applicants, Kansas City Power & Light Company and KCP&L
16 Greater Missouri Operations Company, let the record
17 reflect the appearance of Roger Steiner, Chuck Hatfield,
18 Karl Zobrist, Lisa Gilbreath and Jim Fischer. Our contact
19 information is written on the written entry form. Thank
20 you.

21 JUDGE JORDAN: Thank you, Counsel. And for
22 KCP&L Greater Missouri Operations Company?

23 MR. FISCHER: It would be the same counsel.
24 Thank you.

25 JUDGE JORDAN: Thank you. For the Staff of the

1 Missouri Public Service Commission?

2 MR. THOMPSON: Thank you, Judge. Kevin
3 Thompson, Nathan Williams Sarah Kliethermes, Steven
4 Dottheim, Rachel Lewis, Jeffrey Keevil, Jennifer
5 Hernandez, Meghan McClowry, Tonya Alm, John Borgmeyer and
6 Goldie Tompkins for the Staff of the Missouri Public
7 Service Commission, Post Office Box 360, Jefferson City,
8 Missouri, 65102.

9 JUDGE JORDAN: Thank you. For the Office of the
10 Public Counsel?

11 MR. MILLS: I wish I had a list like that. On
12 behalf of the Office of the Public Counsel and the public,
13 Lewis Mills. My address is Post Office Box 2230,
14 Jefferson City, Missouri, 65102.

15 JUDGE JORDAN: Thank you. For the Missouri
16 Department of Natural Resources?

17 MS. BLOME: Good morning, your Honor. Jessica
18 Blome for the Department of Natural Resources. My contact
19 information is on the sheet that I've submitted to the
20 court reporter.

21 In line with your request that we ask to be
22 excused as we give our opening statements, Adam Bickford
23 will only be testifying on Wednesday as a separate person
24 from the remainder of the low income weatherization issue,
25 so I'd ask to be excused on October 29th. And I

1 understand that we'd be waiving cross of the remaining
2 witnesses.

3 JUDGE JORDAN: Your discussion raises an
4 important issue, which is that we need all to use the
5 microphone.

6 MS. BLOME: Okay.

7 JUDGE JORDAN: Which also means that you may
8 speak from where you are seated.

9 MS. BLOME: Well, I don't have a microphone.

10 JUDGE JORDAN: You don't have a microphone back
11 there?

12 MS. BLOME: No.

13 JUDGE JORDAN: Oh, I'm sorry.

14 MS. BLOME: That's okay.

15 JUDGE JORDAN: I didn't hear all of what you
16 said, so I'm going to have to ask you to repeat it.

17 MS. BLOME: Sure.

18 JUDGE JORDAN: You can come up.

19 MS. BLOME: Thank you. Okay.

20 JUDGE JORDAN: Okay.

21 MS. BLOME: So Adam Bickford, the Department of
22 Natural Resources' only witness is testifying on the low
23 income weatherization issue out of time -- am I still not
24 on the microphone? Okay. So the remaining issues are
25 scheduled for October 29th, and we -- the Department would

1 ask that we be waived or excused from appearing on the
2 29th, understanding that we'd be waiving cross of the
3 remaining witnesses on that information.

4 JUDGE JORDAN: Do you want to be excused on the
5 29th or every day but the 29th?

6 MS. BLOME: All other -- all other days,
7 including the 29th, except for today and tomorrow.

8 JUDGE JORDAN: Okay. What days do you want to
9 be excused from?

10 MS. BLOME: All days except today and tomorrow.

11 JUDGE JORDAN: I'm not hearing or seeing an
12 objection, so I will grant that.

13 MS. BLOME: Thank you.

14 JUDGE JORDAN: For the City of Kansas City?
15 Mr. Comley's excused today. For AARP and Consumer
16 Councils of Missouri?

17 MR. COFFMAN: Appearing on behalf of AARP and
18 the Consumer Councils of Missouri, I'm John B. Coffman,
19 871 Tuxedo Boulevard, St. Louis, Missouri, 63119.

20 And I also would like to request leave to come
21 and go during these proceedings over the next few weeks
22 and to be gone for those issues which my clients are not
23 participating with the understanding, of course, that I
24 would be waiving cross-examination when I'm not here.

25 JUDGE JORDAN: I'll grant that request.

1 JUDGE JORDAN: For Dogwood Energy, LLC? I note
2 that Carl J. Lumley has been excused from these
3 proceedings for today. I'll take the next set together,
4 United States Department of Energy, United States National
5 Nuclear Safety Administration, United States Air Force
6 Whiteman Air Force base and all other Federal Executive
7 Agencies?

8 MR. MILLER: Thank you, again, your Honor. On
9 behalf of the Federal Executive Agencies, Captain Samuel
10 Miller. My business address is Air Force Utility Law
11 Field Support Center, 139 Barnes Ave., Suite 1, Tyndall
12 Air Force Base, Florida, 32403. And I'd also make -- like
13 to make an appearance for Mr. Arthur Bruder on behalf of
14 the Department of Energy.

15 JUDGE JORDAN: Thank you. I'll take another set
16 together. Is it Ag Processing or AG Processing? I can
17 never remember that.

18 MR. CONRAD: Well, I think they'll respond,
19 Judge, to either one. I might take those separately, if
20 you don't mind.

21 JUDGE JORDAN: I don't mind at all.

22 MR. CONRAD: In the ER-2012-0174 matter, Stuart
23 W. Conrad, Law Firm of Finnegan, Conrad & Peterson. I
24 have provided the reporter with an address. But that is
25 for Intervenor Praxair Air, Inc.

1 And in the ER-2012-0175 matter, shorthand as
2 GMO, we have Ag. Processing. And, your Honor, that's
3 quite correct. AGP or -- technically, it's AG Processing,
4 no comma Inc., no period, a cooperative. But we won't
5 bother with you that.

6 And, also, MEUA, which is consortium of a number
7 of other companies located in -- primarily around Sedalia.
8 That's for the GMO case. Same counsel, same address, and
9 I have provided the reporter with that material.

10 Judge, although we're deeply and profoundly
11 interested in all of the issues that doubtless will be
12 presented to the Commission over the next few days, I do
13 have to occasionally be absent once in a while.
14 I have some other matters to attend to. So I would ask
15 your leave to do that.

16 I will promise you that I will intensely watch
17 the web cast and along with all of the ships at sea. The
18 -- I can't at this point in time identify the particular
19 dates. I do know we'll be out tomorrow because I do have
20 a deposition back in Kansas City on another matter.

21 So -- but we'll do the best we can. I do
22 understand, Judge, that when we're not here, we'll end up
23 waiving cross on those witnesses that are appearing on
24 that day.

25 JUDGE JORDAN: Thank you. And if I may clarify

1 just a couple things here. I noted, also, the filings by
2 Jeremiah Finnegan and Reed J. Bartels on behalf of those
3 clients.

4 MR. CONRAD: Those -- Mr. Bartels is here, and
5 he'll be -- he'll be entering that appearance as your
6 Honor directs. But that' in the 0174 case, not the 0175
7 matter, if I'm correct.

8 JUDGE JORDAN: Well, why don't we take care of
9 that right now?

10 MR. CONRAD: Okay.

11 MR. BARTELS: Good afternoon, your Honor. Or
12 good morning.

13 JUDGE JORDAN: Good morning.

14 MR. BARTELS: Yes. I'm here with -- or with
15 additional staff for Jeremiah Finnegan and Midwest Energy
16 Usage Association, Kansas City Power & Light, that's a
17 differentiation between Mr. Conrad and ourselves. And my
18 office address is entered on the sheet that I signed
19 earlier.

20 JUDGE JORDAN: Okay. So the court reporter has
21 your -- your -- your information.

22 MR. BARTELS: Correct. And I would also request
23 that I be absent for part of the hearings as well. And I
24 understand that I'd be waiving cross.

25 JUDGE JORDAN: I'll grant that request. Yes.

1 Thank you.

2 MR. BARTELS: Thank you. For the Midwest Energy
3 Consumers Group?

4 MR. WOODSMALL: Good morning, your Honor. David
5 Woodsmall appearing on behalf of the Midwest Energy
6 Consumers Group in both cases. I previously provided the
7 court reporter with my written entry of appearance. It
8 has my address.

9 I, too, would ask that I be excused at various
10 points during this hearing and understand that I'll waive
11 cross those times that I'm gone. Thank you.

12 JUDGE JORDAN: I'll grant that request. Thank
13 you, Counsel. For Missouri Industrial Energy Consumers?

14 MS. ILES: Your Honor, Carole Iles. Back here.
15 Diana Vulysteke will also be appearing in this case on
16 behalf of MIEC. We're both with Bryan Cave, LLP. Our
17 address is 211 North Broadway, St. Louis, Missouri.

18 We would also have for leave to come and go as
19 we will not be presenting testimony on all of the issues
20 in this case.

21 JUDGE JORDAN: I'll grant that request.

22 MS. ILES: Thank you. The next party raises an
23 issue that I want to address very briefly, which is to say
24 that some of these organizations have names that are very
25 long, and as to avoid burdening our court reporter, I will

1 use certain abbreviations. That's not intended for any
2 disrespect or undue familiarity.

3 The next party whose entry of appearance I will
4 take will be Missouri Joint Municipal Electric Utility
5 Commission, sometimes called MJMEUC. I will call it the
6 municipals if that's okay. That is -- representation is
7 from Douglas L. Healey, who was excused today.

8 The next party on my list is the Natural
9 Resources Defense Counsel, which has withdrawn. The next
10 parties are Renew Missouri and the Sierra Club. I note
11 that Henry Robertson is not appearing today. But we did
12 have an entry of appearance from Thomas Kumar, which I
13 granted. Anyone from those parties here today?

14 All right. I'll move on to the Empire District
15 Electric Company represented by Diana Carter, who I have
16 excused from these proceedings today. Southern Union
17 Company doing business as Missouri Gas Energy?

18 MR. COOPER: Thank you, your Honor. Dean Cooper
19 and Todd Jacobs on behalf Southern Union Company, d/b/a
20 Missouri Gas Energy. The court reporter has the addresses
21 for both of us.

22 MGE is only interested in rate design in this
23 proceeding and would accordingly ask to be excused for the
24 other parts of the proceedings

25 JUDGE JORDAN: I will grant that request. Union

1 Electric Company doing business as Ameren Missouri? I
2 have filings by Thomas Byrne and James Lowery. I have
3 excused Mr. Lowery from appearing today.

4 Before we wrap this up, I just wanted to clarify
5 one other issue, and that is with the Federal Executive
6 Agencies. And I noted some filings by Theresa LaBlanc.

7 MR. MILLER: Yes, your Honor. I would have to
8 confirm with Mr. Bruder. I believe she is also an
9 attorney for the Department of Energy. Mr. Bruder is the
10 only DOE attorney that I've been corresponding with, so I
11 can't speak to that a hundred percent accurately, but
12 that's my belief.

13 JUDGE JORDAN: Okay. Thank you. Before I take
14 opening statements, we have some preliminary matters to
15 resolve. Segwaying from entries of appearance, there is
16 pending a motion for late entry -- late intervention from
17 the International Brotherhood of Electrical Workers.

18 The Commission has reserved ruling on that
19 motion because it did not comply with the Commission's
20 regulation. The Commission also gave that entity time to
21 file further information to comply with the regulation.
22 That has not occurred. So on the record, I will deny that
23 motion for intervention.

24 I also note that we have a stipulation by at
25 least some of the parties, and I've heard no objection

1 yet, to the entry of testimony from Bruce Bewold. I hope
2 I'm pronouncing that correctly.

3 MR. MILLS: Bewold.

4 JUDGE JORDAN: Bewold. Bruce Bewold. And in an
5 e-mail discussion yesterday, several parties stipulated to
6 entry of that testimony. No one has objected. And unless
7 I hear an objection now, I will enter that testimony into
8 the record. Hearing no objection, that testimony is
9 entered.

10 There are also motions pending that the
11 Commission has taken extensive written argument on but not
12 ruled upon. Would movants want to speak to those motions
13 this morning?

14 MR. WOODSMALL: Your Honor, on May 25th, several
15 parties, OPC and MECG as well as some others, I believe,
16 filed a Motion to Strike certain portions of KCP&L's
17 testimony and reject tariffs regarding sharing of off
18 system sales.

19 I would simply renew that motion. At this
20 point, given that we've proceeded through all discovery
21 and testimony and everything, I'm not asking for you to
22 make a ruling from the Bench.

23 You know, if you want to take it with the case,
24 the testimony is all prepared. I intend to brief it.
25 I've put it in my opening statement. So I just want to

1 make note that the motion is out there. You may see
2 reference to it, but I'm not expecting a decision at this
3 point.

4 JUDGE JORDAN: Thank you. Anything else on
5 those motions?

6 MR. BORGMEYER: Yes, Judge. Good morning,
7 everybody. Staff has a similar Motion to Strike the IEC
8 testimony. And I think Mr. Woodsmall had a -- I don't
9 really have anything to add to what he just said.

10 JUDGE JORDAN: Will you identify your telephone
11 to the court reporter?

12 MR. COFFMAN: Yes. My name is John Borgmeyer,
13 Staff Counsel.

14 JUDGE JORDAN: Thank you. Anything else on
15 those motions?

16 MR. STEINER: Your Honor, the motions were filed
17 back in May. And since then, we've had direct, rebuttal
18 and surrebuttal testimony on the IEC and whether it
19 complies with the stipulation. I think the company
20 believes that the issue should be taken with the case and
21 decided after the briefing.

22 JUDGE JORDAN: Anything else? All right, then.
23 The Commission will take those motions with the case.
24 Thank you. Now, as to exhibits, I just want to note that
25 most of them are going to be premarked. There won't be

1 any need for marking those. Just give a copy to the court
2 reporter when they're offered and -- well, the standard
3 set is six, but, of course, there's one up here that the
4 Commissioners can share. So you can make a stack if you
5 want, but you don't have to.

6 MR. WOODSMALL: Your Honor, just a
7 clarification. Are you saying for testimony we're
8 supposed to give six copies? I believe for prefiled
9 testimony, it's no copies, but we give copies of other
10 exhibits.

11 JUDGE JORDAN: That's correct.

12 MR. WOODSMALL: Okay. Thank you.

13 JUDGE JORDAN: Thank you for that clarification.
14 Anything else before we begin opening statements?

15 MR. FISCHER: Judge, as I mentioned before we
16 went on the record today, there are a large number of
17 issues. The company and the Staff have filed testimony on
18 most of these miscellaneous issues.

19 And we have been in discussions to try to reduce
20 the number of issues that we would have to bring to the
21 Commission for resolution. We have made significant
22 progress, I believe, and were in the process of trying to
23 determine whether we can get all of those resolved.

24 And, also, we have not had the opportunity to
25 bring other parties into those discussions, which we would

1 like to do. What we would propose today is to go through
2 the opening statements and begin the hearing on the
3 overview regulatory policy and economic considerations
4 issue.

5 The next two issues, if we even got that far,
6 are on our list of things we think we can resolve if we
7 have further discussions. We'd like to take a recess at
8 that point and determine if we are able to make continued
9 progress in that regard.

10 And then tomorrow, October the 18th, I believe
11 all of the -- the items that are listed are on our list of
12 things that we believe with further discussions and also
13 bringing in some other parties we may be able to resolve.
14 So we would suggest taking a bit of a recess for tomorrow
15 and see if we can get that done.

16 In the event that for some reason we couldn't,
17 there is the very end of the hearing, which we could take
18 witnesses on those issues. But I'm -- I'm hopeful that
19 that wouldn't occur anyway. And if other parties -- if
20 Staff would like to confirm that, that's fine. But --
21 where we're at.

22 JUDGE JORDAN: Does anyone else want to say
23 anything else on the record about that matter?

24 MR. THOMPSON: Staff agrees with the proposal by
25 Mr. Fischer.

1 JUDGE JORDAN: Splendid. What we'll do is we'll
2 take opening statements. We'll take testimony on the
3 overview regulatory policy and economic considerations,
4 and then we will recess.

5 MR. MILLS: Judge, just for the record -- and I
6 said this off the record. Just to say it again on the
7 record --

8 JUDGE JORDAN: Please.

9 MR. MILLS: -- Public Counsel, and as far as I
10 know, none of the other parties have been informed neither
11 of the fact that these discussions were going on nor of
12 the substance of the discussions.

13 And I can tell just look at the schedule of
14 issues that at least one of the issues that's scheduled
15 for tomorrow, the resource planning, particularly with
16 respect to all the scene issue is the one that I am very
17 concerned about.

18 And while I could certainly come up with a way
19 to resolve that issue that I would be happy with, I doubt
20 that that's something that the company would go along
21 with. And that would be the -- the -- the commitment of
22 the company to not seek recovery of any of the costs of
23 the environmental retrofits on the scene from Missouri
24 ratepayers.

25 And if that is, in fact, the basis of the

1 discussion, then, of course, we probably could resolve
2 that. But anything short of that, I think that issue is
3 going to be a live issue in this case. But I have no
4 problem with reserving that until the last day of the
5 hearing if that's -- if that's the Bench's pleasure.

6 MR. WOODSMALL: Your Honor, and one further
7 clarification that I mentioned off the record, I have no
8 problems with discussions. I certainly have no problems
9 getting issues out of the litigated portion of this case.

10 My only concern is if it frees up time on
11 Thursday or Friday, I have scheduling conflicts for both
12 me and my witnesses if the proposal is to move issues from
13 next week into this weekend.

14 I was told earlier that that was not the intent.
15 So with that, I have no problems with addressing
16 settlement later.

17 JUDGE JORDAN: Well, the parties discussion
18 should certainly include alterations to the schedule, and
19 I would anticipate the filing of a -- an amended orders of
20 witnesses and issues. Counselor?

21 MR. FISCHER: Judge, I would just note that that
22 resource planning on La Cygne, as we understood the issue,
23 it was really between the Sierra Club witness and the
24 company. And that's what we were envisioning had been
25 waived into the record. I understand Public Counsel can

1 take positions on other issues, and we can deal with that,
2 too.

3 MR. MILLS: Judge, the discussion yesterday was
4 waiving in the testimony of Sierra Club witness Bruce
5 Bewold, who is in Boston and is not traveling here. I
6 have no intention of waiving cross on either Mr. Rush or
7 Mr. Crawford on that issue.

8 The notion that somehow that is an issue only
9 between two parties to this case doesn't make sense to me.
10 In a case like this, there are a number of parties. Not
11 every party files testimony on every issue, but I believe
12 that as -- as the -- the process works, that once a party
13 is a party to a case, it has an interest in every issue
14 whether or not it actually sponsors witnesses on the
15 issue.

16 So I don't believe that that is an issue just
17 between Sierra Club and the company. I believe that
18 Public Counsel is very interested in that issue and plans
19 to do cross-examination on it.

20 JUDGE JORDAN: And to reiterate my ruling, it
21 was only the admission of the testimony described.

22 MR. MILLS: Thank you.

23 JUDGE JORDAN: Anything else on scheduling and
24 related matters before we begin our opening statements?
25 Seeing none, then we will begin with opening statements.

1 We'll start with Kansas City Power & Light Company and
2 KCP&L Greater Missouri Operations Company.

3 OPENING STATEMENT

4 BY MR. FISCHER:

5 MR. FISCHER: Good morning. May it please the
6 Commission. My name is Jim Fischer, and I'll be
7 representing the applicants today in this proceeding.

8 This is the first case since the conclusion that
9 Kansas City Power & Light Company's regulatory plan or
10 what I sometimes refer to or others refer to as the
11 comprehensive energy plan that was approved by the
12 Commission seven years ago now in case number
13 EO-2005-0329.

14 Before Kansas City Power & Light rate cases were
15 contemplated by the comprehensive energy plan -- and each
16 of those rates cases related to a major completion of a
17 major component of the regulatory plan. The first case
18 included the construction of a hundred megawatts of wind
19 at the Spearville Wind Energy facility that was completed
20 back in September of 2006.

21 The second case included the investment to
22 install selected catalytic reduction equipment at La Cygne
23 1. That -- that equipment was placed in the service
24 during the second quarter of 2011.

25 The third case included the completion of the

1 selective catalytic reduction equipment at ITM-1, and that
2 equipment was placed into service back in the second
3 quarter of 2009.

4 And then the last case the Commission has heard
5 related to the regulatory plan was the fourth case, which
6 included the completion of an 850 megawatt super critical
7 coal-fired generation plant at Iatan-2 and 48 megawatts of
8 additional wind investment at the Spearville Wind Farm.

9 Iatan 2 was placed into service in August of
10 2010. So there's been a lot of activity related to the
11 regulatory plan of, a lot of cases, a lot of attention by
12 the Commission.

13 Under the comprehensive energy plan, the company
14 also made substantial investments in transmission and
15 distribution facilities and upgrades and proposed a
16 portfolio of demand response, energy efficiency and
17 affordability programs that were approved by the
18 Commission.

19 During the energy -- the comprehensive energy
20 plan, the company received fair and constructive treatment
21 from this Commission that allowed for the successful
22 completion of the comprehensive energy plan.

23 Even with the four recent rate increases under
24 the comprehensive energy plan, KCP&L's averaged rates
25 range today between 13 percent and 23 percent below the

1 national average. KCP&L's average residential consumer
2 spends about \$3.20 per day on electricity costs. But we
3 understand that rising electricity costs are a concern to
4 our customers.

5 On September 20th of this year, the Commission
6 issued its order opening an investigation into the
7 establishment of a rate stabilization mechanism to reduce
8 the need for specific rate case filings.

9 The Commission indicated in that order that it
10 wants to examine possible solutions to the problem of
11 frequent rate case filings. KCP&L is very supportive of
12 this issue by the Commission and will participate fully
13 with the Commission, the Staff and other stakeholders to
14 find constructive solutions to this concern.

15 At the end of the last construction cycle, the
16 KCP&L, whenever they completed the Wolf Creek Nuclear
17 Power Plant, the company and its customers experienced a
18 period of relative stability in the rates. There were --
19 there was a 20-year period between the Wolf Creek rate
20 case and -- which was in 1986 and the next time the
21 company sought a general rate case increase, which was in
22 the year 2006.

23 Now, between those two rate cases, there were
24 also a number of negotiated rate reductions that occurred.
25 Economic and operating conditions, however, are not the

1 same today as they were at the end of the last entry.
2 With the current need to retrofit the existing coal plants
3 with best available retrofit technology to meet
4 environmental regulations, the ongoing need to meet
5 State-mandated standards for renewable energy, the need to
6 pay for substantial investments in transmission
7 facilities, principally to improve reliability and
8 transmit renewable energy and also the need to promote
9 conservation and energy efficiency programs to hopefully
10 postpone the need for another round of construction and
11 new power plants.

12 More specifically, the company's currently under
13 an obligation to invest in environmental controls at
14 La Cygne coal-fired plants, and its embarked on this
15 substantial effort, which is expected to be completed by
16 June of 2015.

17 Under the Missouri Renewable Energy Standard,
18 investor-owned utilities are required to deliver at least
19 5 percent of its electricity from renewable resource by
20 the year 2014 and 10 percent by the year 2018.

21 The company has entered into purchase power
22 agreements for wind generation in 2011, and these
23 agreements will allow KCP&L to continue to comply with the
24 Missouri Renewable Energy Standard.

25 KCP&L has also signed purchase power agreements

1 for 56 megawatts of hydro-based generation from existing
2 facilities in the state of Nebraska.

3 With respect to solar generation, the companies,
4 on a consolidated basis, have issued about \$14.8 million
5 in solar rebates to eligible customers since the solar
6 rebate program tariff was initiated in the year 2010.
7 Additionally, KCP&L has installed 100 kilowatt solar
8 facilities at the Paseo High School in Kansas City.

9 Now, regarding transmission investments, KCP&L
10 is, as you know, a member of the Southwest Power Pool.
11 SVP and other regional transmission organizations have
12 followed the FERC's lead and have undertaken extensive
13 transmission system infrastructure improvement projects in
14 an effort to build out and refurbish the nation's
15 transmission system.

16 These improvements will not only improve the
17 electrical grid resulting in improved reliability, but,
18 also, will allow the delivery of renewable energy into
19 this region.

20 Part of the rate increase in this case reflects
21 the company's allocated share of SVP's transmission
22 upgrade costs, increases associated SVP administrative
23 fees.

24 KCPL is continuing to operate. The demand
25 response energy efficiency programs that have been

1 approved in the past, and it expects to be expanding these
2 efforts in the near future.

3 But in the current environment, it may be more
4 difficult to achieve a long period between rate cases.
5 But the company believes that there are a number of
6 mechanisms and approaches that it has proposed in this
7 case that could help to achieve the goal lengthening the
8 time between rate cases.

9 Some of the proposals that would promote this
10 goal in the current case include the company's plan to
11 aggressively pursue strategies to improve our operating
12 cost structure. The company has worked to manage the
13 costs that can be controlled which ultimately, of course,
14 will reduce the need for future rate increases.

15 Cost control measures include Kansas City Power
16 & Light Company's organizational realignment initiative
17 and voluntary separation plan which will yield
18 considerable benefits to consumers in the future.

19 The company has maintained flat, non-fuel
20 operation and maintenance budgets in all areas which it
21 could control its costs. Non-critical projects have been
22 delayed, and all capital budgets are carefully scrutinized
23 to mitigate upward pressure on rates.

24 The company has also implemented a supply chain
25 transformation program. This program will help KCP&L's

1 supply chain organization to become more forward-looking,
2 strategic and innovative, which will enable all areas of
3 the company to operate more efficiently and
4 cost-effectively. And of course, customers have also
5 continued to benefit from the flow-through of the GMO
6 acquisition synergy savings. The company has actually
7 been able to realize greater savings than it initially
8 anticipated, which flow back to consumers.

9 Now, there are also several proposals in this
10 case to reduce regulatory lag and various trackers to
11 minimize the impact on customers and minimize the need for
12 frequent rate increases.

13 The regulatory lag inherent in the current
14 regulatory frame work has made it a challenge to manage
15 cost increases that are outside the control of the
16 company.

17 In this case, the company is proposing several
18 mechanisms and approaches that will help with regulatory
19 lag and the goal to promote the lengthening of time
20 between rate cases.

21 One of the most significant issues in this case
22 is the impact that off-system sales margins and the
23 uncertainty of this market. Off-system sales margins have
24 been used to reduce retail rates to customers by providing
25 a credit to base rates reflecting the margins the company

1 has been able to achieve in the wholesale energy market.

2 As a result, though, of historically low natural
3 gas prices and soft regional market demand to wholesale
4 power, the size of that credit that goes from off-system
5 sales margins back to reduce or offset the retail rates is
6 much smaller in this case than in previous cases.

7 In addition, the historic flooding that occurred
8 along the Missouri River that substantially reduced the
9 offset to retail rates from off-system sales margins.

10 Now, during the test year, KCP&L has not achieved the
11 level of off-system sales that have been baked into the
12 rate structure in the last rate case due to the forces
13 that are largely outside of its control.

14 In fact, if you review the confidential
15 off-system sales numbers in Burton Crawford's surrebuttal
16 testimony on pages 7 and 8 -- and I would really encourage
17 you to take a look at those confidential numbers -- you're
18 going to see that the company fell very substantially
19 below the 80 million -- \$80.6 million that were included
20 in the rates in the -- in the last rate case for
21 off-system sales margins.

22 With the very low prices for wholesale sales
23 during the test year, the company would have had to sell
24 substantially more megawatt hours for a year just to meet
25 the off-system sales target included in retail rates than

1 it has historically generated for any purpose, including
2 serving its native load. That's -- that's remarkable.

3 In other words, given the low wholesale prices,
4 they were so low, it was physically impossible to meet the
5 off-system sales margin target included in retail rates.
6 What was described in the last rate case as a conservative
7 and easily achievable target became, in reality, an
8 impossible target.

9 The Federal Government's efforts to stimulate
10 wind market, wind energy markets with the production tax
11 credit of \$22 per megawatt hour for every megawatt hour of
12 wind produced has also had some rather unfortunate effects
13 on the energy markets, including the off-system sales
14 markets of Kansas City Power & Light Company.

15 In some wind-rich regions of the country, like
16 the one we operate in here, wind producers are paying grid
17 operators to take their generation during periods of
18 surplus supply. Yeah. You heard me right. I said
19 they're paying grid operators to take their supply.

20 But wind producers more than make up for the
21 cost of this negative price payment because they receive
22 \$22 per megawatt hour to Federal production tax credit for
23 every megawatt hour generated. So this taxpayer funded
24 subsidy artificially depresses wholesale prices. And in
25 hours in the year when demand for electricity is low, it

1 can result in negative pricing.

2 As explained by the company witness Burton
3 Crawford, the additional wind energy supply contributes to
4 lower wholesale prices not only through increased supply
5 but also by the fact that production tax credit allows the
6 wind facility to operate economically, even if the market
7 prices are negative.

8 Wind producers readily turn wind turbines on and
9 off, but they don't have an incentive to do so because
10 they still receive the positive margins during the
11 negative price hours due to this production tax credit
12 subsidy that they earn just because they're generating.

13 They -- they have no incentive to curtail their
14 output, which absent that PTC, would be in their economic
15 interest to do so.

16 Okay. Well, why am I discussing this phenomenon
17 in this case? Well, KCP&L finds itself in a situation
18 where it must turn off or minimize the production of some
19 of its low cost coal-fired plants during periods of low
20 demand because there's so much wind energy coming onto the
21 grid.

22 Without the benefit of a tax subsidy, KCP&L
23 finds it uneconomic to run all of its plants some of the
24 time when the wholesale market price is effectively zero
25 or less. As a result, KCP&L's low cost plants are not

1 available to produce electricity for off-system sales.

2 This is one of the explanations for KCP&L's
3 plummeting off-system sales during the past year. Other
4 factors include low demand, low natural gas prices, higher
5 wind generation supplies generally and transmission
6 constraints.

7 Now, as Mr. Crawford explained in his testimony,
8 and I'm just going to quote, he says, The current
9 environment can best be described as weak with very low
10 average sale prices.

11 We would request that the Commission recognize
12 this situation as it sets the level of off-system sales
13 that will be baked into Kansas City Power & Light's rates
14 in this case.

15 Now, KCP&L is the only electric utility in the
16 state that doesn't have a fuel adjustment clause. Changes
17 in the off-system sales market, as well as changes in the
18 fuel costs are typically addressed through a fuel
19 adjustment clause mechanism.

20 Since KCP&L doesn't have an FAC as a result of
21 its agreement in the regulatory planning stipulation, it's
22 been necessary to use other regulatory mechanisms to
23 address volatile off-system sales and fuel cost.

24 The current mechanism that has been used for
25 off-system sales has not been working, from our

1 perspective, in a fair and equitable manner.

2 In the last rate case, the Commission approved
3 the use of the 40th percentile level for off-system sales.
4 If the company did not achieve that level, which you're
5 going to see in the testimony we clearly did not, then it
6 would absorb the difference.

7 But if the company made more than the 40th
8 percentile on off-system sales, then it would flow back,
9 the excess, to ratepayers. But if you look on the fuel
10 side of the equation, under the current regulatory
11 environment, the current regulatory frame work, without an
12 IEC, there is a specific amount of fuel expense included
13 in the rates.

14 But if the company's fuel costs go up for some
15 reason, for example, increasing fuel prices, the company
16 has to absorb the additional fuel costs above the amount
17 that was baked into the retail rates.

18 But for off-system sales, it flows back to the
19 off-system sales margins that exceed the 40th percentile.
20 So, unfortunately, the off-system sales tracker without an
21 IEC is no longer an equitable solution from our
22 standpoint.

23 If the company succeeds in making more
24 off-system sales, it flows back the additional margins
25 above the 40th percentile. But for the retail load, if

1 the company -- the company has to eat additional fuel
2 expenses on the retail side if the total level of fuel
3 costs exceed the amount of fuel expense incorporated into
4 rates.

5 As a result, the company is proposing changes to
6 the treatment of off-system sales in this case, including
7 the -- the development of an energy -- or excuse me -- an
8 interim energy charge, which would address both changes in
9 the off-system sales market and changes in fuel costs.

10 From the company's perspective, this is a very
11 important issue that needs to be addressed by the
12 Commission. Company witness Tim Rush and Michael Stintzer
13 will address the company's proposal on the off-system
14 sales piece. And Mr. Rush talks extensively about the
15 interim energy charge.

16 Now, with regard to the off system sales margin
17 issue, KCP&L is advocating that the Commission set the
18 margin at the 40th percentile, but in combination with a
19 proposed IEC.

20 Even though that 40th percentile is
21 significantly higher than a 25th percentile number which
22 the company has supported in the past and the Commission
23 has actually used in the past in some cases, using a
24 higher off-system sales number -- well, using the 40th
25 percentile number is -- is an important factor in what our

1 overall request was because if you use the lower number in
2 the rate increase to retail numbers, the company would be
3 proposing would be higher.

4 If the company had utilized, for example, the
5 25th percentile level instead of the 40th percentile level
6 in this case, their proposed rate increase of the company
7 would have been greater.

8 Now, while -- while the company disagreed in the
9 last case with including the 40th percentile because the
10 risks it placed on the company were substantial and the
11 test year indicated very much so that they were very
12 substantial, the company is supporting the 40th percentile
13 in this case along with the company's recommendation to
14 develop an IEC, but only if that IEC can be approved.

15 As I mentioned earlier, most utility regulators
16 consider off-system sales margins to be an element of
17 their utilities fuel adjustment clause. This is true for
18 the FACs of GMO and for Ameren and for Empire in Missouri.
19 It also serves to offset -- as an offset to fuel and
20 purchase power costs.

21 The company in this case is recommending that
22 the Commission continue to use the 40th percentile number,
23 but also approve an IEC, which would flow through the
24 off-system sales margins and changes in fuel and purchase
25 power costs.

1 Now, under that company IEC proposal, off-system
2 sales would be treated symmetrically, and there would be
3 no longer this one way tracker fee through which has
4 proven to be unworkable from the company's perspective.
5 And I'd ask you to talk to Tim Rush about how that all
6 works and why it's important. But it's a very important
7 issue that I hope we'll have some time to discuss.

8 But the adoption of the company's proposals on
9 off-system sales and the interim energy charge would help
10 the company lengthen the time between rate cases.

11 Another regulatory mechanism that I'd like to
12 discuss which would promote the goal of lengthening the
13 time between rate cases as well as ensure that customers
14 pay the appropriate costs associated With the expansion
15 and improvement of the transmission network is the
16 company's transmission tracking mechanism proposal.

17 KCP&L and GMO have previously been authorized
18 pension trackers. And the -- and the transmission tracker
19 would operate in a similar fashion. We propose that
20 transmission costs as defined by the tracker would be set
21 in the true-up process in this rate case.

22 The company would then track its actual charges
23 on an annual basis against that amount with the Missouri
24 jurisdictional portion of anymore excess treated as a
25 regulatory asset, and any shortfall would be treated as a

1 regulatory liability.

2 The regulatory asset or liability would be
3 amortized over the same length of time as the costs are
4 accumulated with the unadvertised balance being included
5 in rate base.

6 The company is expecting that there will be
7 increasing transmission costs as SVP's regional
8 transmission upgrade projects are completed and SVP's
9 increasing administrative fees are assessed by the
10 company.

11 As the Commission knows and very familiar, I
12 think, with your activities at the Federal level, SVP
13 employs a cost allocation methodology for allocating these
14 transmission projects to its membered companies. These
15 SVP costs are not within the control of the company, but
16 are expected to be a significant cost driver for the
17 future.

18 Company witness John Carlson discusses these
19 transmission upgrade plans and their expected impact on
20 KCP&L and its customers in the next several years.
21 The adoption, again, of that transmission tracker would be
22 a regulatory mechanism that could help the company stay
23 out for a longer period of time.

24 Now, due to the unpredictability of costs
25 expected to be incurred under the renewable energy

1 standard law, the company is also requesting in this case
2 that the Commission authorize an RES expense tracker
3 authorizing the company to defer and report as a
4 regulatory asset or liability incremental costs incurred
5 by the company to comply with the Missouri Renewable
6 Energy Standard.

7 On April 19th of this year, the Commission
8 approved the company's application for an accounting
9 authority order requesting authority to defer costs
10 associated with the implementation of the RES law.

11 The RES tracker would include the new amounts
12 related to the RES law in a regulatory asset or liability
13 after the effective date of the rates in this case,
14 including carrying costs, and it would be amortized over
15 the same length of time as the RES costs were accumulated,
16 again, with unamortized balance included this rate base.

17 Like pensions, transmission costs and RES
18 compliance costs, property taxes are also outside the
19 company's control and are contributors to regulatory lag,
20 and they impact the company's ability to earn returns
21 reasonably close to the returns authorized by the
22 Commission.

23 The adoption of a property tax expense tracker
24 would also be another tool that could be used to lengthen
25 the time between rate cases.

1 Now, when the Commission issued its -- its order
2 looking at stabilization mechanisms or suggesting that was
3 a topic back in -- on August 24th of this case, it
4 recognized the importance of establishing a fair return on
5 equity, which lies with the zone of reasonableness.

6 The Commission suggested that it could authorize
7 an ROE that comes from the higher end of the range in
8 order to promote the goal of rate stabilization. The
9 current artificially low interest rate environment that
10 we're -- that we're living in presents a real serious
11 challenge for any effort to apply traditional rate of
12 return models to estimate investors' expectations
13 regarding rate of return on equity.

14 As the company's expert, Dr. Sam Hadaway, will
15 testify, the Government's stated policy of intervening in
16 capital markets to keep interest rates extremely low by
17 historic standards has disrupted normal supply and demand
18 relationships.

19 Now, under these circumstances, dividend paying
20 stocks like utilities have become very highly sought after
21 by income-seeking investors pushing up the prices and
22 reducing the dividend yield percentage.

23 And as you're familiar with the DCF models, in
24 that basic yield plus growth discounted cash flow model,
25 these conditions will result in historically low ROE

1 estimates.

2 Similarly, if you look at equity risk models
3 like the CAPM model, artificially low interest rates
4 directly reduce ROE estimates.

5 The currently low dividend yields for utilities
6 produce lower DCF estimates, and the low interest rates
7 produce lower ROE estimates from equity risk models.

8 Given the artificial nature of these DCF and
9 risk premium model results, the Commission should, I
10 think, be wary of using them to substantially reduce the
11 company's allowed cost of equity as is being suggested by
12 some of the parties in the case.

13 The Staff's recommended range is 8 -- 8.0 to
14 9.0. And that's a full 109 base points lower than the
15 contemporaneous average for other authorized returns for
16 other electric companies during the year 2012.

17 And the other experts in the case from the
18 Federal Energy Agencies -- Executive Agencies and the
19 Public Counsel are probably 55 to 65 basis points lower
20 than what other Public Service Commissions have been
21 authorizing.

22 The company has proposed its own ROE request
23 downward from its original request to a request that's at
24 the top of Dr. Hadaway's updated DCF range based upon
25 current market conditions. The company is now requesting

1 an ROE of 10.3 percent.

2 Now, if the Commission is to achieve the goals
3 of lengthening the time between rate cases, it should
4 recognize that other Public Service Commissions continue
5 to authorize ROEs that don't strictly rely on artificially
6 low interest rates to drive down the cost of equity.

7 Dr. -- Dr. Hadaway's rebuttal testimony at page
8 6 contained a chart that I thought was rather interesting.
9 And it's in the record, but I'd like to show it to you.
10 I'm trying to make it a little bigger.

11 Judge, maybe I should have this marked as just
12 an opening exhibit. It's a chart that's marked in
13 Dr. Hadaway's testimony.

14 MR. THOMPSON: What number will this be?

15 MR. FISCHER: Well, we premarked exhibits. I
16 don't know.

17 MR. THOMPSON: We have premarked KCPL exhibits
18 through the No. 52. Could we make this 53?

19 JUDGE JORDAN: That's a yes.

20 MR. FISCHER: Thank you. If you look at this
21 exhibit, Judge, you'll see the black straight line on the
22 10.1. That -- that reflects what the average was at the
23 time this data was put together.

24 And then you'll see over on the far left-hand
25 side -- and you'll see all the other Xs on here which are

1 where other company -- other Commissions have come out on
2 ROE in the last year period.

3 And then there on the far left, you'll see the
4 Staff's number under 9.0, and then you'll see the range on
5 Public Counsel and the FEA witnesses. But you can pretty
6 much see that, at least for the Staff, they're pretty much
7 off the chart on that.

8 While better than the Staff's proposals, the ROE
9 representations of Public Counsel and the FEA witnesses of
10 9.1 to 9.5, those -- those won't promote the goal of
11 lengthening the time between rate cases.

12 If they're adopted, the companies would result
13 in the need to probably come in more often to maintain
14 their financial health, as would other public utilities in
15 Missouri if they just such low ROEs.

16 I'd also like to have another exhibit marked to
17 give you a big picture look at where we're at in the KCP&L
18 case.

19 MR. THOMPSON: Did you get Commissioner Stoll?

20 MR. FISCHER: Oh, I'm sorry.

21 COMMISSIONER STOLL: That's okay. I was out of
22 the room.

23 MR. FISCHER: I put it on the screen, but you
24 probably can look at your exhibit easier. This would be
25 exhibit what? 54? Is that where we were?

1 JUDGE JORDAN: This will be -- this will be 54.

2 MR. FISCHER: As I mentioned earlier, the
3 company's original request in its tariff filing was for
4 \$105.7 million. The reformatted reconciliation that Ms.
5 Kliethermes filed last Friday indicated that the company's
6 current case now supports the \$112.5 million rate
7 increase. And much of the increase in the company's case
8 is due to the declining off-system sales margins that are
9 being updated.

10 The changes in off-system sales margins will
11 also be updated as part of the true-up proceeding. Now,
12 according to the reconciliations, Staff's updated revenue
13 requirement in the KCP&L case is \$27.2 million. In its
14 original filing, they had recommended between 16 and a
15 half -- 16.5 million and 33.7 approximately. However,
16 they didn't have an allowance for known measurable changes
17 that was -- that were expected to occur during the
18 true-up.

19 As I mentioned, the company's case now supports
20 \$112.5 million increase, and I think I still use the 10.4
21 ROE. But Staff's case is approximately 27.2. There are
22 about \$85.3 million differences in the issues between the
23 Staff and the company. And the largest ones are listed on
24 -- on the exhibit.

25 You now, just doing the math, if the Commission

1 splits the difference on the ROE issue and, say,
2 authorizes only a 9.7 ROE or so, then there would be 12
3 and a half -- or \$12.2 million added to the Staff's case.

4 And if the company -- if the Commission utilizes
5 Great Plains' actual cost of debt, which has been the
6 practice in past cases, then you'd add another 4.8 million
7 to the Staff's number. So if you split the difference on
8 ROE and the use the actual cost of debt, on cost of
9 capital issues, you'd add about \$17 million to the Staff's
10 revenue requirement or that takes it to 44.2 million.

11 Now, the company's requesting that the
12 Commission include transmission expenses as a part of its
13 transmission tracker. It's the company's understanding
14 that while the Staff is opposing the transmission tracker,
15 Staff's not opposed to including transmission expenses in
16 the revenue requirement.

17 If the company would prevail on the tracker
18 request or if the Commission merely includes transmission
19 expenses in base rates, we believe the Staff's revenue
20 requirement will increase another 9 and a half million.

21 Now, if the company Commission adopts the
22 company's updated approach on off-system sales and uses
23 the 40th percentile as was done in the late rate case,
24 there will be an additional \$5.6 million at the end of the
25 case that would be added to the total Staff revenue

1 requirement. And then revenue issues about 5.1.

2 There's also an acquisition merger transition
3 cost recovery issue, which is one of the things that we're
4 hoping we're going to be able to settle. But it's valued
5 right now on reconciliation 3.9 million.

6 The company is also requesting that the
7 Commission include increased fuel and purchased power
8 costs and off-system sales margins shortfall related to
9 the 2011 flood.

10 We're asking that that be deferred and amortized
11 over five years. The Commission in the past has -- has
12 allowed for the deferral and amortization of such
13 extraordinary expenses.

14 The OSS piece may be a little bit of a new
15 wrinkle, but if the Commission adopted this proposal,
16 there would be another \$3.4 million added to the revenue
17 requirement. And there's fuel expenses of 3.1. So
18 there's approximately \$64.4 million of major issues
19 between the company and the Staff and another
20 \$20.9 million on miscellaneous issues.

21 Assuming that the Commission splits the
22 difference in some way on ROE and generally follows its
23 practices on other major issues and then perhaps the
24 company wins, for sake of discussion, say, half of the
25 remaining miscellaneous issues, the total increase would

1 be approximately \$87 million in the KCP&L rate case.

2 Then turning for a few minutes to the GMO rate
3 case, this is the third case the GMO has had since it was
4 acquired by Great Plains Energy.

5 The amount of the MPS -- well, there's two --
6 actually, two different parts of this case. The MPS case
7 relates to the area that was previously served by Aquila
8 Networks MPS, and then there's the other territory the
9 Aquila Network -- Aquila Networks' L&P area, which we
10 really treated as two separate rate cases. We had two
11 separate revenue requirements that were followed by both
12 the company and the Staff.

13 The amount of the MPS service area proposal
14 increase is \$58.3 million or about 11.76 percent. The
15 amount of the L&P proposed increase was 25.2 million or
16 14.6 percent.

17 Now, if approved, this would represent an
18 increase of 27 cents and 36 cents per day for MPS and L&P
19 residential customers respectively. And I -- it's
20 probably helpful to think about it as a breakdown between
21 two rate cases because that's how we filed it.

22 Many -- many of the issues, though, are very
23 similar to the issue I just talked about at some length in
24 the Kansas City Power & Light case. Those include the
25 transmission tracker, the RES tracker, the property tax

1 tracker, and, of course, we've already discussed the
2 importance of reasonable authorized rate of return on
3 equity.

4 The good news, I guess, is that, as I understand
5 it, you won't have to here that issue twice since we're
6 having a consolidated record, and you can decide those
7 issues at one time for both companies.

8 Now, turning to other GMO specific issues, this
9 case includes a proposal by the company under the Missouri
10 Energy Efficiency Investment Act, or MEEIA. As explained
11 by the company witness, Tim rush, GMO and all the other
12 parties to the MEEIA application case, which is
13 EO-2012-0009, have been -- they have been working to reach
14 an agreement to settle how the company's MEEIA program
15 could be considered and otherwise incorporated into this
16 rate case.

17 Now, in the event that GMO and the parties are
18 able to reach a final settlement before the conclusion of
19 this rate case, the company expects that it will request
20 that GMO be allowed to incorporate the terms that affect
21 the current rate case at that time.

22 The company has included approximately
23 \$18 million in its revenue requirement in this case
24 related to the implementation of its MEEIA proposals. And
25 we're hopeful that we're going to be able to reach an

1 agreement on that -- on that matter before the case is
2 over.

3 Now, unlike KCP&L, GMO has an approved fuel
4 adjustment clause. Staff is again proposing to change the
5 sharing mechanism, the 95/5 sharing grid mechanism that's
6 contained in the existing GMO fuel adjustment clause. And
7 they would like to increase that sharing and increase the
8 company's portion in fuel costs that are not reflected in
9 rates to 15 percent.

10 The Commission has approved, of course, the
11 existing 95/5 sharing mechanism in previous GMO, Ameren
12 and Empire cases, and we believe it should do so again in
13 this case.

14 There's really a potential for significant and
15 long-term detrimental repercussions for cost of capital
16 for GMO if the Commission adopts the adverse changes being
17 proposed for the fuel adjustment incentive mechanism.

18 Perceptions of the regulatory process of the --
19 of the regulatory process is really affected by things
20 like the fuel adjustment clause in the minds of the -- the
21 investors, the underwriters, the credit rating agencies
22 and all researchers that are -- that watch regulatory
23 matter.

24 staff had a 75/25 proposal that was considered
25 in GMO's last rate case. And That was rejected by the

1 Commission. Similar sharing proposals have also been made
2 and rejected in Ameren cases.

3 Based upon such considerations, the company
4 would respectfully request that the Commission maintain
5 its current policies related to the FAC clause and not
6 mandate a change in the sharing mechanism.

7 Another major issue in this case involves the
8 crossroads plan. The Commission reviewed this issue in
9 the last GMO case, but, unfortunately, we believe there
10 were some errors and inconsistency that's need to be
11 rectified in this case even if the Commission does not
12 totally reverse its original decision, which we would urge
13 you to do.

14 This issue is on appeal before the Court of
15 Appeals in the Western District, and we're expecting to
16 have a decision on that -- on that case later this year.

17 And in GMO's last rate case, the Commission
18 ruled that for purposes of setting rates, the crossroads
19 plant should be reduced -- the crossroads value of the
20 plant should be reduced from \$104 million to 61.8 million
21 based upon the average price of a couple plants in
22 Illinois that were previously owned by Aquila and were
23 sold in distressed sales in 2006 at a time when Aquila was
24 under considerable financial stress.

25 Now, at the time the company was looking to add

1 capacity to its system, it did an analysis of Crossroads.
2 And the cost of Crossroads the net book value was less
3 than available alternatives. Yet despite that fact, the
4 Commission decided the plant value was closer to scrap
5 value. And we would respectfully disagree with that
6 approach and ask the Commission just to take another look
7 at that evaluation in this case.

8 Initially, the Commission ruled that the
9 cumulated deferred income taxes related to Crossroads
10 should be set at \$15 million. Accumulated deferred income
11 taxes are used as an offset against the -- the plant rate
12 base or rate base generally.

13 We believe that the \$15 million accumulated
14 deferred income tax number is an error or -- or at least
15 an inconsistency since this amount does not reflect the
16 reduction that the Commission ordered from the value of
17 the plant of 104 to \$61.8 million that the Commission
18 assigned as the value for Crossroads.

19 Unless the Commission decided to use the full
20 net book value, it makes no sense to use the ADIT balance
21 that would have been associated with that full net book
22 value if it's going to use a reduced value for plant. It
23 needs to look at what the reduced ADIT balance would be.

24 So if the Commission's going reduce the value of
25 the plant to something less than book, it can't use the

1 ADIT balance associated with the higher net book value and
2 remain logically consistent.

3 Lastly, the Commission excluded recovery of all
4 transmission costs to bring power from Crossroads to the
5 GMO service territory. This decision, in our mind, also
6 needs to be reviewed by the current Commission.

7 Without transmission service, there's no way to
8 get the electricity from Crossroads to our customers in
9 Missouri. Now, while the cost of electric transmission
10 for Crossroads is currently higher than it would have been
11 if it had been built in Missouri, these transmissions
12 costs were included whenever we did the analysis of
13 whether Crossroads was still the best option.

14 In other words, the transmission costs need to
15 be considered as a part of the total cost of the plant.
16 Crossroads enjoys the benefit of having low natural gas
17 transmission costs since it's in Mississippi near the --
18 near the Gulf.

19 And they're significantly less than they would
20 be in Missouri where you have to transmit -- transport the
21 gas up here. But it takes electric transmission, then, to
22 get the resulting electricity back to Missouri. So from
23 our perspective, both the natural gas costs which are low
24 in Mississippi the electric transmission costs need to be
25 considered when you're re-doing the analysis.

1 It's not reasonable for GMO's retail customers
2 to enjoy the benefits of lower natural gas transportation
3 costs in Mississippi while at the same time totally
4 avoiding the costs of firm electric transmission that it
5 takes to bring the electricity back to Missouri.

6 Both costs should be considered together. And
7 when they are, Crossroads is still the best option for GMO
8 customers. And the company also, I would note, sells
9 unneeded capacity from Crossroads during certain times of
10 the year.

11 The company believe that's Crossroads should
12 continue to be included in rate base in this case at the
13 depreciated net book value net of the ADIT as of March 31,
14 2012, which is approximately \$82.7 million. This equates
15 to only a \$276 dollar per KW of installed capacity.

16 Operating costs have also been included by the
17 company based on the current costs in the case. Now,
18 Staff has included the Crossroads valuation based on the
19 Commission's last order, and they're arguing that it
20 should be reflected in rates at a lower value than net
21 book pointing principally, I think, to certain GPE
22 financial documents related to the acquisition of Aquila.

23 But Staff is ignoring the fact that the
24 valuation used for financial disclosure purposes in those
25 documents, those SEC documents, at that time, there was --

1 it was not an operational facility, but it, rather,
2 represented very conservatively only the balance of the
3 value -- or excuse me -- only the salvage value of the
4 Crossroads turbines. At this time the estimate was being
5 prepared for financial disclosure purposes, there was a
6 significant amount of uncertainty about the disposition of
7 the Crossroads facilities.

8 Now, given that uncertainty and recognizing
9 rules around SEC disclosure statements, the company took
10 a very conservative approach and valued it on the SEC
11 documents at its scrap value or the lowest possible value
12 assuming it never was going to operate.

13 But this evaluation is not appropriate now since
14 the decision has been made to operate the plant and not to
15 dismantle it. The plant is generating electricity and
16 providing considerably more value to customers than scrap
17 turbines.

18 During the very hot summer that we just
19 experienced, the Crossroads plant ran for 45 days and had
20 100 percent starting reliability record. In fact, in
21 July, which I think was probably the hottest known on the
22 record, the plant set an all-time generation record.

23 Now, this -- this issue from a dollar standpoint
24 is one of the largest that's left on the table in this
25 case. And if you have questions regarding this particular

1 issue, I'd ask you to ask Tim Rush, Burton Crawford, Ed
2 Blunt or Darrin Ives. They'll be here to address this
3 topic.

4 Regarding the advanced coal tax investment tax
5 credit between KCP&L and GMO, this issue is one of the
6 ones that I mentioned early on that we were hoping to
7 resolve, and I'm going to reserve opening on that.

8 Finally, and I'm almost done, I'd like to -- I'd
9 like to give you another big picture exhibit on the L&P
10 side. Is this 55?

11 JUDGE JORDAN: Yes. It will be 55.

12 MR. FISCHER: Actually, I'd like to also have
13 you mark -- I don't think I marked the MPS big picture
14 exhibit either. I'll just mark that, too. 56?

15 JUDGE JORDAN: That will be 56.

16 MR. FISCHER: Let's look at MPS since it's a
17 little more complicated. According to the reformatted
18 reconciliation, the company's current case supports a
19 \$58.3 million increase, while Staff's revenue requirement
20 recommendation contained in the reconciliation is for an 8
21 and a half million dollar rate reduction.

22 Return on equity is worth about 16.6 million.
23 The Crossroads issue is worth \$13.2 million. Company
24 has included \$5 million for transmission expenses in this
25 case, and we're expecting Staff will update their number

1 with transmission expenses down the road.

2 The hedging issue is another one we hope to
3 advise about settlement on. The merger transition is
4 valued at 3.5, but that's another issue that we're
5 planning to hold settlement discussions to resolve.

6 Then if we go to the other exhibit on the O&P, the
7 case looks like this. And you can tell, there's really
8 not too many issues here. ROE is the big one and there's
9 a MEEIA revenue requirement with -- in the event that were
10 able to reflect MEEIA costs as part of the rate case. And
11 the total differences on this -- this area is
12 \$13.3 million.

13 So in closing, the company appreciates the
14 Commission's interest in all of these issues. We
15 appreciate particularly the interest in rate stabilization
16 proposals and the goal of helping public utilities
17 lengthen the time between their rate cases.

18 The company recognizes, though, that they --
19 there are difficult times for our customers, particularly
20 customers with low and fixed incomes. And for this
21 reason, the company is proposing to continue the economic
22 relief pilot program, a fixed credit that reduces low
23 income customers. And, hopefully, we'll be able to reach
24 an agreement with Staff and other parties that are
25 interested in that particular program.

1 And as Judge Jordan has directed, we're also
2 available to do mini openings on these numerous issues
3 that -- that I've addressed in more detail, and we'd be
4 happy to do that.

5 I know I've gone on a while, and I thank you for
6 your patience and your attention. And I'd be happy to
7 answer your questions, as would any of my witnesses that
8 are going to be following me in the rest of the two weeks.

9 JUDGE JORDAN: Thank you, Counsel. Questions
10 from the Bench? Commissioner Stoll?

11 COMMISSIONER STOLL: No questions at this time.

12 JUDGE JORDAN: Commissioner Jarrett?

13 COMMISSIONER JARRETT: No questions.

14 JUDGE JORDAN: I had just inquiry of a
15 clarification to the IEC that's in dispute in this action.

16 MR. FISCHER: Yes.

17 JUDGE JORDAN: I understand that arose from a
18 stipulation, the settlement of an earlier case; is that
19 correct?

20 MR. FISCHER: Yes, Judge. In the -- in the
21 original regulatory plan stipulation, Kansas City Power &
22 light agreed that it would not seek a fuel adjustment
23 clause for mechanisms related to, I think it was SV-179.

24 But it was reserved in that stipulation that the
25 company request what's called an interim energy charge.

1 That's a -- that's mechanism that had been used previously
2 before fuel adjustment legislation for -- I think for
3 Empire and for Aquila.

4 And the company specifically reserved the
5 opportunity to ask for that kind of treatment, and that's
6 what we're doing in this case. There's an issue about,
7 Well, is it like what was done in the past, and how does
8 it differ? And Tim Rush can address those kinds of
9 questions.

10 JUDGE JORDAN: Well, my question is each of
11 those mechanisms, FAC other what's -- what's in dispute
12 here under the name IEC --

13 MR. FISCHER: Yes.

14 JUDGE JORDAN: -- each of those helps the -- the
15 utility address fuel cost fluctuations; is that correct?

16 MR. FISCHER: That's correct.

17 JUDGE JORDAN: Okay. Well, my question is, when
18 the utilities signed the stipulation that there would be
19 no FAC, doesn't that mean that they took on the risk of
20 rising fuel costs for themselves? Isn't that what that
21 means?

22 MR. FISCHER: Well, it means that they aren't
23 going to take advantage of the particular mechanisms, the
24 FAC mechanism, but they did reserve the opportunity to use
25 an other mechanism, which is sort of an alternative

1 approach that had been used in the past by the Commission.
2 And that was called an interim energy charge. And that's
3 what we're requesting in this case.

4 Now, as the provisions expire down the road, in
5 2015, the company may very well want to come into the fold
6 of all the other utilities and ask for a fuel adjustment
7 clause.

8 JUDGE JORDAN: Okay. Thank you.

9 MR. FISCHER: Thank you very much.

10 JUDGE JORDAN: Next on my list of opening
11 statements is the Staff of the Missouri Public Service
12 Commission.

13 MR. THOMPSON: Thank you, Judge.

14 OPENING STATEMENT

15 BY MR. THOMPSON:

16 MR. THOMPSON: May it please the Commission.
17 We're here today for the opening of the Great Plains
18 energy operating companies' general rate cases. Those
19 companies are Kansas City Power & Light Company, fondly
20 referred to as KCP&L, and the KCP&L Greater Missouri
21 Operations Company, fondly referred to as GMO. That
22 entity, of course, formerly was an independent company
23 known as Aquila. And before that, Utilicorp United.

24 These cases follow very, very quickly after the
25 Ameren Missouri rate case hearing, which has, in fact,

1 just concluded last week. It wasn't very long ago that I
2 was standing here in front of you doing Staff's opening
3 statement for the Ameren Missouri case. And I will put
4 your fears to rest immediately by telling you I will not
5 go on anywhere near as long as I did with that opening
6 statement.

7 These cases began on February 27th of this year
8 when KCP&L and GMO filed proposed tariff sheets, direct
9 testimony, accounting schedules and other minimum filing
10 requirements calling for general rate increases of
11 approximately 105.7 million for KCP&L and approximately
12 83.5 million for GMO.

13 In their filings, the companies state that the
14 requested rate increases are due -- are necessary due to
15 substantial investments in the rate base, plus increased
16 operating costs and a reduction in earnings from
17 off-system sales.

18 Staff has performed a thorough audit of the
19 books of both companies supplemented with intensive
20 discovery, and it is Staff's position that rate increases
21 are warranted, at least for KCP&L, but not of the
22 magnitude requested by the company.

23 Staff's position to KCP&L is that a rate
24 increase of 27.2 million is appropriate. And GMO, taking
25 the MPS and L&P service territories together that a rate

1 decrease of about \$300,000 is appropriate.

2 Now, these are, of course, pre true-up figures.
3 As you've already heard, there's a possibility that some
4 issues will settle. We don't know if that's going to
5 occur or not. Assuming they don't, then you are going to
6 hear 41 separate and distinct issues over these ten days
7 of hearing.

8 Many of these issues include sub-issues. In
9 fact, by my recent count, there are 135 separate decision
10 points. And it is your decision on each of these points
11 that will determine just what rate increases, if any,
12 these companies will go away with.

13 You are well aware, I know, that your job
14 requires you to set just and reasonable rates after
15 consideration of all relevant factors. As I pointed out
16 to you three weeks, a just and reasonable rate is one that
17 is fair, fair to the company, fair to the customers. It
18 is sufficient to cover the company's prudent operating and
19 maintenance costs and to offer a reasonable opportunity to
20 the shareholders to earn a fair return on their
21 investment.

22 What does that phrase "all relevant factors"
23 mean? That refers to your principal responsibility, which
24 is fact finding. The purpose of the Commission is fact
25 finding.

1 It is your duty to thoughtfully read the written
2 testimony, exhibits and briefs and to carefully listen to
3 the 157 witnesses who will appear in front of you and to
4 determine what the facts are, and then based on those
5 facts, resolve the 135 decision points that are before
6 you.

7 And when I say 157 witnesses, of course, that's
8 not 157 different people, but a fair number of people who
9 will make 157 appearances in front of you on the various
10 issues.

11 These are a big, big case, much bigger than we
12 saw in the recent Ameren Missouri case. As I mentioned a
13 moment ago, it's Staff's position that GMO's rates overall
14 should be decreased.

15 Some people believe that you cannot lower rates
16 when the company has asked for a rate increase. And I'm
17 here to tell you that that's not the case. Rates can be
18 put into play in three different ways in Missouri, one of
19 them the file and suspend method, which is how this case
20 came about where the utility files a set of tariffs asking
21 for a general rate increase and the Commission suspends
22 those tariffs and embarks on proceedings to determine what
23 the just and reasonable result should be.

24 Another way that the statutes contemplate is by
25 complaint such as when Staff or another party would file

1 an over-earnings complaint suggesting that rates should be
2 decreased.

3 And the third way is by the Commission's own
4 motion. In any of those three ways, rates can be put into
5 play. And once they are in play, the Commission must
6 follow the evidence to the just and reasonable results,
7 whether it is higher or lower than the pre-existing rates.

8 I am not going to talk about very many of the
9 issues that you're going to see. For one thing, Mr.
10 Fischer has covered most of them quite thoroughly. And,
11 second, because there are going to be mini openings before
12 each of those issues is litigated.

13 But I will just touch on a few of the most
14 important. The largest issue in these cases in terms of
15 dollar amount is, of course, cost of capital. I've talked
16 to you about cost of capital before, not long ago, and I
17 will not have a lot to say about that today.

18 You know that cost of capital has to do with the
19 return on investment. We might call it profit. You will
20 see David Murray for the Staff. His recommendation in
21 this case is exactly the same as the recommendation he
22 made in the Ameren Missouri case.

23 He will tell you that it is his expert opinion
24 that the cost of common equity for these companies -- and,
25 of course, this is based on the publicly traded stock of

1 Great Plains Energy, which owns the two operating
2 companies -- he will tell you that it's his opinion that
3 the cost of common equity is somewhere within the range of
4 8 to 8 and that it is his recommendation that you set the
5 authorized return on equity at 9, which is the high end of
6 his recommendation.

7 You will also hear from Mr. Gorman for the
8 Office of the Public Counsel. You will hear from Mr. Call
9 for the Federal Executive Agencies. And you will hear
10 from Mr. Hardesty for the company, and the company's
11 recommendation is 10.3, 10.3, not very far at all from the
12 company recommendation in the Ameren Missouri case. So
13 you're looking at similar range as you saw just a couple
14 weeks ago.

15 Once again, I will urge you to use the zone of
16 reasonable in this case analysis that the -- has been
17 defined by the United States Supreme Court, which is
18 somewhat different than that analysis that this Commission
19 has used in the past.

20 And the important difference is that the United
21 States Supreme Court begins by determining the point of
22 confiscation. The Commission method begins by determining
23 the average of recently awarded return on equities by
24 other Commissions.

25 Now, that's certainly a factor to take into

1 account, absolutely, benchmarking against what other
2 Commissions have done is a sensible thing to do.

3 But the Supreme Court approach, I suggest, is
4 the better way to start because by determining what is the
5 bottom of Constitutionally permissible figures, then you
6 know where to go from there. What is the lowest lawful
7 Constitutionally permissible rate?

8 And I suggest to you that that is the
9 recommendation made by Mr. Murray, that it is in his cost
10 of common equity in the range of 8 to 9. That is the
11 lowest lawful rate.

12 Then the second step announced by the Supreme
13 Court is to determine where you want to set the return on
14 equity based on your determination of appropriate
15 regulatory goals. That may be somewhere above the lowest
16 lawful rate. And that is the analysis that I urge you to
17 turn to in this case as I make a similar suggestion in the
18 Ameren Missouri case.

19 The interim charge and the off-system sales
20 margins, very important and connected, intertwined issues
21 in the Kansas City Power & Light case. As you have heard,
22 as a result of the comprehensive energy plan or regulatory
23 plan that was adopted in 2005 and agreed to willingly by
24 the company in order to create an environment in which it
25 can successfully carry out some very expensive capital

1 programs such as building the Iatan 2 plant.

2 According to the terms of that stipulation and
3 agreement, they are barred from seeking a fuel adjustment
4 clause until 2015. In fact, they are barred from seeking
5 any of the mechanisms authorized by Senate Bill 179 with
6 the single exception of an interim energy charge with
7 certain characteristics.

8 The Motion to Strike the Staff filed and that is
9 still pending and that you're going to take with the case,
10 the reason that was filed is because the interim energy
11 charge the company has requested does not have the
12 characteristics required by that stipulation and
13 agreement.

14 So they reserved the right, and the parties
15 agreed that they could seek an IEC, but it had to have
16 certain characteristics. The one they asked for does not
17 have those characteristics.

18 The other Motion to Strike has to do with their
19 proposal, their related proposal to share off-system sales
20 margins. Part of the agreement they made in 2005 was that
21 off-system sales margins would go to ratepayers. Now they
22 want to change that. And that is the basis of the Motion
23 to Strike that was filed by Mr. Woodsmall and by the
24 Public Counsel. And that, also, you have taken with the
25 case.

1 Let me talk for a moment about how an interim
2 energy charge mechanism traditionally works in Missouri.
3 An amount of fuel and purchased power costs are put into
4 rates, as we like to say, baked into rates. Then there is
5 a -- an additional amount that is collected on an interim
6 subject or refund basis, an additional amount that may or
7 may not be kept by the company.

8 The first part that's baked into rates, the
9 company keeps that whether or not their costs are actually
10 of that magnitude. The second band above that, that's an
11 amount that may on or about may not go to the company.
12 And if it doesn't go to the company, well, it goes back to
13 the ratepayers who have fronted the money.

14 Above the ceiling, that is the top of that
15 second band, and above that, should fuel costs go above
16 that, well, the company will eat those costs. And so what
17 you have is you have the possibility of recovering some or
18 all of excess fuel and purchased power costs, but not an
19 unlimited -- not an unlimited possible recovery.

20 As a result, the company has a powerful
21 incentive to keep those costs under control. They have,
22 as we said in the last case, significant skin in the game.
23 That is how an IEC has traditionally worked in Missouri.
24 That's not the IEC that this company is seeking. And that
25 is why Staff is opposed to their IEC request.

1 Turning now more specifically to off-system
2 sales, these two companies differ seriously and
3 significantly with respect to off-system sales.
4 Those are sales of power not needed by an electric utility
5 to serve its customers. It's extra power, surplus power.

6 So what does it do with this surplus power?

7 Well, it sells it on the market. It makes money by
8 selling that power. GMO has no surplus power. GMO
9 depends on buying power upon the market.

10 KCP&L, on the other hand, typically has surplus
11 power, and you heard Mr. Fischer explain to you in some
12 length about why prices for that surplus power just
13 haven't been what they used to.

14 I will tell you that, at one time, profits on
15 surplus power sales by KCP&L equated to as much as 60
16 percent of the company's revenues on an annual basis.
17 That's a lot of money. That's not happening anymore.
18 Nothing like that is being realized on those surplus power
19 sales anymore.

20 The important issue is that as part of that 2005
21 agreement, the company agreed to treat all of the margins,
22 that is, all the earnings, the profits on these surplus
23 power sales above the line that is in the area that is
24 available to or is the responsibility of ratepayers,
25 they agreed to treat all of that in the ratepayer area.

1 That means if there's excess, it goes to the
2 ratepayers. And that's exactly what this Commission has
3 done in the past. Based on the prediction Mr. Schnitzer,
4 the company's expert, a level of off-system sales margins
5 at the 40th percentile, this is of his prediction, have
6 been included in rates. So in other words, a certain
7 amount has been included in rates.

8 That means looking in the future, we're saying.
9 Well, we expect the company to make X amount of money
10 from selling excess power. What is that amount of money?
11 We're going to say it's the amount that Mr. Schnitzer
12 predicts at his 40th percentile. Okay?

13 That amount is in revenue requirement, but you
14 understand it's an offset to revenue requirement. It
15 reduces the amount of money that must be collected from
16 customers. It's an offset. Okay?

17 If the company actually makes more money selling
18 surplus power, what happens to that excess? Well, what
19 this Commission has done with it in the past is simply
20 returned it to the ratepayers because, after all, the
21 company agreed all of it is above the line. By being
22 above the line, that means none of it is available to
23 shareholders.

24 That's the problem with their proposal in this
25 case. They want to share some of those excess surplus

1 power profits. They want to share them with the rate --
2 with the -- ratepayers get some. Shareholders get some.
3 That's contrary to the agreement made in 2005. That's why
4 there's a Motion to Strike pending on that. That's why we
5 urge you to reject that suggestion.

6 I'll talk very quickly about trackers. They're
7 proposing three different trackers in this case, a
8 property tax tracker, a transmission tracker, a renewable
9 energy standard tracker, costs tracker.

10 You heard about a transmission tracker
11 extensively in the Ameren Missouri case. This is the same
12 sort of thing. Staff opposes all three of these trackers.
13 Why is that? Because a tracker represents an unjustified
14 shifting of risk to the ratepayer, unjustified shifting of
15 risk to the ratepayer.

16 And it's funny, they never come in and say, We
17 want you to shift this risk to the ratepayers, and as a
18 result, we ask you to please lower your ROE award. Please
19 reduce that to reflect this reduced risk. It's funny that
20 corollary to the request was never made. There was a lot
21 of talk about that in the Ameren Missouri case, as you
22 will recall.

23 Briefly, speaking of Crossroads, you heard about
24 the Crossroads plant in Mississippi near Buloxi from
25 Mr. Fischer. Staff urges you to treat it exactly the same

1 way you treated it in your last KCP&L/GMO rate case.

2 Thank you very much. And I will do my best to
3 answer any questions you may have.

4 JUDGE JORDAN: Questions from the Bench?

5 COMMISSIONER JARRETT: No questions.

6 COMMISSIONER STOLL: No question, your Honor.

7 JUDGE JORDAN: I have no questions for you.

8 MR. THOMPSON: Thank you.

9 JUDGE JORDAN: Next for opening statement is the
10 Office of Public Counsel Public.

11 MR. MILLS: Thank you, Judge.

12 OPENING STATEMENT

13 BY MR. MILLS:

14 MR. MILLS: Good morning. May it please the
15 Commission. Mr. -- Mr. Fischer and, to a certain extent,
16 Mr. Thompson went through a lot of the issues in this
17 case, and I'm not going to go through all of them.
18 Certainly, there are a great deal of them.

19 While I don't necessarily agree with all the
20 aspects of the characterization that Mr. Fischer set
21 forth, he certainly gave you an overview of what the
22 issues are. And Public Counsel has filed position
23 statements setting forth our position on each of those
24 issues. And, of course, there will be mini openings as
25 warranted for the each of the individual issues as they

1 come up.

2 But I will highlight just a few of the issues
3 that I think are especially worthy of sort of a broad
4 consideration in this case. And I won't repeat because
5 you all heard -- all the Commissioners at least heard my
6 opening in the Ameren case.

7 I won't repeat what I said about the structural
8 and process flaws in the system, the fact that the -- the
9 multitude of rate cases, the ability of the utility
10 companies to simply throw increased resources in a rate
11 case and then the inability of other parties to do the
12 same has created a situation in which the record you all
13 are printed with is skewed. So having -- I won't go into
14 all of that detail, but I want do to mention to you that I
15 think all of those considerations apply in these rate
16 cases as well.

17 The first issue I want to talk about, and
18 Mr. Fischer raised this in his opening, and, certainly, in
19 the company's position in their final testimony is the
20 question of La Cygne and their environmental retrofits
21 there. And for the record, La Cygne is -- is spelled C-a,
22 new word, C-y-g-n-e.

23 And while it's not a dollar issue in this case,
24 it may very well be one of the important considerations
25 you have in this case because, in a future case, it is

1 very likely to be worth a very, very significant amount of
2 money in Missouri.

3 And I think the reason that the company keeps
4 bringing it up in this case and the other parties have
5 been responding to it is because the company wants to sort
6 of endure the Commission to the notion that there's going
7 to be a billion dollars or more spent and that this
8 Commission is going to be faced with the task of looking
9 at cost recovery for those in some future case.

10 From Public Counsel's perspective, the main
11 driver for the company in spending all that money on that
12 old coal plant is an agreement that the company entered
13 into with -- with -- in Kansas.

14 The modeling with anything like current
15 off-system sales price, projected off-system sales price,
16 current gas prices, projected gas prices don't justify the
17 money that they're putting into that old coal plant.

18 And I think that -- that once -- once we get to
19 the issues in a future rate case, once the money has been
20 spent, the Commission is going to agree with that. But
21 the issue in this case really has to do with what, if
22 anything, the Commission wants to see from the company in
23 terms of tracking those costs, in terms of documenting
24 what they're spending and why they're spending it.

25 And I think that's the critical issue here

1 because, as many of you will recall from the Iatan
2 prudence question in the prior case, the inability to
3 actually demonstrate prudence because of a lack of
4 information and the lack of coordinated tracking of
5 information at the conclusion in the prior case.

6 The inability to actually demonstrate prudence
7 and the lack of coordinated tracking of information is a
8 critical question when you get around to actually looking
9 in hindsight at dollars that have been spent. And that's
10 why the issue arises in this case.

11 And we're really sort of already in -- in a --
12 in a -- this is a skirmish in an ongoing battle about this
13 case because the -- the decision to retrofit La Cygne was
14 made a while ago. And at least the Office of Public
15 Counsel and, certainly, other parties have been telling
16 the company for at least two years now that this has been
17 an imprudent decision.

18 It has not come to the Commission for a
19 decision, but, certainly, it is an issue that has been
20 debated hotly among the parties, and it will come before
21 the decision -- before the Commission for a decision. And
22 the ability of the Commission to have adequate information
23 to make that decision is absolutely critical.

24 Now, it's a little bit ironic that the actual --
25 at this particular moment in this particular case the only

1 evidence in this case is -- is the testimony of Mr. Bruce
2 Bewold who has been to -- has been admitted into the case.
3 And he makes a point that the company ought to be put on
4 notice that it needs to do a very, very good job of
5 tracking all the costs associated with the environmental
6 retrofits so the Commission will have an adequate
7 opportunity to assess that prudence in a future rate case.

8 With respect to some of the other issues in this
9 case, both Mr. Thompson and Mr. Fischer talked at length
10 about the off-system sales issue. One of the significant
11 problems that -- that faces the Commission in this case,
12 and it's one that has been developing in the last several
13 cases, is the company's reliance on -- on modeling of
14 future off-system sales.

15 And the modeling has proven itself to be
16 absolutely and completely incapable of making valid
17 predictions about future off-system sales levels and
18 prices. But nevertheless, the company continues to rely
19 on it, and that -- and that causes a problem, for the
20 record, in case because every single case up to this
21 point, the modeling has been show a probablistic future,
22 which certainly has not happened, and there's no reason to
23 say that it would be any different in this case.

24 I also wanted to talk about return on equity.
25 As Mr. Fischer and Mr. Thompson noted, that is one of the

1 biggest issues in -- in all of the cases, the KCP&L case
2 and the two aspects of the GMO case.

3 As we did in the Ameren case, Public Counsel
4 urges the Commission to award a return on equity at the
5 bottom of the range that the Commission finds reasonable
6 because of the economic conditions facing the customers of
7 the company, because of the -- the number of rate
8 increases and the volume of the right rates in the recent
9 past, the Public Counsel believes that in order for a rate
10 case to be just and reasonable, it must be set at a low
11 return on equity rate.

12 Rate case expense is another issue that Public
13 Counsel is asserting in this case, like in the Ameren
14 case. Public Counsel believes that the company's
15 expenditures on outside experts and outside attorneys are
16 unwarranted and imprudent because the company has the
17 wherewithal and the employees, and the skills within the
18 company to do all of the things that they've hired out at
19 great expense, to do those things in-house.

20 And -- and once the Commission determines how
21 much expense, which is primarily the in-house allocation
22 of expense -- should be allowed for a rate case processing
23 then to split that portion between the ratepayers and the
24 shareholders because the shareholders benefit at least as
25 much as customers do from raising rates in the rate case

1 process.

2 One of the overarching issues, and I think
3 Mr. Fischer mentioned the phrase "lengthening the time
4 between rate cases" at least a dozen times in his opening
5 statement, that's not really an issue in this case, and
6 that should not be a goal of the Commission in this case.
7 Lengthening the time between the rate cases, I submit, is
8 not in and of itself a worthwhile or a valid public policy
9 goal.

10 Certainly, everyone would like to not have rate
11 increases. And -- and on the surface, it might seem
12 appealing to try to simply lengthen the time between rate
13 cases. But I think when you sort of parse that out, what
14 company means by lengthening time between rate cases is
15 giving it more opportunity to recover costs than it would
16 otherwise have recovered in rate cases.

17 So they're talking about things like trackers.
18 They're talking about things like construction accounting.
19 They're talking about things like fuel adjustment clauses
20 and more recovery through the fuel adjustment clause. All
21 of those things do not lend themselves to rate stability.

22 They may -- they may make the process longer.
23 But when you do get to a rate case, what you're going to
24 be faced with is you're going to be faced with a number of
25 costs and quite significant costs because the company's

1 not proposing these trackers for these things that are
2 insignificant.

3 You're going to be faced with deferred costs
4 that would otherwise not be recovered in that rate case.
5 So in addition to the normal rate increases that you would
6 be faced with in a future rate case, you will have tracked
7 and deferred cost on top of that.

8 So while -- while some of the proposals may, in
9 fact, lead to a decreased frequency of rate case filings,
10 they're very, very likely to contribute to an increased
11 severity of rate increases when you get to those rate
12 cases.

13 And I will point out for those of you who have
14 not been here, one of the major arguments that the
15 company's made when they were lobbying the Legislature to
16 allow fuel adjustment clauses in Missouri is that the
17 allowance of fuel adjustment clauses would lengthen --
18 would reduce the frequency of rate cases.

19 And since that Legislation was passed, we have
20 had more rate cases filed faster than any time since the
21 1970s. So I think that the notion that some of these --
22 the creative accounting and exceptions to normal
23 rate-making process is, the length of the time between
24 rate cases should be taken with a grain of salt.

25 In this case, the trackers in construction

1 accounting are all what I call regulatory ratchet devices.
2 That is, from the company's perspective, they step up cost
3 recovery opportunities and cost recovery mechanisms, and
4 there's never an opportunity to go back down. You either
5 stay at that level or you step it up a another level. But
6 the ratchet prevents it from going back down.

7 And you'll see this, for example, in the Ameren
8 case with respect to the vegetation management
9 infrastructure and section trackers which were implemented
10 by the Commission when the rules were new because the
11 rules were new on infrastructure management and vegetation
12 management.

13 But nevertheless, despite the fact that those
14 rules had been around for five years, the company refused
15 to give them up and is arguing for those. And I think
16 you'll find that to be the case with all of the trackers
17 and all of the accounting mechanisms that the Commission
18 has authorized for all of the companies over the years is
19 that once they are put in place, the company sees them as
20 a right and refuse to give them up. And -- and so in that
21 sense, that's why I referred to them as regulatory
22 ratchets.

23 So in this case, with respect to the three
24 specific trackers and the construction accounting concept,
25 the Public Counsel urges the Commission to -- to reject

1 all of those.

2 Now, one of the -- the final aspects that I want
3 to talk about in this case, and that's the question of the
4 -- of the MEEIA costs, and that's the Missouri Energy
5 Efficiency Investment Act costs.

6 As you know, KCP&L, having filed an application
7 for approval of a MEEIA's fee program also immediately
8 withdrew that almost before the case even got started. At
9 this point, GMO's application for MEEIA approval is
10 languishing.

11 Just last week when Ryan Kind of my office was
12 at a meeting regarding KCP&L's IRP filing, asked for an
13 update on the MEEIA -- the status of the MEEIA case, he
14 was simply told that there is no update.

15 We have not heard anything for weeks from the
16 company about what's going on with that MEEIA case. I
17 hope we'll see some progress. And I don't know if it will
18 be soon. But, frankly, I question how interested, given
19 KCP&L's withdrawal of the case, the -- the languishing of
20 the GMO's MEEIA case, I question how interested these
21 companies are in pursuing energy efficiency.

22 And I urge you to try and question the witnesses
23 on this question when you have the opportunity, and,
24 hopefully, we can -- we can get something across the
25 finish line in time for it to be processed in this case.

1 But I think that window is rapidly closing. The
2 hearing in this case is scheduled for the next two weeks.
3 Many of us who would need to be involved in the wrap-up
4 and discussions about the MEEIA case will not be able to
5 conduct those discussions because we'll be in the hearing
6 in this case.

7 So I'm not sure if this is what Mr. Fischer was
8 suggesting in his opening statement, but I believe I heard
9 him talking about an agreement sometime before the
10 operation of law date or something to that effect.

11 I -- I think -- unless there was an agreement
12 very, very quickly, it will become extremely problematic
13 to reflect any rate increase that results from that
14 agreement in this case, and that was subject to
15 examination by the Commission, by all the parties because
16 the parties to the MEEIA case are not the same parties as
17 to the rate case. So any agreement in the MEEIA case will
18 have to be submitted in this case and subject to objection
19 by the parties in terms of rate recovery, all of which
20 becomes problematic where we are in the current case.

21 So with that, I'm going to close my general
22 overview opening, and I will reserve openings on each of
23 the individual issues as they come up. And I'd be happy
24 to answer questions.

25 JUDGE JORDAN: Thank you, Counsel. Any

1 questions from the Bench?

2 COMMISSIONER STOLL: No questions at this time.

3 COMMISSIONER JARRETT: No questions.

4 JUDGE JORDAN: I have none. We've been on the
5 record for a couple of hours. We could continue with
6 opening statements. I know not everybody has one who is
7 listed on my list or, we could take a break now, resume
8 opening statements and then get into the testimony. Is
9 there any reference as to that? Okay. We'll take a
10 break. Let's come back in 10 minutes, ten minutes from
11 now. Thank you.

12 (Break in proceedings.)

13 JUDGE JORDAN: Let's go back on the record.
14 We'll take the opening statement from Missouri Industrial
15 Energy Consumers.

16 MS. ILES: Your Honor, MIEC waives opening
17 statement.

18 JUDGE JORDAN: Very good. Praxair,
19 Incorporated?

20 MR. CONRAD: Your Honor, as previously
21 indicated, we're going to waive and reserve for mini at
22 the time that issues come up.

23 JUDGE JORDAN: And does that follow for Ag
24 Processing, a cooperative, and Midwest Energy Consumers
25 Group?

1 MR. CONRAD: It does. MUA, yes. Yes, sir.

2 JUDGE JORDAN: MUA. I think I have this
3 out of order.

4 MR. WOODSMALL: No. You've got -- you're right.
5 MEGG.

6 MR. WOODSMALL: MEGG. MEUA.

7 MR. WOODSMALL: Your Honor, I'd like to mark an
8 exhibit, demonstrative exhibit. I'm going to be giving a
9 Powerpoint presentation, and these are just the slides
10 from that presentation.

11 JUDGE JORDAN: Very good. Thank you.

12 MR. THOMPSON: What number will this be?

13 MR. WOODSMALL: 409. I don't have copies for
14 everybody. So whoever needs it, I can send it to you.

15 OPENING STATEMENT

16 BY MR. WOODSMALL:

17 MR. WOODSMALL: Good morning. My name is David
18 Woodsmall, and I'm appearing on behalf of the Midwest
19 Energy Consumers Group in both the KCP&L and the GMO rate
20 cases in this opening statement.

21 Unlike Mr. Fischer, I'm not going to address
22 every single issue. Instead, I'm going to use the point
23 of the opening statements and provide an overview and
24 address select issues that fit within that overview. I'll
25 leave additional discussion on specific issues to the

1 issue-specific opening statements that will be provided.

2 In this opening statement, I want to address
3 several points. Point 1, I will talk about KCP&L and
4 GMO's recent rate case history. Point 2, KCP&L and GMO
5 like to make a comparison to national average rates.
6 Not surprising, KCP&L and GMO failed to provide the
7 complete story regarding the comparison of their rates to
8 the national average. So in this opening statement, I
9 will provide that more complete description.

10 Third, I want to talk about the primary drivers
11 to the rapid increase in KCP&L and GMO's rates, their
12 uncontrolled administrative and general costs.

13 Fourth, I want to discuss the Missouri
14 rate-making methodology and the proper balancing of risk
15 under that rate-making process. You may recognize many of
16 these points from my opening statement in the Ameren case
17 from three weeks ago.

18 Fifth, I want to address the utility created
19 proposals designed to wreck this balancing of risk and
20 tilt the scales in favor of the possibility of excessive
21 rates.

22 Sixth, I want to talk about KCP&L and GMO's
23 specific risk sharing proposals in this case. Again,
24 given the similarities between KCP&L GMO cases and the
25 Ameren case, many of these points will sound familiar.

1 Seventh, I want to talk about two issues in
2 which KCP&L seeked to violate the carefully crafted
3 regulatory plan that it executed in 2005.

4 Eighth, I want to address three issues in which
5 KCP&L presents a position which would effectively allow it
6 to double recover costs.

7 Ninth, I want to address the Commission's recent
8 concern for rate stabilization and KCP&L and GMO's plan to
9 benefit from that Commission concern. And, finally, I'll
10 provide you a conclusion of what MCEG is asking for.

11 First, I'm going to talk about recent rate case
12 history. In this slide, you will see a history of KCP&L's
13 recent rate cases. After 22 years of filing no rate
14 cases, KCP&L filed its first case under the regulatory
15 plan in 2006 that case resulted in a 10.46 percent rate
16 increase.

17 This was followed the next year by another case
18 in which KCP&L received a 6.5 increase. And two short
19 years later, another case that resulted in a 16.16 percent
20 increase.

21 Finally, last year, the Commission granted its
22 fourth increase under the regulatory plan, a 5.23 percent
23 increase. Where does this put us?

24 What you see is, all told, between 2007 and
25 2011, KCP&L rates have increased by 43.8 percent. In the

1 current case, KCP&L is seeking an increase of
2 105.7 million. This amounts to an increase of over 15
3 percent. If granted by the Commission, KCP&L's rates will
4 have increased by 65 and a half percent in just six short
5 years.

6 Now, this isn't unique to KCP&L. GMO has the
7 same problem. In this slide, you will see a history of
8 GMO's recent rate cases. In 2007, the Commission
9 authorized an increase for both MPS and L&P of roughly 12
10 percent. This was followed up two year later with another
11 12 percent increase for both companies. And, finally,
12 last year with an increase of 7.2 percent for MPS and an
13 increase of 15.8 percent of L&P.

14 With its proposed increases in this case, MPS
15 rates will have increased by 4 point -- 46.5 percent in
16 five years. Rates for the foot L&P Division over that
17 same period of time have increased 74.93 percent over the
18 last six years.

19 It is important to note that this does not
20 include revenue and rate increases that automatically pass
21 through the FAC. So 74.93 percent with this rate increase
22 if granted in this case.

23 Next, I'm going to talk about the comparison to
24 national average. In their system, KCP&L and GMO attempt
25 to excuse the rapid increase in their rates by claiming

1 that their rates are still below the national average.

2 You heard Mr. Fischer talk about that in his
3 opening statement when he said they're still 13 percent
4 below the national average.

5 But how did we get to where we are? There are
6 many reasons why a comparison to the national average is
7 not relevant. For instance, geography will make the
8 possibility of coal generation for certain utilities more
9 or less efficient. Also, geography will dictate whether a
10 utility can use wind generation.

11 In addition, utility rates, like other consumer
12 prices, are a large component of -- are based in large
13 part on labor costs. Labor costs in Missouri are
14 significantly less than labor costs on the east and west
15 coast. Therefore, it is natural that Missouri rates are
16 less than the national average.

17 That all said, if KCP&L and GMO want to compare
18 it to the national average, let's do it. Between 2006 and
19 2011, the national average increase in residential rates
20 was 25.7 percent. What did we get for KCP&L? Over that
21 same point in time, KCP&L's residential rates have
22 increased by almost 44 percent. GMO's residential rates
23 increased by 45 percent. And there you can see the cites
24 to the Staff report.

25 My clients aren't residential. While I'm

1 disturbed by the increase in residential rates because I'm
2 a ratepayer, my clients are commercial and industrial
3 customers, and they're focused on commercial and
4 industrial rates.

5 And what has happened to commercial rates over
6 that time? Between 2006 and 2011, the national commercial
7 rates only increased 17.65 percent. Again, only increased
8 17.65 percent. KCP&L increased by 39 percent, more than
9 twice as fast. GMO's rates increased by 40 percent.
10 There's the cite to the Staff report if you want to look
11 in up for yourself.

12 Industrial rates, national average industrial
13 rates increased in that five-year period by less than 16
14 percent. KCP&L industrial rates by almost 38 percent.
15 GMO rates by 42 percent in the citation.

16 What can we conclude through this more thorough
17 comparison to the national average? Simply, KCP&L and GMO
18 residential rates have grown 65 percent faster than the
19 national average. KCP&L and GMO commercial rates have
20 grown 125 percent faster than the national average. And
21 Kansas City Power & Light and GMO industrial rates have
22 grown 158 percent faster than the national average.
23 We have a problem here.

24 Next I'm going to talk about what is causing --
25 one of the drivers that's causing this problem, the rapid

1 increase in administrative and general costs. Are there
2 reasons for the rapid increase in KCP&L and -- KCP&L and
3 GMO's rates? Yes. As Staff's evidence tells us first to
4 look at KCP&L and GMO's administrative and general costs.
5 Staff provides three ways of viewing KCP&L and GMO's A&G
6 costs.

7 First, you can look at these costs on a per
8 customer basis as compared to the neighboring utilities,
9 Empire and Ameren in Missouri and West Star in Kansas,
10 KCP&L and GMO's A&G costs are very high, almost 20 percent
11 higher than the next worst performing utility.

12 If KCP&L and GMO could simply reduce their cost
13 to the next worst utility, rates would be reduced by
14 \$34 million.

15 Let's look at it on an energy production basis.
16 Again, KCP&L and GMO is far and away the worst. In fact,
17 their A&G cost on this basis are 33 percent higher than
18 the next worst performing utility, Empire. If KCP&L and
19 GMO could reduce their A&G cost to this next worst
20 performing level, rates would be reduced by \$61 million.

21 And, finally, the third way of looking at it, on
22 the basis of a percent of operating revenue. Again, far
23 and away, the worst. This time, 25 percent worse than the
24 next highest -- next worst performing utility, Ameren.
25 And if KCP&L and GMO were able to reduce their A&G costs,

1 rates would be reduced by \$49 million.

2 By any measure, KCP&L and GMO's A&G costs are
3 out of control. If they were to simply reduce those so
4 that they're not worst, but simply the second worst, rates
5 would be reduced 34 to \$61 million. More should be
6 expected of this company.

7 Earlier, I discussed the recent KCP&L and GMO
8 history of rate increases. Why do I note these increases?
9 Because in recent cases, rate cases have not been about
10 rate increases. Rather, these rate cases have focused on
11 mechanisms, mechanisms designed to shift risk from
12 shareholders to ratepayers.

13 This shift of risk has led to more frequent and
14 larger rate increases. Given the utility's recent focus
15 on shifting risk, I want you to start asking yourself a
16 question every time a rate case is filed. Ask yourself
17 first, How much do they want? Secondly, and most
18 importantly, What more do they want? What mechanisms are
19 they going to be asking for to move risk this time?

20 We're going to talk about the Missouri
21 rate-making methodology and risk balancing. Here is a
22 discussion from a Missouri Supreme Court from 1979 talking
23 about Missouri rate-making paradigm and process. You can
24 see here, the 1979 Missouri Supreme Court said, The
25 utilities take the risk that rates filed by them will be

1 inadequate or excessive each time they seek rate approval.

2 It's on the utility, the risk is. So you -- you
3 see the utility accepting two different risks, first, the
4 risk that rates will be inadequate, and, second, that
5 rates will be excessive. Under either circumstance,
6 however, the utility is supposed to live with the
7 excessive or inadequate rates until the next rate case.

8 In Missouri, rate-making is based up on a test
9 year relationship of revenues, expenses and rate base
10 which will automatically balance the risk of excessive and
11 inadequate rates.

12 And here you see that. You see the rates being
13 balanced. You see on the left the -- the possibility that
14 rates are inadequate. You see on the right the
15 possibility that rates are excessive and the different
16 types of factors that are driving each of these risks.

17 Factors that may lead to rates being inadequate
18 include increasing cost, increasing revenues and plant
19 additions. On the other side, however, are factors that
20 may lead to rates being excessive. And we've seen this in
21 the past.

22 Those factors include the fact that rate base is
23 constantly depreciating. Additionally, increased customer
24 accounts and increased customer usage will make the
25 possibility of excessive rates more likely.

1 Finally, there is the potential for increased
2 revenues caused by participating in the wholesale market.
3 But here you see the balance of risk that the utilities
4 accepts that risk will be inadequate or rates will be
5 excessive. And we'll talk more about this balancing
6 later.

7 Okay. So how do we get to rates that are
8 excessive? The rate-making paradigm provides the utility
9 with the ability to influence its costs as well as to
10 manipulate windfall profits. And I use that term
11 intentionally, manipulate to cause windfall profits.

12 For instance, the utility can time a debt
13 refinancing for immediately after a rate case so that
14 rates will become immediately effective. Rates were built
15 on a higher cost of debt. They immediately refinance.
16 Rates still stay there. They get to keep the increased
17 profits.

18 Similarly, a well-timed employee severance
19 program will lead to windfall profits. Finally, warmer
20 weather or increased wholesale profits will increase
21 overall profits.

22 All in all, the rate-making methodology works
23 because it provides the utility with the incentive to
24 reduce costs and increase revenue because regulatory lag
25 means that they get to keep the increased profits for at

1 least 11 months.

2 We have a couple great examples in this case
3 where KCP&L and GMO have manipulated the regulatory lag
4 process in order to reach windfall profits. For instance,
5 shortly after the true-up in the last case, KCP&L and GMO
6 reduced employee levels, which reduced payroll.

7 That reduced payroll was not reflected in the
8 rates of the last case. So immediately after the rate
9 case was done, KCP&L and GMO realized windfall profits
10 because of this employee reduction. Similarly, KCP&L and
11 GMO realized a windfall of \$14.7 million because of the
12 warm weather this past summer.

13 Rates can also be inadequate. And what are --
14 what -- what are the factors that may cause that? The
15 rate -- Missouri rate-making paradigm dictates that in
16 exchange for the possibility of increased profits,
17 utilities must accept the risk that rates are inadequate.
18 So increasing costs, decreasing revenues will all lead to
19 this.

20 The utility, though, according to the Missouri
21 Supreme Court decision, must wait to file -- must file a
22 rate case in order to get these increased costs reflected
23 in rates.

24 Undoubtedly -- undoubtedly, KCP&L and GMO will
25 state that the Missouri rate-making paradigm is broken.

1 We've heard that repeatedly over the last several years.
2 For this reason, they have proposed numerous mechanisms
3 designed to reduce the risk that rates will be inadequate,
4 but they want to maintain the same risk that rates will be
5 excessive.

6 But the Missouri rate-making paradigm is not
7 broken. It's been shown to work for over a hundred years.
8 In 1984 -- KCP&L is a classic example of this. In 1984,
9 KCP&L finished its Wolf Creek Nuclear operating plant and
10 increased its rates.

11 KCP&L then went over 22 years without another
12 rate case. This 22 period -- 22-year period happened
13 without any adjustment mechanisms, any trackers, any
14 accounting authorizations, any AAOs. The rate-making
15 process worked. In fact, during that period, rates were
16 reduced three times.

17 The factors driving these increased profits in
18 the period of rate stability that KCP&L saw during this
19 period were the ones I mentioned earlier, depreciating
20 rate base, increased customer accounts and usage and
21 increased wholesale revenues as well as decreased fuel and
22 freight costs.

23 Only when the utilities hit the most recent
24 construction cycle they were just finished with were they
25 heard to say the Missouri rate-making paradigm is broken.

1 But as we've seen here, the paradigm works.

2 Ultimately, given the current paradigm, we could
3 still end up with another 22-year period without rate
4 cases. Bottom line, given that the paradigm works, I ask
5 you that you don't make long-term rate-making changes
6 simply to address just short-term challenges. The
7 rate-making process is effective. It may be labor
8 intensive, but it leads the utility to minimize its cost.

9 Two conclusions can be easily reached about the
10 utility's attitude towards Missouri rate-making. First,
11 utilities love the opportunities for windfall profits.
12 Notice that the utilities never propose any type of
13 mechanism that minimize the chance that rates will be
14 excessive.

15 Second, utilities hate the risk of inadequate
16 rates. So given the love/hate relationship, what is the
17 utility to do? How do utilities maximize the opportunity
18 for inflated profits while also minimizing the chance that
19 rates will be inadequate? It's all in the litany of
20 mechanisms that you will hear about in the next couple of
21 weeks.

22 First, there are AAOs; second, we have
23 adjustment mechanisms; third, we have trackers; fourth, we
24 have accounting authorizations. Let's address those in
25 order.

1 We'll talk about AAOs and what is an AAO. In
2 order to understand an AAO, you must first understand the
3 test year rate-making methodology used in Missouri. Under
4 the test year concept, a historic level of revenues,
5 expenses and rate base is created and maintained.

6 If an unexpected cost arises going forward, the
7 utility must consider its current rates and whether they
8 adequately cover those unexpected costs. If not, a
9 utility is to file a new rate case.

10 What does the AAO do? The AAO destroys the
11 notion of test year rate-making. The AAO allows a utility
12 to defer certain costs for consideration and review in a
13 future case. They don't have to file the case right now.
14 They can defer those and treat those later. There is no
15 consideration of whether current rates were inadequate and
16 covered this cost.

17 Instead, the utility can shield its
18 over-earnings and still have the expense covered later.
19 Bottom line, the utility no longer bears the risk of this
20 cost. Instead, this cost risk has been shifted to the
21 ratepayers. Simultaneously, current rates may be
22 excessive.

23 The next mechanism designed to reduce the
24 utility's risk is an adjustment mechanism. Under an
25 adjustment mechanism like a fuel adjustment clause, a

1 utility is not required to wait until its next rate case
2 to recover an expense.

3 Instead, the utility is allowed to immediately
4 increase rates to reflect that increase expense. On a
5 single issue basis without considering other costs, the
6 utility is will allowed to automatically increase rates.

7 So while the utility may otherwise be
8 over-earning, they are still allowed to increase rates to
9 increase rates to reflect an increase in one single
10 expense item.

11 For GMO, they have an adjustment mechanism for
12 fuel costs. These costs represent approximately 50
13 percent of Ameren's total O&M costs. So the risk of an
14 increase in fuel costs is no longer with the shareholders.
15 It's now been passed on to the ratepayers. GMO simply has
16 no interest in minimizing these costs because they are
17 simply a pass-through.

18 The next mechanism designed to reduce utility
19 risk is tracker mechanisms. And you can see some
20 discussion here about that. Under a tracker, a baseline
21 amount of an expense is built into rates.

22 If the expense increase, the utility is allowed
23 to collect that difference in the next rate case dollar
24 for dollar. Again, there's no consideration as to whether
25 other expenses have decreased or revenues increased to

1 compensate for this increased risk.

2 In fact, the utility may be over-earning, but it
3 is still allowed to track a single expense and ignore all
4 other changes.

5 So, for instance, a utility might refinance
6 their debt. They cause a situation in which they are
7 over-earning. Despite these over-earnings, the utility is
8 permitted to track that one single expense item. The risk
9 of an increase item of a single expense item has, again,
10 been shifted to the ratepayers.

11 Again, I want to point out, too, that there is a
12 definite question as to whether tracker mechanisms are
13 lawful. In that same case that I mentioned earlier, the
14 Missouri Supreme Court stated, "Past expenses are used as
15 a basis for determining what rate is reasonable to be
16 charged in the future in order to avoid further excess
17 profits or future losses. But under the prospective
18 language of the statutes, they cannot be used to set
19 future rates to recover for past losses due to imperfect
20 matching of rates with expenses.

21 This is exactly what tracker mechanisms do.
22 They take past losses. They take them to the future and
23 seek recovery from ratepayers in future rates.

24 The final mechanism used to shift risk to the
25 ratepayers is an accounting authorization. This is much

1 like an AAO. But where an AAO is designed to address a
2 single non-recurring expense, this accounting
3 authorization is designed to be an every-day authorization
4 to carry an expense out or into a test year and hold it
5 for recovery later. Again, the utility no longer bears
6 any risk for this expense.

7 In its case, KCP&L and GMO have proposed
8 specific mechanisms from each of these types of
9 categories. Despite the fact that their rates have
10 increased by 65 percent in the last six cases, KCP&L and
11 GMO ask the Commission to implement more mechanisms that
12 will lead to more frequent and larger rate increase.

13 Let's see how each of these mechanisms shift the
14 carefully balance -- careful balancing of the risk that
15 rates will be excessive or inadequate. In this slide, you
16 see the previous diagram of the in balance. There are
17 factors that are driving risks to be inadequate and also
18 factors that are driving risk -- or rates to be excessive.
19 And I've mentioned some of those factors in this case.

20 First, KCP&L risk shifting proposal is its
21 requested IEC. This proposal, basically a lesser version
22 of a fuel adjustment clause, shifts the risk of increased
23 fuel and purchased power costs to the ratepayers.

24 There are many reasons that the ratepayer groups
25 and Staff dislike KCP&L's proposed IEC. Among the reasons

1 is that KCP&L's inclusion of a sharing grid is contrary to
2 the regulatory plan. Also, the KCP&L IEC mechanism
3 violates retroactive rate-making.

4 But what does it do to the careful balancing of
5 risk? Here's what we saw before with the risk being in
6 line with fuel expense being one of the items that may
7 make rates to be inadequate. Take that out of the
8 equation, and what happens? The balance is changing.

9 With the implementation of the proposed IEC, one
10 of the factors that may cause rates to be inadequate is
11 removed. The risk of increased fuel and purchased power
12 expense has been shifted to the ratepayers.

13 Next is a two-track mechanism. First, KCP&L and
14 GMO want to implement a transmission tracker mechanism to
15 exactly track any increases in transmission costs and
16 expenses. This is in addition to the slew of other
17 trackers already in place for these utilities.

18 Again, there are lots of reasons that the rate
19 -- ratepayers and Staff don't like KCP&L's proposal.
20 These costs are not volatile. They're not financially
21 material to the utility. And the capital costs that KCP&L
22 proposes to include in the tracker may violate the State's
23 anti-CWIP prohibition. Finally, KCP&L and GMO failed to
24 account for the possibility of increased transmission
25 revenues in its tracker.

1 The other tracking mechanism proposed by KCP&L
2 and GMO is a property tax tracker. Again, you must
3 question the legality of this tracker mechanism. It
4 appears that KCP&L and GMO are attempting to preserve past
5 losses for future recovery from ratepayers.

6 In addition, there are many other reasons that
7 you'll hear about in mini opening statements that we
8 oppose this property tax tracker.

9 But what does it do to the careful balancing?
10 Here you see where we were before after the IEC with
11 balance being tipped. Transmission tracker removes
12 transmission costs. Property tracker removes property tax
13 cost. And what does it do to the balance? It tips it
14 even more against the ratepayers.

15 The final mechanism proposed by GMO involves
16 construction accounting for the replacement of an
17 unreliable portion of its L&P distribution system. Again,
18 many reasons to dislike this proposal that you will hear
19 about in this case.

20 For instance, KCP&L -- GMO. I'm sorry. GMO's
21 proposal fails to recognize that these improved facilities
22 will naturally lead to greater reliability and increased
23 usage. With increased usage comes greater revenues. But
24 GMO doesn't want to address those greater revenues.
25 That's the part they want to keep for themselves.

1 Instead, the tracker will ignore that. In addition,
2 it's maintenance program construction for replacement of
3 the distribution system should lead to reduced maintenance
4 expense. If you upgrade the system, maintenance should be
5 higher. But GMO doesn't want to account for that increase
6 in maintenance expense. If maintenance expense drives
7 down, goes down, that increases the possibility that rates
8 will be excessive. They don't want to track that.

9 Again, here's what the balancing looked like
10 after we got rid of the tracker -- after we added the
11 tracker mechanism and the IEC.

12 Now, the St. Joe distribution construction
13 accounting. Remove the last item. And what does that do
14 to our balancing? It has completely shifted. The risks
15 are almost entirely on ratepayers.

16 The next thing I want to address are two issues
17 in which KCP&L would have the Commission violate the 2005
18 regulatory plan. In 2005, KCP&L executed a regulatory
19 plan. Under that plan, KCP&L received significant
20 financial concessions designed to help finance the cost of
21 the Iatan 2 construction project. This was solely for the
22 benefit of KCP&L shareholders.

23 With the completion of Iatan 2, the regulatory
24 amortization mechanism has been terminated. On the other
25 side, ratepayers have received two key benefits or

1 assurances in the regulatory plan. First, KCP&L committed
2 to not request a fuel adjustment clause. Instead, they
3 may request an IEC that meets certain specific criteria in
4 the regulatory plan.

5 Second, KCP&L has made a commitment not to
6 remove any portion of off-system sales from rate-making
7 process. But now that KCP&L has received all of its
8 benefits under the regulatory plan, it is looking to
9 reject all the other provisions that provide benefits to
10 the ratepayers. Specifically, KCP&L seeks to negate both
11 its IEC commitment and its off-system sales commitment.

12 Let's first look at their IEC discussion. Under
13 this proposal, an amount of fuel and purchased power
14 expense is included in permanent rates. Historically, an
15 additional amount is collected on an interim subject to
16 refund basis. This is the ceiling amount that you'll see
17 talked with often. KCP&L collects both the permanent
18 amount and the ceiling amount. So that is the maximum
19 amount ratepayers will be charged under the IEC. This is
20 how it's historically been done.

21 If fuel exceeds that amount, KCP&L must eat
22 that amount. If they are able to drive the expense below
23 the permanent amount, they keep that. If it falls
24 somewhere between the permanent amount in the ceiling,
25 they have to refund it.

1 But it's important to understand, under no
2 circumstances under an IEC does the utility go back to the
3 ratepayers and say, We need more. That's retroactive
4 rate-making. But that hasn't stopped KCP&L here.

5 KCP&L's proposal eliminates the ceiling.
6 Instead, KCP&L asks that rates be allowed to increase
7 unhindered by any ceiling, and that amount will be
8 collected from ratepayers in the future.

9 While it doesn't allow for automatic rate
10 changes between rate cases, the KCP&L IEC is effectively a
11 fuel adjustment clause, a fuel adjustment clause that
12 KCP&L committed not to seek.

13 In fact, because it doesn't have a 95 percent, 5
14 percent sharing grid like the other FACs, KCP&L's IEC is
15 better than any FAC that's out there. If you approve
16 this, you can pretty much bank that other utilities will
17 be coming in for a similar IEC. It should be rejected as
18 bad policy and contrary to the commitment contained in the
19 regulatory plan.

20 Let's look at the other aspects of the KCP&L
21 regulatory plan that KCP&L now seeks to violate. Under
22 the regulatory plan, KCP&L has vowed not to take any steps
23 to remove any portion of the amount of off-system sales
24 used for rates. KCP&L has committed not to seek to move
25 any portion of off-system sales below the line.

1 And the -- however, in the context of its IEC,
2 KCP&L has done just that. KCP&L has proposed to share in
3 future improvements in off-system sales. The specifics of
4 this problem has been detailed in a Motion to Strike that
5 was filed on May 25th that we talked about before. You
6 can find greater information in that pleading. And I'd
7 encourage you to go back and review that. At this point,
8 days before, I'd renew that motion.

9 Finally, I want to -- or the next thing I want
10 to address are KCP&L's request for double recovery of
11 certain expenses. In the movie Wall Street, Gordon Gecko
12 was quoted as saying, Greed is good. This sentiment is
13 often repeated when describing capitalism.

14 Despite the regulated nature of this industry,
15 we still see similar examples of such greed. In the case
16 at hand, KCP&L has presented three separate issues in
17 which it seeks to recover certain costs that have already
18 been recovered from somebody. And simply because greed is
19 good, it shouldn't be surprised -- and simply because
20 greed it good it should not be surprising that KCP&L has
21 made these requests.

22 But, similarly, it should not be surprising when
23 the Commission denies KCP&L's request to double recover
24 these costs.

25 Among the issues are the organizational

1 realignment program, merger transition costs and Hawthorn
2 5 costs.

3 Lets first talk about the ORVS cost, I'll call
4 it. The organization realignment/voluntary separation.
5 In the last case, rates were set, set upon a true-up.
6 Abiding by the test year and true-up concept --
7 immediately after the true-up, KCP&L announced this ORVS
8 program that would reduce payroll. But it was done after
9 the true-up.

10 All the other parties abiding by the test year
11 and true-up concepts included payroll expense in the rates
12 based upon the pre-ORVS employee levels. So immediately
13 after rates went into effect, there was a windfall because
14 the amount after payroll had been decreased. That's the
15 way the game plays in Missouri. Those are the windfall
16 profits that I said can be manipulated using regulatory
17 lag.

18 Those profits will extend for almost 22 months
19 until rates in this case are effective. Over that period
20 of time, KCP&L has realized, solely realized benefits of
21 the ORVS program. And these benefits exceed the cost by
22 over two to one.

23 Bottom line, KCP&L has recovered, through the
24 excess payroll costs included in rates from the last case,
25 both the 12.7 million in cost as well as 22.7 million of

1 additional benefits. They've recovered these costs.
2 Nevertheless, despite recovering them once, KCP&L now
3 wants to drag them into this case. They're a
4 non-recurring cost. Everybody acknowledges that. But
5 they want to drag them into this case and recover them
6 again. Adoption of KCP&L's proposal will only further
7 serve to exacerbate a high A&G cost profile that I talked
8 about previously.

9 Double recovery of costs is also requested by
10 KCP&L regarding its treatment of merger transition costs.
11 As Staff has demonstrated, since the culmination of the
12 Great Plains and Aquila merger, shareholders have realized
13 over \$306 million of corporate savings. I'll say that to
14 you again. Because of regulatory lag and when they choose
15 to implement the various synergies under the merger,
16 shareholders have realized ed benefits of
17 \$306 million.

18 These savings greatly exceed any merger
19 transmission costs. Again, KCP&L has already brought --
20 already recovered these costs and more through their sole
21 retention of corporate savings. Nevertheless, KCP&L is
22 back again asking to take these non-recurring costs and
23 amortize them and include them in rates in this case.

24 Again, by agreeing to KCP&L's request, you will
25 only further serve to exacerbate the high A&G profile that

1 I talked about previously.

2 The final example where KCP&L seeks to double
3 collect certain costs involves Hawthorn 5. In 2007,
4 following an explosion of Hawthorn 5, KCP&L rebuilt the
5 plant and included an FCR facility.

6 That FCR R facility was designed to reduce the
7 exhaust of certain NOX emissions. Unfortunately, once it
8 was installed, it never worked right. Instead, in order
9 to get the unit to operate, KCP&L had to incur inflated
10 levels of operation and maintenance expense. Items such
11 as limestone didn't last as long as it should and expenses
12 went up.

13 What did Kansas City Power & Light do? It took
14 action against the contractor that built the FCR and made
15 a claim on the liquidated damages provision and reached a
16 settlement. And you can talk to Staff witness
17 Featherstone about the nature of that settlement.

18 So KCP&L has already been compensated for the
19 reduced value of the Hawthorn FCR. But KCP&L wants to
20 include the increased value of Hawthorn FCR in rate base.
21 And not only that, but it wants to include the higher cost
22 of additional O&M expenses.

23 KCP&L has already been compensated for this
24 through its settlement with the contractor. But it wants
25 higher rate base and it wants higher O&M expense. This is

1 a double counting. Again, it further drives their high
2 cost portfolio.

3 The final topic I'd like to talk about is rate
4 stabilization. A couple months ago, the Commission issued
5 an order asking that the parties address rate
6 stabilization. That issue was later deferred to a work
7 group docket to consider, and I think properly so.

8 But that didn't end it. Instead, KCP&L has
9 seized upon a legitimate Commission concern to attempt to
10 extort unreasonable and unnecessary concessions. For
11 instance, look at KCP&L's -- page 6 and 7 of KCP&L's
12 position statement.

13 In essence, it goes like this, you give us
14 everything we want, everything. You give us an inflated
15 return on equity. You give us more trackers. You give us
16 an IEC. And you modify your position on Crossroads. And
17 then, oh, and only then, maybe we'll stay out for a while.
18 It's extortion.

19 I've talked with my clients about the
20 Commission's goal of rate stabilization many times. Our
21 thoughts are that the Commission is attempting to treat
22 the symptom and not the problem.

23 While ratepayers don't like rate cases, it's not
24 rate cases themselves that are problematic. Instead, it
25 is the fact that KCP&L's rates are rising so quickly.

1 I pointed out to you previously that KCP&L's
2 rates were rising twice as fast as the national average.
3 If rate cases are the cost of attempting to keep rate
4 cases low, we believe you should continue to do rate
5 cases.

6 Don't buy into KCP&l's extortion scheme. KCP&L
7 went 22 years without a rate case. And this process of
8 rapid rate increases will change, too.

9 Finally, I want to address a couple matters that
10 Mr. Fischer talked about. Mr. Fischer talked about
11 off-system sales. And I'm going to talk a lot about that
12 in the issue-specific opening statement.

13 But Mr. Fischer talked about off-system sales in
14 the test year were reduced. I'm here to tell you they
15 were reduced for simple reasons. The test year wasn't
16 normal. Under anybody's definition of normal, the test
17 year wasn't normal.

18 The weather was warm. What happens when weather
19 is warm? They have to take energy that was supposed to go
20 to off-system sales and use that to make native load
21 sales. What does that mean? The margins for native load
22 are higher than the margins for off-system sales. So they
23 want to complain about off-system sales margins being
24 down. They made higher profits by selling that energy to
25 native load.

1 Simply, OSS profits were -- was simply displaced
2 from wholesale to retail profits. Additionally, KCP&L
3 had two unexpected outages at Wolf Creek that drove a
4 reduction in off-system sales.

5 First, KCP&L had a refueling outage that was
6 inexplicably increased in 2011 by an additional 70 days.
7 Again in 2012, KCP&L had another unexpected outage at Wolf
8 Creek for almost 80 days. This is a lot of energy that
9 Wolf Creek should have been providing that could have been
10 sold in the off-system market.

11 Long and short, KCP&L can reach a level of
12 off-system sales that MCEG has expected as suggested. And
13 that level is based upon a normalized level of historical
14 test year.

15 I will have much more to talk about this when we
16 do issue specific opening statements. Finally, on
17 off-system sales, KCP&L complains about the one way
18 tracker implemented for off-system sales. Despite the
19 current complaint that you hear from KCP&L, it is
20 important to remember that the off-system sales tracker
21 was initially proposed by KCP&L. KCP&L benefitted from
22 shifting of risk for the last four cases under that
23 tracker mechanism.

24 In his opening statement, however, Mr. Fischer
25 gripes about the OSS tracker. I tell you that this is

1 another example of KCP&L simply using trackers when it
2 behooves them to increase -- to decrease risk. But now
3 that it's no longer beneficial, they want to eliminate the
4 tracker.

5 Finally, my conclusion. What is MEGC asking for
6 in this case? Simply, we'd ask you to treat this as
7 another rate case. This process of rate-making in
8 Missouri is tried and true. You shouldn't undermine
9 almost a hundred years of rate-making simply to address
10 KCP&L's short-term concerns.

11 With this in mind, you should include a
12 normalized level of revenues, expenses in rate base. You
13 should reject all of KCP&L's risk shifting mechanisms.
14 This includes the IEC, the property tax tracker, the
15 transmission tracker as well as GMO's request for
16 construction accounting.

17 And you should award a reasonable return on
18 equity that reflects the continuing declining cost of
19 capital. In the last case, you awarded a 10.0 return on
20 equity.

21 Capital costs are lower today than they were
22 when you issued that order in 2011. In fact, KCP&L's
23 witness admits that at 9.8 percent, while they want more,
24 KCP&L's admits that a 9.8 percent return on equity is a
25 reasonable return.

1 I'd like to talk briefly about Exhibit 53 that
2 Mr. Fischer handed out to you. What you're going to see
3 here is in the middle you see a bracket showing the
4 allowed ROEs for the first quarter of 2012. And you see
5 an X there showing that the average first quarter for 2012
6 was 10.3 percent.

7 What has happened since then? The average
8 return in the second quarter has gone down to 10.0
9 percent. In one quarter, it's gone down 30 basis points.
10 But what is telling here is these are based on true-ups
11 that are approximately a year before that.

12 Our true -- our test year is different, and
13 capital costs have gone down. So capital costs should be
14 even lower than the 10.0 that was experienced in the
15 second quarter of 2012.

16 And I believe that the recommendations suggested
17 by not only Staff, but Mr. Gorman reflect that reducing
18 capital cost.

19 Finally, I'd ask you to take steps to limit
20 KCP&L's continued reliance on rate case expense. I have
21 noticed as I was sitting here today a prime example of
22 KCP&L not controlling rate case expense. Mr. Fischer,
23 Mr. Steiner, Mr. Hatfield and their General Counsel
24 Heather Humphrey. Thousands of dollars of rate case
25 expense to simply watch one attorney do an opening

1 statement.

2 KCP&L pays large amounts of salary and benefits
3 to in-house attorneys, and, certainly, they are capable of
4 doing an opening statement. It does not need to go out
5 with ratepayer dollars and hire Mr. Hatfield and
6 Mr. Fischer just to rack up more rate case expense.

7 That's all I have. I welcome your questions,
8 and I look forward to talking about these issues over the
9 next ten days.

10 COMMISSIONER JARRETT: Mr. Woodsmall, I assume
11 that when you use the word extortion, you were using that
12 in a rhetorical context and not a criminal context?

13 MR. WOODSMALL: Absolutely. Yes.

14 COMMISSIONER JARRETT: That's all I have.

15 COMMISSIONER STOLL: No questions, your Honor.

16 MR. WOODSMALL: Thank you.

17 JUDGE JORDAN: I have no questions for you. My
18 list may be jumbled here because it has Mr. Conrad -- two
19 of Mr. Conrad's clients followed by MEG, and then it has
20 MEUA. Any opening statement from MEUA?

21 MR. BARTELS: Yes, your Honor

22 JUDGE JORDAN: Mr. Bartels.

23 MR. CONRAD: I'm sorry. I thought you asked me
24 about that before, Judge, and the answer was no.

25 JUDGE JORDAN: Hence the clarification.

1 MR. CONRAD: Oh, I'm sorry. Now, this is --
2 this is Mr. Finnegan's client.

3 JUDGE JORDAN: Thank you. Sorry about that
4 confusion and let me get this straight, also. Bartels or
5 Bartels?

6 MR. BARTELS: Bartels.

7 MR. CONRAD: Judge, do you have your microphone
8 on?

9 JUDGE JORDAN: Yes.

10 OPENING STATEMENT

11 BY MR. BARTELS:

12 MR. BARTELS: Good morning. May it please the
13 Commission. I'm Reed Bartels on behalf Midwest Energy
14 Users Association. We support class cost of services.
15 However, there are differences in the implementation of
16 these studies. We just wanted to point that out to you
17 all.

18 We oppose Staff's proposal to raise all the
19 electric general service customers' rates. The rejection
20 is justified. And they're using base load in the winter
21 months, it would be wasted or sold to customers of other
22 utilities.

23 The general service electric heating rates and
24 all electric rates were built on the concept that cost to
25 provide the service is low. They were built on the

1 concept that sales at prices above the cost provide
2 benefit to all customers a contribution to recover the
3 fixed costs.

4 These concepts -- these concepts endure.
5 Electric heating rates and the electric rates make -- make
6 sense for the customers that are on the rates of all
7 customers.

8 We will support results favorable to the large
9 general service customers including, without limitation,
10 the customers on the electric heating and the all electric
11 heating rates. Any questions, your Honor?

12 JUDGE JORDAN: I have none. Any questions from
13 the Bench?

14 COMMISSIONER JARRETT: No questions.

15 COMMISSIONER STOLL: No questions.

16 MR. BARTELS: Okay. Thank you. Good day.

17 JUDGE JORDAN: Thank you. Next on my list is
18 AARP and Consumers Councils of Missouri.

19 MR. COFFMAN: Given the hour, I will be brief.

20 OPENING STATEMENT

21 BY MR. COFFMAN:

22 MR. COFFMAN: May it please the Commission. I
23 am here representing two consumer groups that would like
24 you to remember the folks who are going to be impacted by
25 this decision.

1 And I trust that you either attended the
2 hearings or will read the transcripts of the many
3 accessible and convenient public hearings that were held,
4 and we thank you for those and hope that you keep that in
5 mind when you're striving to arrive at a just and
6 reasonable result on these cases.

7 I largely concur and congratulate the three
8 attorneys representing the general public interest
9 performing Staff and Public Counsel and, of course, Mr.
10 Woodsmall. He covered a lot of issues that I agree with,
11 and I would just like to underscore a couple of things.

12 The -- the fuel adjustment clause issue you may
13 have heard me discuss before, and the -- the many ways in
14 which it is unfair to consumers. And we do not -- do not
15 like it, and we wish that you would not approve a fuel
16 adjustment clause again for the GMO cases -- companies.

17 And again, because it's -- it -- ability to
18 allow over-earning without looking at all relevant factors
19 because it does not provide proper and sufficient
20 incentive for the utility to pursue most the efficient
21 cost and practices because it shifts enormous risks. It
22 makes rates more volatile for consumers without the level
23 of scrutiny that we have in this case.

24 And with regard to KCP&L, the -- the proposed
25 interim energy charge is an interim energy charge in name

1 only. As interim energy charge was known when Senate Bill
2 179 became law was, as you heard it described by -- by
3 Mr. Woodsmall, there was a bargain made in the regulatory
4 plan. And many of us who signed it may not have signed it
5 if we knew what would come afterwards. But there was a
6 bargain. And there were many things that the utilities
7 benefitted from in many dollars, hundreds of millions of
8 dollars related Iatan 2 cost over-runs, hundreds of
9 millions of additional amortizations that would not
10 otherwise have been allowed under Missouri law and the
11 anti-CWIP law have all been borne by the consumers of --
12 of KCP&L, GMO and now the greatest benefit, in my opinion,
13 reason for signing the stipulation that became the
14 regulatory plan was the idea that KCP&L would forgo using
15 the fuel adjustment clause for this period of time, at
16 least -- even after the implementation of Iatan 2 through
17 the -- the end of the period.

18 I -- I believe that we are still under the
19 regulatory plan and that that benefit of consumers is
20 still enforceable and is still binding. So please do not
21 approve a fuel adjustment clause for KCP&L even if it's
22 labeled an interim energy charge.

23 And I agree with some of the comments that the
24 previous speakers have mentioned with regard to rate
25 stabilization. My clients do hope to make comments and

1 participate in the Commission's struggle to find some more
2 rate-making mechanisms that are more friendly to
3 consumers.

4 Shortening -- or lengthening the time between
5 rate cases by itself is a -- is a good goal. But we
6 certainly do not believe that it should take place at the
7 expense of -- of making the rate burden higher. We do not
8 believe that we should lengthen the time between rate
9 cases at the expense of having more frequent rate
10 increases through trackers or through single issue
11 mechanisms such as the fuel adjustment clause.

12 And we don't believe that we should lengthen the
13 time between rate cases simply to -- at the expense of
14 eliminating the incentives that are currently imbedded in
15 cost of service rate-making.

16 If we are to utilize the cost of service
17 rate-making theory, effectively, we should be setting
18 rates as a surrogate to the competitive marketplace. Most
19 businesses in the competitive marketplace don't have the
20 ability to simply pass through expenses in a -- in a pass
21 through mechanism.

22 And I might add that most businesses in the
23 current competitive marketplace did not have profits
24 anywhere like you would see on Exhibit 53.

25 So with that, I would simply, again, ask you

1 when you have determined what is the appropriate range,
2 what is the lowest level of return that you would allow
3 for this company, that it's not confiscatory, that is your
4 legal -- and I believe that is your legal obligation to
5 find the lowest rate that is permissible under the law, do
6 a reality check and recall the people who testified at the
7 public hearings, the people who will have to pay higher
8 rates that you might approve and think what they might
9 think of a 9 percent profit.

10 Is that just and reasonable? That's the reality
11 check I would ask that you make other than looking at
12 other State awards because -- just because everyone else
13 is doing it is -- does not make it just and reasonable.
14 That's all I have. Thanks.

15 JUDGE JORDAN: Thank you. Questions from the
16 Bench? Commissioners?

17 COMMISSIONER JARRETT: I don't have any.

18 COMMISSIONER STOLL: No questions.

19 JUDGE JORDAN: I don't have any questions.
20 Thank you.

21 COMMISSIONER STOLL: Thank you.

22 JUDGE JORDAN: Any opening from United States
23 Air Force?

24 OPENING STATEMENTS

25 BY MR. MILLER:

1 MR. MILLER: Good morning, your Honor,
2 Mr. Commissioners. I'd like to concentrate on why I'm
3 here today. Lots of times people show up in uniform at
4 rate cases throughout the country, and they say, Okay, why
5 is the Air Force here?

6 Well, GMO is looking to inflict a major rate
7 increase on Whiteman Air Force Base. Now, I don't know --
8 I'm sure as proud Missourians, most people know the
9 mission at Whiteman Air Force Base. But if not, I'd like
10 to talk about it.

11 Whiteman is home to the 509th bomb wing, which
12 is one of only two Air Force units to operate the B-2
13 Stealth Bomber. Now, I'm sure that most people are
14 familiar with the mission that the stealth bomber had on
15 911 and also that it was the first aircraft to enter
16 Afghan air space in 2001.

17 It flew round trip from right here in Missouri
18 logging combat missions in excess of 40 hours. Long story
19 short, every dollar that is used to fly these missions
20 comes out of the same O&P funds that we pay utility bills.

21 That means that the 11.76 percent or
22 \$58.3 million rate increase in the GMO rate case rate
23 jurisdiction will certainly be realized in Whiteman's O&M
24 funds. This will be money that cannot be used to pay for
25 the Stealth Bomber, any upcoming conflicts we have.

1 Specifically, with the MEEIA included Whiteman
2 will be facing a 12.9 percent or \$654,000 increase in
3 their already annual \$5 million plus electric bills.

4 Now, FEA believes that the proposed increase
5 that GMO has asked for is extremely over-valued. In his
6 testimony, Greg Meyer points out several revenue
7 requirement suggestions that could reduce GMO's state of
8 revenue by approximately
9 \$5 million.

10 FEA also believes, as you've heard from other
11 attorneys today, that GMO's now 10.3 percent requested
12 return on equity is also extremely overstated. FEA
13 recommends that you adopt a 9.5 percent ROE as recommended
14 by FEA witness, Matt Cahill.

15 This decrease is especially warranted
16 considering GMO's equity laid capital structure. Let me
17 tell you, I know that Mr. Fischer filed an exhibit showing
18 rate of returns from around the country and rate increases
19 for different jurisdictions.

20 Just this year, I've appeared in seven different
21 jurisdictions across the country, and I can tell you that
22 the makeup of these utilities and the differences between
23 them definitely show as to what return on equity they're
24 requesting.

25 Finally, the average in excess cost of service

1 methodology proposed by FEA witness Brubaker should be
2 adopted to ensure that GMO is moving in a direction that
3 more equitably spreads cost amongst rate classes.

4 Now, the Federal Executive Agencies understand
5 the importance of GMO having a revenue requirement that
6 will allow them to provide safe, adequate and reliable
7 service.

8 As I mentioned earlier, the Unit Commander at
9 Whiteman has O&M funds. Those O&M funds are used to pay
10 to the utility bills and the mission as a whole, the
11 Stealth mission at Whiteman. So if you were to go and ask
12 him what are some of the most essential ingredients to
13 this mission, I'm sure that electricity would be one of
14 them.

15 So we understand the importance for GMO to be
16 able to provide safe electric and reliable service.
17 However, FEA also believes that GMO will be able to
18 continue to provide outstanding service at a much less
19 significant revenue requirement than is in their ask.

20 Any decrease in this, as I said, will lower
21 Whiteman's utility bills and, more importantly, resolve
22 any corresponding increase in the amount that they can
23 spend on the Stealth mission, other expenses they have
24 such as taking care of the families, deployed military
25 members who remain at base and also providing overall for

1 our nation's national defense. Thank you.

2 JUDGE JORDAN: Any questions -- questions from
3 the Bench?

4 COMMISSIONER STOLL: No questions.

5 COMMISSIONER JARRETT: No questions.

6 JUDGE JORDAN: I have no questions for you.

7 COMMISSIONER JARRETT: Thank you.

8 JUDGE JORDAN: Next on my list is Department of
9 Energy, which is excused. The next is the Missouri
10 Department of Natural Resources.

11 MS. BLOME: Good morning again, Judge. I just
12 have trouble with these microphones. The Department of
13 Natural Resources would like to waive its general opening
14 and reserve for the mini.

15 JUDGE JORDAN: Thank you. Dogwood Energy is
16 excused. Municipals are excused. Sierra Club and Ameren
17 Missouri are not appearing today. City of Kansas City is
18 not appearing today. Southern Union Company doing
19 business as Missouri Gas Energy?

20 MR. COOPER: Your Honor, MGE would reserve its
21 opening until the rate design portion of the hearing

22 JUDGE JORDAN: Very good. The Empire District
23 Electric Company is not appearing today. And Union
24 Electric Company has also been excused for today. The
25 next item on our agenda, then, would be the beginning of

1 testimony on regulatory policy and economic
2 considerations.

3 May I suggest that before we do so, this is a
4 good time to take a break for lunch?

5 MR. THOMPSON: Amen.

6 JUDGE JORDAN: I'm hearing Amens, and I'm
7 hearing no dissent. So we'll resume one hour from now.

8 (Break in proceedings.)

9 JUDGE JORDAN: We're back on the record. And
10 before we begin taking testimony on the first of our
11 issues, I'll ask Counsel to clarify what their plan is for
12 scheduling for issues that are scheduled for the rest of
13 today and tomorrow other than the one we're about to hear
14 evidence on.

15 MR. FISCHER: Judge, we would continue to
16 propose that we take a break after the conclusion of the
17 overview regulatory policy and economic consideration
18 issue for the rest of today and tomorrow.

19 JUDGE JORDAN: And that is due to discussions as
20 to the issues at least on my list 1 through 9 which go
21 through arbitration expenses and settlement; is that
22 correct?

23 MR. FISCHER: Yes. That's generally correct. I
24 think Mr. Mills has pointed out he still has an interest
25 in the resource planning La Cygne issue, and that would be

1 taken out of -- at the end of the case if necessary.

2 JUDGE JORDAN: Okay. Does that sound right, Mr.
3 Mills?

4 MR. MILLS: That does. Thank you.

5 JUDGE JORDAN: Very good. Anything else that we
6 can address before we begin testimony? I'm not seeing
7 anything, so we will take up the issue of overview
8 regulatory policy and economic considerations. KCP&L's
9 witness, I believe?

10 MR. FISCHER: Yes, Judge. The first KCP&L
11 witness is Terry Bassham. I'd call him to the stand.

12 MR. MILLS: To the chair. Do we know why?

13 MR. WOODSMALL: It's more of a unique position.

14 JUDGE JORDAN: We're going conduct this English
15 style. Stand there and give your evidence.

16 MR. MILLS: I don't know why that's been rolled
17 over there. But I would --

18 MR. BASSHAM: I'll be careful.

19 JUDGE JORDAN: Okay. Please raise your right
20 hand.

21 TERRY BASSHAM,
22 being first duly sworn to testify the truth, the whole
23 truth, and nothing but the truth, testified as follows:

24 DIRECT EXAMINATION

25 BY MR. FISHER:

26

1 JUDGE JORDAN: Please be seated.

2 Q (By Mr. Fischer) Please state your name and
3 address for the record.

4 A Terry Bassham, 1200 Main Street, Kansas City,
5 Missouri.

6 Q Are you the same Terry Bassham that caused to be
7 filed in the KCP&L and GMO cases certain direct testimony
8 which have been marked -- premarked as KCP&L Exhibit 2 and
9 GMO Exhibit No. 1 01, which is your direct testimony in
10 each of those respective cases?

11 A I am.

12 Q Do you have any changes or corrections that you
13 need to make to those pieces of testimony?

14 A I do not.

15 Q If I were to ask you the same questions
16 contained in that testimony today, would your answers be
17 the same?

18 A They would.

19 Q And are they accurate to the best of your
20 knowledge and information and belief?

21 A They are.

22 MR. FISCHER: Judge, with that, then, I would
23 move for the admission of KCP&L Exhibit 2 and GMO Exhibit
24 101 and tender the witness for cross-examination.

25 JUDGE JORDAN: Objections? Not hearing any.

1 Those exhibits will be entered into the record.

2 (KCP&L Exhibit 2 and GMO Exhibit 101 were
3 offered and admitted into evidence.)

4 MR. FISCHER: Thank you. That's all I have.

5 JUDGE JORDAN: Very good. Now, on my sequence
6 of cross-examination for both -- for KCP&L and GMO, I have
7 GMO and KCP&L respectively. Does -- do I take it that
8 KCP&L and GMO will want to examine each other's witnesses?

9 MR. STEINER: No, sir.

10 JUDGE JORDAN: Okay. I appreciate that
11 clarification. And then cross-examination is to Southern
12 Union Company. Whom I see is not here. Empire is not in.
13 Municipals are out. Dogwood is out. City of Kansas City
14 is out. AARP and Consumer Councils of Missouri? I see
15 they are not present.

16 Missouri Department of Natural Resources? Also
17 not present. United States Department of Energy? Other
18 Federal Executive Agencies I have listed separately.

19 MR. MILLER: We have no questions.

20 JUDGE JORDAN: Thank you. Sierra Club and Renew
21 Missouri also not present. The group listed as the GMO
22 industrials?

23 MR. WOODSMALL: That may include me, and I have
24 no questions.

25 JUDGE JORDAN: Fair enough. There's a little

1 ambiguity in these groups, and you should probably
2 straighten that out.

3 MR. WOODSMALL: Sure.

4 JUDGE JORDAN: Right now, I'll ask for Praxair
5 Ag. Processing? Not seeing them. The association known
6 as MEUA?

7 MR. BARTELS: No questions, your Honor.

8 JUDGE JORDAN: Thank you. KCP&L industrials?

9 MR. WOODSMALL: And if that includes me, I have
10 no questions.

11 JUDGE JORDAN: I appreciate your complete
12 treatment. Office of the Public Counsel?

13 MR. MILLS: I do have just a couple of
14 questions.

15 CROSS-EXAMINATION

16 BY MR. MILLS:

17 Q Good afternoon, Mr. Bassham.

18 A Good afternoon.

19 Q Do you have a copy of your direct testimony for
20 the KCP&L case with you?

21 A Actually, I don't.

22 Q Okay.

23 A But I bet I can get one. Thank you. I do now.

24 Q All right.

25 A KCP&L?

1 Q Yes.

2 A Okay.

3 Q Can I get you to turn to page -- where do I want
4 to start? Page 13.

5 A Okay.

6 Q And that's sort of in the middle of the section
7 in which you are talking about ongoing initiatives, and at
8 this point, specifically La Cygne; is that correct?

9 A Yes, sir.

10 Q Okay. And at the bottom of page 13, you note
11 that you were granted pre-approval or pre-determination by
12 the Kansas Corporation Commission in August of 2011; is
13 that correct?

14 A Yes, sir.

15 Q Was that a contested proceeding?

16 A I guess you'd call it that. There were parties
17 who -- yeah. It was contested. There were parties that
18 had different opinions than ours.

19 Q And did some parties oppose the
20 pre-determination of the rate-making treatment for the La
21 Cygne retrofits?

22 A There were.

23 Q What parties opposed that pre-determination --
24 the pre-approval of the rate-making treatment?

25 A I believe Sierra Club. I think there was one

1 other. And then the Staff may have had opinions about
2 certain of the issues. I don't remember if they
3 necessarily opposed the actual retrofit. I don't
4 remember. But there were several parties that had
5 differing opinions, a couple of which I think opposed the
6 retrofits.

7 Q And then on the next page, you talk about
8 meetings on two separate occasions with -- and this is --
9 this is turning to Missouri with the Commission Staff, the
10 Office of Public Counsel and the Missouri Department of
11 Natural Resources. Do you know when those meetings took
12 place?

13 A Not the specific day. We can find that out if
14 it's important.

15 Q Do you know when the most recent of those two
16 meetings took place?

17 A I don't. I know we've offered to continue to
18 meet and haven't had any -- any -- any meetings since
19 then. But we're happy to meet any time anybody would like
20 to talk about it.

21 And we prepare monthly reports that we provide
22 to Kansas and Missouri Commissions or Staffs. And we're
23 happy to meet on those any time.

24 Q Okay. And on the two meetings that you had to
25 date with the Missouri Commission, Staff, Office of Public

1 Counsel and Department of Natural Resources, if you know,
2 how receptive were those entities to the idea of Missouri
3 ratepayers paying for a portion of the cost of the La
4 Cygne retrofits?

5 A I don't know. I wasn't at the meetings.

6 Q Okay. Do you have -- do you know from other
7 sources the opinions of those entities with respect to the
8 La Cygne retrofits?

9 A Well, I was in the room this morning when you
10 gave your own, so I'm aware of yours.

11 Q Do you know of the Commission Staff or
12 Department of National Resources?

13 A No. I mean, I don't, no.

14 MR. MILLS: That's all the questions I have.

15 JUDGE JORDAN: Cross-examination from Staff?

16 MS. KLIETHERMES: Thank you, Judge. Staff has
17 some questions for this witness on one of the issues that
18 is subject to the potential settlement. In the interest
19 of pursuing that settlement, I believe the company has
20 agreed to make Mr. Bassham available should that
21 settlement fall through. But on that understanding, we
22 would waive cross at this time.

23 MR. FISCHER: That's correct, your Honor. We'd
24 bring Mr. Bassham back if necessary.

25 JUDGE JORDAN: Very good. I appreciate that

1 accommodation.

2 JUDGE JORDAN: Questions from the Bench?

3 CROSS-EXAMINATION

4 BY CHAIRMAN GUNN:

5 Q How Are you?

6 A Good.

7 Q Good. Thanks for being here. I want to -- and
8 I apologize. I had another meeting that I had to go to.
9 But I want to talk about the IEC for a second just as a
10 general policy matter.

11 A Uh-huh.

12 Q What, in your mind, distinguishes the IEC from a
13 fuel adjustment clause?

14 A Well, it takes into account additional costs
15 that aren't purely historical. And, again, I heard some
16 of the openings this morning.

17 We certainly think what we've filed is
18 consistent with our stipulation. And to the extent it's
19 not, then we would -- we wouldn't basically be requesting
20 it. You know, we committed to the structure of the
21 settlement, which included -- back in the CEP, which
22 included both not using the fuel factor and only using the
23 IEC possibly. And we've tried to follow that, and we will
24 honor our word.

25 To the extent we don't pass that, we didn't

1 intend to do that. I hope that answered your question.

2 CHAIRMAN GUNN: It did. And I think it answered
3 a couple of my other questions, so I don't have anything
4 further. Thanks. Appreciate it.

5 CROSS-EXAMINATION

6 BY COMMISSIONER JARRETT.

7 Q Good afternoon, Mr. Bassham.

8 A Commissioner.

9 Q In your direct testimony -- let me pull it up
10 here real quick. You mentioned, and I can't remember the
11 page, but you recall where you mention that company has
12 not earned its allowed return on equity for many years?

13 A That's correct.

14 Q And then you point to a chart or reference a
15 chart by another witness.

16 A Yes, sir.

17 Q And we can talk with that other witness later.
18 But I just wanted to ask you, from your perspective, what
19 are the reasons why your company hasn't been able to earn
20 its allowed return on equity?

21 A Sure. Well, it's a -- it's a complicated
22 process. Both the regulatory process and our day-to-day
23 operational process. There's no one reason. You know, we
24 have outlined in my testimony that we have been cutting
25 costs, managing costs, trying to maximize our

1 opportunities.

2 You know, we are very, very aware and concerned
3 about any rate increase and what it has on our customers.
4 But there are things that while demand has dropped to the
5 even destruction of demand, certainly growth of demand,
6 but yet have increasing costs that are not as
7 controllable, such as the transmission cost we've talked
8 about.

9 It's difficult to completely offset all those
10 costs. And as a result, in a year where we've had rates
11 set, assuming some of those things and those factors
12 affect you, there's only so many things you can offset
13 without affecting potential liability.

14 Off-system sales is always a big issue because
15 of the effect the marketplace has had. So it's not one
16 thing or another. We certainly ask here for some trackers
17 and other things that we hope will help smooth out some of
18 that volatility.

19 And that's really the key for us. We're not
20 trying to take advantage of any of our prior agreements.
21 We're not trying to gain the system. We are trying to put
22 something in place to allow us as much stability as
23 possible for both customers and shareholders. So it's not
24 one thing. It's a combination of things, and we're trying
25 to attack each one of those.

1 Q And -- and you were here during the openings, so
2 you heard all of the openings?

3 A I did.

4 Q One of the -- one of the arguments, I believe it
5 was Mr. Woodsmall, talked about because of the
6 experimental -- the regulatory plan that allowed the
7 company to build Iatan 2. Do you believe that Iatan 2
8 provides benefit to ratepayers?

9 A Oh, absolutely. I mean, we -- we believe the
10 CEP was very successful. I understand that the rate
11 increases related to that were large, and we were very
12 aware of that impact.

13 But as with rate increases associated with the
14 nuclear plant 20 years before, there are periods of lumpy
15 construction costs that cause short-term interim --
16 short-term increases to be more than you would like to
17 see.

18 But not only Iatan 2, but our wind generation,
19 our investment in our distribution system and our energy
20 efficiency programs have all benefited customers. And, in
21 fact, we did have the oddest July that we've had on
22 record, and our units performed very well, and we provided
23 great, reliable service to our customers.

24 COMMISSIONER JARRETT: Thank you. That's all I
25 had. Appreciate your testimony.

1 JUDGE JORDAN: Commissioner Stoll?

2 COMMISSIONER STOLL: I have no questions, your
3 Honor. Thank you.

4 CROSS-EXAMINATION

5 BY JUDGE JORDAN.

6 Q I have just one question, and I may ask other
7 witnesses for their perspective, too. But I have read in
8 the testimony many -- many references, and you heard them
9 today during opening statements, references to the -- the
10 -- the thing that is called a tracker.

11 A Yes, sir.

12 Q Okay. I'd like to get on the record a good
13 definition of the term tracker.

14 A And maybe the best way to define it is to
15 compare it to a rider. A rider is more of a fuel factor,
16 for example, which would say we're going to track, but,
17 also, it moves up and down over time where a tracker
18 tracks cost as they're incurred, and later, you true up
19 what was actually incurred and so you're tracking costs.

20 So if you've got an expense, for example, if you
21 don't have a tracker in place, and you go through a period
22 where you're not recovering that cost, it can be expensed
23 and lost, whereas if you're tracking it, it gives you the
24 ability to recover it later.

25 I think one of the attorneys talked about the

1 fact that later increases would include these tracked
2 costs, and that's the nature of it. That would be the
3 nature of the tracker is to say we spent a dollar on a
4 thing. We're going to keep a record of it, and we've got
5 the right to ask for it later.

6 What that does from an accounting perspective is
7 we don't have to write it off as an expense, whereas if it
8 it's not tracked or there's not some other mechanism for
9 us to ask for it later, it's expensed.

10 And that's one of the things, especially on
11 these larger items, that can cause us not to earn our
12 return.

13 Q So a tracker is basically a recording practice?

14 A Well, it's a recording practice with an implied
15 -- not implied -- with a stated opportunity to ask for it
16 later, whereas, you know, if you don't have that agreement
17 to track it and ask for it later, then it's expensed, and
18 you don't have the ability to ask for it retroactively.

19 Q So your understanding of tracker in contrast to
20 what we heard this morning is that a tracker is necessary,
21 but not sufficient for the recovery of a tracked cost?

22 A Well, I assume any dollar that we track will be
23 reviewed when it's asked for. So to the extent we spent a
24 dollar, it was tracked. And in the latter case, we say,
25 Well, it's okay, but only half of it was just and

1 reasonable. So it's not an automatic recovery mechanism,
2 which a rider is more of an automatic kind of recovery
3 mechanism subject to review.

4 JUDGE JORDAN: That was my question. Thank you.

5 A Okay.

6 JUDGE JORDAN: Recross. Is there any recross
7 from -- I'm going to have to go down witness here -- the
8 parties here to -- let's see. Anything from the United
9 States Department of Energy on recross? No. I'm seeing
10 head shakes. Any of the other Federal Executive Agencies?

11 MR. MILLER: No, your Honor.

12 JUDGE JORDAN: Okay. From the GMO Industrials?

13 MR. WOODSMALL: Thank you.

14 RE CROSS EXAMINATION

15

16 BY MR. WOODSMALL:

17 Q You were asked a question about benefits from
18 Iatan 2, and you indicated that the plants provide energy
19 during the hot summer; is that correct?

20 A Yes, sir.

21 Q Would you agree that the energy that was used to
22 provide service during that hot summer, except for that
23 hot summer, could have been used for off-system sales?

24 A To -- to some degree sometimes. I mean, the
25 problem we're having now is that we're not being allowed

1 to run all our units all the time because of a lack of
2 demand in the marketplace. They call it reserve shutdown.

3 So to the extent that we were able to run them
4 and we had a market for it, the answer is yes. To the
5 extent we wouldn't be allowed to run them, that's one of
6 the troubles we're running into this from system
7 perspective.

8 Q Would you agree that the margin you make on
9 sales to native load is higher than the margin generally
10 that you make from off-system sales?

11 A It is.

12 Q Okay. You were just asked some questions about
13 a tracker. Are you aware that KCP&L has some trackers at
14 this point?

15 A Yeah.

16 Q Can you give me any instances in which KCP&L was
17 allowed to record a cost for later consideration and then
18 not allowed recovery of that cost?

19 A I'm not aware of either way.

20 Q Are you aware in your 27 years of experience of
21 a utility being allowed to record a cost under a tracker
22 and then not being allowed to recover that cost?

23 A Oh, yeah. Fuel expense all the time back in
24 Texas.

25 Q Well, you talked about that being under an

1 adjustment mechanism.

2 A Tracker or rider. Either one. I have booked
3 many costs that have later been reviewed for prudence,
4 some of which were disallowed.

5 Q Okay. But in Missouri, you're not aware of any
6 instances of that?

7 A I'm not aware either way.

8 MR. WOODSMALL: Okay. No further questions.

9 JUDGE JORDAN: Now, the next on my list is
10 Kansas -- KCP&L Industrials, but insofar as the only
11 representative may have just had his turn, I'm going to go
12 to the Office of Public Counsel.

13 RE CROSS EXAMINATION

14 BY MR. MILLS:

15 Q With respect to the question of cost recovery
16 amounts once they have been tracked, other than
17 disallowances due to prudence, have you had experience
18 with a Commission not allowing recovery cost once they've
19 been recorded in the tracker?

20 A Well, no. That's the purpose of the tracker. I
21 mean, you find -- you make a determination early that
22 these are the kind of costs that should be recovered and
23 prudent and, therefore, not expensed to allow the
24 tracking. And if they're prudent, absolutely you recover
25 them. That's the purpose.

1 Q So you're not aware of a Commission simply not
2 allowing recovery in a later rate case just because the
3 rate increase was already too high?

4 A Well, that would be contrary to finding that
5 they were prudent costs to be incurred.

6 Q Now, let's just -- just to follow up on the
7 question of what a definition of a tracker is, let's see
8 if we can sort of walk through an example of a tracker.

9 Say the Commission in this case allows you a
10 transmission tracker. There would be a certain amount
11 included in base rates, correct, for transmission costs?

12 A That's correct.

13 Q Let's just say for purpose of our hypothetical
14 that's \$10 million. Okay? Say the period immediately
15 following the implementation of a rate increase that
16 includes that \$10 million in base rates that the year
17 following, transmission costs actually turn out to be
18 \$15 million.

19 A Okay.

20 Q And assume that there is another rate case
21 immediately following in which the company seeks to
22 continue the tracker and to continue an amount of
23 transmission cost recovered in base rates.

24 A Okay.

25 Q Based on the new experience of \$15 million of

1 transmission costs, would you expect that the company
2 would -- would want to increase the base rate amount by
3 \$5 million from the 10 to 15 that it's most recently
4 experienced?

5 A I don't know. You'd have to look at the
6 situation, whether or not increase was temporary or
7 permanent. If you thought that, in fact, there was
8 volatility with that item and it could continue to go up,
9 it would make sense that that could be appropriate.

10 If that's the actual cost, it should go to 15,
11 and you'd have to track it. Again, the reason for these
12 is that, No. 1, they're large, and, No. 2, they're
13 volatile. And No. 3, they're -- they're not very
14 controlled.

15 Q Okay. So in the second rate case, assume that
16 the base rates are at \$15 million. That's an increase of
17 \$5 million over the amount that was included in the first
18 rates. How much of the tracked \$5 million increase would
19 also be included in the rate increase in that second case?

20 A If I understand your question, the purpose of
21 tracking would be to recover costs already incurred.

22 Q Correct.

23 A So you'd collect that five.

24 Q And over what period of time would you collect
25 that?

1 A That would be the position of the -- argument of
2 the parties and decision of the Commission. It could be
3 the same period it was incurred. It could be a longer
4 period. You could usually use that mechanism to moderate
5 the increase, but you would recover it up to some period.
6 That was the purpose of the tracking, so it wouldn't get
7 logged to the expense.

8 If it looked like that additional five made 15
9 the new kind of stable going forward, that would be
10 included going forward if that's your question.

11 Q And if you did include the tracked amounts for
12 recovery over the period of time which it was incurred,
13 you would recover that entire five amount over a one-year
14 period?

15 A That would be the math. That's the way you do
16 it.

17 Q So because of the tracker, the rate increase
18 would have been essentially \$20 million over the amount in
19 the prior rate case?

20 A If the tracker was appropriate, yes, it would.

21 Q Okay Now, Commissioner Jarrett asked you some
22 questions about your -- your -- what you've referred to as
23 your inability to earn your authorized return. Do you
24 recall that?

25 A I do.

1 Q If a company has -- is trying to hit a
2 particular return, it can -- it can make efforts towards
3 that by increasing revenues, correct?

4 A It's difficult for us to increase revenues.
5 We're a totally regulated company. We don't have a
6 non-regulated business, if I understood your question.

7 Q Well, if you're shooting for a given return, say
8 have you higher revenues due to increased weather or
9 increased off-system sales. Either of those sources of
10 increased revenue would help you hit a target revenue,
11 would it not?

12 A Off-system sales don't because we don't keep
13 them. If weather is hot, we usually have more revenue.
14 If it's cool, we have less revenue. We don't control
15 that, obviously.

16 Q The part you do control is the ability to cut
17 costs, correct?

18 A To some extent. Some of the tracker issues are
19 around things we can't cut.

20 Q But to the extent that you can cut costs, that
21 would help you earn whatever return you're shooting for,
22 correct?

23 A Possible. But you don't -- we don't make
24 decisions about earnings on a quarterly basis or even an
25 annual basis that would hurt our long-term ability to

1 provide reliable service.

2 Oh, yeah, I could lay off a hundred people
3 tomorrow and generate a bunch of dollars. But if that's
4 not the reliable way to, or we don't try to manage it
5 quarter to quarter or year to year, we try to -- if I did,
6 we wouldn't have lower earning the last several years. We
7 have to look at the ability of long-term decision-making
8 and long-term operations.

9 So there is the ability to manage that. We've
10 listed many things that we've done to do that. But we
11 don't do that -- we're not going to let go a hundred
12 people one day and hire another hundred the next day. I
13 mean, that's the point I guess.

14 Q But to -- to the -- the use of the phrase
15 "ability to earn your authorized rate of return, " do you
16 have some ability to control whether or not you earn your
17 authorized rate of return?

18 A We absolutely have the ability to work hard to
19 manage costs, and we have done that. You're exactly
20 right. We don't have the ability to sell more product.
21 That's driven by customers' use and our business.

22 But, yeah, to the extent we can reduce costs,
23 and we have. We have several examples in the case where
24 we have reduced costs to try to offset loss of load and
25 increase cost in other places. That's right.

1 MR. MILLER: That's all the questions I have.

2 Thank you.

3 JUDGE JORDAN: Questions from Staff?

4 MS. KLIETHERMES: Yes.

5 RE CROSS EXAMINATION

6 BY MS. KLIETHERMES:

7 Q Commissioner Gunn -- I'm sorry. Chairman Gunn
8 asked you to distinguish the IEC from the FAC. Yes. I'm
9 sorry. He asked you to distinguish the IEC from the FAC,
10 correct?

11 A Yes.

12 Q To your recollection, does your regulatory plan,
13 stipulation and agreement refer at all to fuel adjustment
14 clauses?

15 A Maybe I don't understand your question. Does
16 the -- our CEP referred to a fuel clause. And we agreed
17 not to ask for it.

18 Q Not to put too fine of a point on this, and,
19 again, to the best of your recollection, do the actual
20 words "fuel adjustment clause" appear in that agreement,
21 or does the agreement instead refer to mechanisms
22 authorized pursuant to legislation then pending at SV-179?

23 A No. I don't know that. What our agreement was,
24 from my understanding, was not to use a fuel clause that
25 was not currently in place that was being contemplated by

1 Legislation at the time.

2 So we didn't probably have a name for it. But
3 the notion was that we wouldn't ask for a fuel clause if
4 it was ultimately approved by the Legislature, which I
5 think you're -- is what you're talking about. That's my
6 understanding.

7 Q To your knowledge, would it have been lawful for
8 the Missouri Commission to have utilized a fuel adjustment
9 clause for residential rates in the 2005 time frame?

10 MR. FISCHER: Calls for a legal conclusion.

11 JUDGE JORDAN: I'll sustain that objection.

12 MR. WOODSMALL: Your Honor, if I may respond,
13 Mr. Bassham is an attorney. He can provide that
14 conclusion.

15 JUDGE JORDAN: Well, you know, I'm going to
16 change my ruling from two reasons. That may be one basis
17 of it. And the more important one is that I will want to
18 get the witness' reflections on the standards such as they
19 understand them.

20 I'll also make it clear that a witness'
21 testimony as to his view of how the law applies to any
22 facts will not be binding on the Commission. So --

23 MR. FISCHER: I'll withdraw the objection,
24 Judge.

25 A And I'm not a licensed attorney in Missouri.

1 This is not a technical legal opinion in the State of
2 Missouri. I don't know if there was a legal prohibition
3 against using a fuel factor if the Commission hadn't used
4 fuel factors because there wasn't enabling Legislation.

5 So I think the direct answer to your question is
6 I don't know if the Commission could have used a fuel
7 factor. I know they weren't because there wasn't
8 Legislation.

9 And once Legislation was passed, they began to
10 use them. That's -- that's about what I know.

11 Q (By Ms. Kliethermes) Thank you. And, also in
12 that time frame -- and by that time frame, I'll refer to
13 approximately 2000 through approximately 2005. Do you
14 understand what I mean by that?

15 A I do.

16 Q During -- during that time frame, did you
17 understand that the IECs were a mechanism used in
18 Missouri?

19 A I wasn't here -- I got hired in 2005. I don't
20 know what was used before I got here.

21 Q Are you -- I will withdraw that. To clarify,
22 your IEC that is requested at this time in this case does
23 not set an interim or ceiling rate, does it?

24 A I don't -- I don't know exactly how it works.
25 I've got other witnesses that talk about exactly how it

1 works. I know the general purpose of the mechanism other
2 than historical costs. But there's a -- another witness,
3 I'm sure, can answer that better, how we proposed it.

4 Q Well, and I guess I'm just looking for the broad
5 picture of how this fits in with your rate case in
6 general. To your knowledge, is KCP&L requesting a single
7 rate in this rate case, or is KCP&L requesting a rate and
8 then an additional rate that would be collected interim on
9 a subject to refund basis?

10 A The latter, I believe. I don't know how the
11 mechanism works exactly. We're asking for a fuel
12 mechanism called an IEC, which is kind of a unique animal
13 and as our belief allows by the stipulation. How that
14 mechanism works, I've got another witness who could tell
15 you that.

16 Q Thank you. And that witness would be Mr. Rush,
17 I assume?

18 A Yes.

19 Q But it's your understanding you are asking for a
20 rate to be collected interim subject to refund in this
21 matter?

22 A I said I don't know what we're asking for
23 exactly in terms of how the mechanism works. We're not
24 asking for a fuel factor because we're not allowed to ask
25 for a fuel factor.

1 MS. KLIETHERMES: Thank you. I believe that
2 answers my question.

3 A You're welcome.

4 JUDGE JORDAN: Redirect?

5 MR. FISCHER: No thank you, Judge.

6 JUDGE JORDAN: Then witness may stand down.
7 Before we get to the next witness, I would like to clarify
8 a matter as to my sequence of cross-examinations as
9 suggested by the parties -- or at least by Staff.

10 We have two groups of associations and other
11 entities listed, one as the KCP&L Industrials, and the
12 other as the GMO Industrials. But I see that everyone
13 that is in the KCP&L Industrials is also included under
14 the GMO Industrials. Does someone want to address that?
15 Does that mean I can scratch something off my cross list?

16 MR. WOODSMALL: I'll give it a shot.

17 JUDGE JORDAN: Fair enough.

18 MR. WOODSMALL: I think, largely, you are
19 correct. There -- it's not a complete duplication. There
20 are some industrials in GMO, for instance, AG Processing
21 that you talked about earlier, that aren't in KCP&L. It's
22 not a clean match.

23 So I think for purposes of going forward, it's
24 not likely that we're all going to be here at the same
25 time. So however -- whatever order you take it will

1 probably work. So we won't hold you to that strict
2 order.

3 JUDGE JORDAN: Well, I'll just take it from
4 there then.

5 MR. WOODSMALL: Okay. Thank you.

6 JUDGE JORDAN: The next witness is also KCP&L
7 and GMO's?

8 MR. FISCHER: Yes, Judge. We would ask Tim Rush
9 to come to the stand.

10 JUDGE JORDAN: Please raise your right hand.

11 TIM RUSH,
12 being first duly sworn to testify the truth, the whole
13 truth, and nothing but the truth, testified as follows:

14 DIRECT EXAMINATION

15 BY MR. FISCHER:

16 MR. FISCHER: Judge may I proceed?

17 JUDGE JORDAN: You may.

18 Q (By Mr. Fischer) Please state your name and
19 address for the record.

20 A Tim Rush, 1200 Main Street, Kansas City,
21 Missouri.

22 Q Are you the same Tim Rush that caused to be
23 filed several pieces of testimony in this case KCP&L and
24 GMO cases?

25 A I did.

1 Q And I believe that the testimony be has been
2 pre-marked as KCP&L Exhibit 40-HC and NP, 41, the
3 supplemental direct was marked as KCP&L 41-HC and NP. The
4 Rush Rebuttal is marked as 42-HC. The -- and there's an
5 NP version. And the surrebuttal in the KCP&L case is
6 KCP&L 43-HC and NP.

7 And then for GMO, I believe your testimony has
8 been marked -- your direct has been marked as GMO Exhibit
9 130-HC and NP. Your rebuttal has been marked as GMO
10 Exhibit 135, and your surrebuttal has been marked as GMO
11 136.

12 Do you have any changes or corrections to any of
13 those pieces of testimony that we ought to make on the
14 record?

15 A I do not.

16 Q If I were to ask you the questions contained in
17 that testimony today, would your answers be the same?

18 A Yes, they would.

19 Q And are they accurate to the best of your
20 knowledge and belief?

21 A They are.

22 MR. FISCHER: Judge, I would move for, then, the
23 admission of all of Mr. Rush's testimony in both the KCP&L
24 case and the GMO case and tender the witness for cross.

25 JUDGE JORDAN: I'm not hearing any objections.

1 MR. WOODSMALL: Your Honor, typically how we've
2 handled this not only in KCP&L cases and Ameren cases,
3 everything is we offer the witness' testimony the last
4 time he's taking the stand. That way, there's no
5 pre-determination as to the admissibility of his evidence
6 on issues that we haven't even addressed yet.

7 So at least for policy, I don't have any
8 objections to the policy portions of his testimony, but
9 he's got IEC and flood costs and a lot of other things to
10 come later.

11 JUDGE JORDAN: Okay. I think I understand.
12 You're saying that, ordinarily, those portions of the
13 testimony would not be admitted until later; is that
14 correct?

15 MR. WOODSMALL: Typically, we don't --
16 typically, we don't offer a witness' testimony until the
17 last time he takes the stand.

18 JUDGE JORDAN: Okay.

19 MR. WOODSMALL: And some of the other parties
20 may want to comment on this.

21 MS. KLIETHERMES: I would concur in what -- how
22 Mr. Woodsmall has described the typical practice.

23 JUDGE JORDAN: Well, I -- Counsel, go ahead.

24 MR. FISCHER: Judge, the companies would like to do
25 it however you prefer. We've done it both ways. It gets

1 a little complicated when keeping track of all the numbers
2 and -- you know, if you do wait until the very end. But
3 we can do it that way if that's what the parties
4 preference is and that's what the Commission wants.

5 I would probably move -- I would probably move
6 that it can be admitted and that you can admit it later
7 on.

8 JUDGE JORDAN: I will tell you what. I don't
9 want to be -- I haven't really heard an evidentiary
10 objection, but I will, for the parties' comfort, reserve
11 my ruling on admitting these exhibits. Someone might
12 remind, though.

13 MS. KLIETHERMES: Judge, as a point of
14 clarification, I would also -- I believe Mr. Rush's
15 testimony is the subject of one or more of the pending
16 Motions to Strike that I think were suggested to be taken
17 with the case.

18 MR. MILLS: Both, I believe. And I was about to
19 make that point. So I don't have the references to the
20 page and line number here, but those are in the record.
21 And to the extent that you would like, I would -- I would
22 renew those objections and Motions to Strike if we're
23 thinking about admitting the testimony now.

24 JUDGE JORDAN: Okay. Okay. Yes. The Motions
25 to Strike are pending. And my recollection is that some

1 of his testimony relates to that. But I haven't ruled on
2 the Motion to Strike the testimony and neither has the
3 Commission. So I will leave those -- I will leave those
4 -- I will leave the motion to admit those exhibits. I
5 will reserve ruling on them until the end of hearing or
6 until his last appearance on the stand. That's what I'm
7 trying to go say.

8 And, I will also say that, you know, if I do
9 admit these things into the record while the Motions to
10 Strike are pending, if the Commission grants the Motion To
11 strike, they will come up again. The Commission can't
12 really be prejudiced by the examination of extra evidence.
13 It knows the difference between what's admissible and
14 what's not, what's stricken and what hasn't.

15 MR. FISCHER: Judge, I failed to give the court
16 reporter copies.

17 THE COURT REPORTER: Just set them right there.
18 That's fine. Thanks.

19 JUDGE JORDAN: Let me also make it clear that
20 I'm not discounting the practice that the parties are used
21 to because we do come to depend on that. Well, with the
22 admission into the record of those exhibits pending,
23 reserving motion being reserved. So you may resume.

24 MR. FISCHER: I tender the witness for cross.

25 JUDGE JORDAN: Very good. The first cross that

1 I can see from anyone who is present would be from the
2 Federal Executive Agencies. Anything?

3 MR. MILLER: No, your Honor.

4 JUDGE JORDAN: The GMO Industrials?

5 MR. WOODSMALL: No questions.

6 JUDGE JORDAN: The Office the Public Counsel?

7 Mr. MILLS: Judge, I have no questions for this
8 witness on the issues for which he's taking the stand
9 right now. I will have questions for him on other issues
10 later.

11 JUDGE JORDAN: Staff?

12 MS. KLIETHERMES: Yes, your Honor, just a few.

13 CROSS-EXAMINATION

14 BY MS. KLIETHERMES:

15 Q Good afternoon, Mr. Rush.

16 A Good afternoon.

17 Q I'm terrible with titles. Do you recall, what
18 is Mr. Bassham's title?

19 A I believe he is the CEO.

20 Q Thank you. That was what I recalled, but I
21 wasn't quite certain.

22 A It may be President and CEO, but I am not sure
23 of that.

24 Q You were here just a moment ago when he
25 testified?

1 A I was.

2 Q Did you understand him to say that he doesn't
3 understand your IEC?

4 A I think he said he understood in general how it
5 operated and didn't know all of the details to it.

6 Q And did you hear him initially state that you
7 have requested a separate rate to be collected interim
8 subject to refund?

9 A I heard that.

10 Q Is that the case?

11 A The rate that's set in the tariff is zero.

12 Q Thank you.

13 A So yes, it is.

14 Q So would that mean that the entire rate that is
15 -- would be collected to your tariff would be interim
16 subject to refund?

17 A It's the tariff that is set out at zero. The
18 amount that can be refunded is -- is conditioned on the --
19 the mechanism that the IEC exists under its filing. So
20 the dollars that can --

21 Q Thank you. I think you've answered my question.

22 MS. KLIETHERMES: That's all I have.

23 JUDGE JORDAN: Questions from the Bench?

24 CHAIRMAN GUNN: Just a couple questions.

25 CROSS-EXAMINATION

1 BY CHAIRMAN GUNN:

2 Q We could get into this more as we get into it.
3 The contention from the company is that there are
4 regulatory barriers from -- from you having the
5 opportunity to earn your authorized ROE, correct?

6 A We have not argued that there are barriers. We
7 are saying there are things that we can do to improve our
8 ability to earn our -- our return on equity.

9 Q So you believe that it's possible under the
10 current regulatory environment for KCP&L and/or GMO to
11 earn their authorized ROE?

12 A That is possible. There -- there -- it would be
13 a stretch on a number of things we would have to have.
14 But there are things that could be improved that would
15 make it both equal for both the consumer and the company
16 that would levelize that issue. And that's part of the
17 proposals that we have.

18 Q So the IEC is a proposal that would make it
19 easier for the company -- and I -- that's my
20 characterization. That's not yours.

21 A Yes.

22 Q Would make it easier for the company to earn
23 their authorized ROE?

24 A It would. Yes. And I don't -- when you say
25 earn our authorized return, we -- what we're interested in

1 is the opportunity to earn our authorized return. And we
2 feel that an IEC would help improve that opportunity to
3 earn our authorized return.

4 Q Fair point. And I agree with you. And I
5 apologize for making that oversight. So if -- let's put
6 aside the stipulation and agreement for a second.

7 A Okay.

8 Q If the company was allowed to request an FAC in
9 this case, would they be doing so?

10 A Absolutely.

11 Q And so what the IEC is an attempt to do is an
12 attempt to be a short-term solution until you believe --
13 until you would -- outside of the stipulation and
14 agreement to request an FAC?

15 A That is correct. To characterize one of the
16 things that distinguishes the IEC that we've requested
17 from all other IECs, there's only been three in Missouri,
18 is that we are -- we have a unique situation with
19 off-system sales which has been discussed all over the
20 place this morning.

21 And we have asked to include off-system sales as
22 a component of the IEC, which is authorized under the
23 stipulation and agreement in the CEP. No other utility
24 did that.

25 Q The IEC is authorized under the stipulation and

1 agreement or the including of off-system sales is
2 authorized under the stipulation and agreement?

3 A Both of those are. Both the ability to request
4 an IEC as well as the ability to include off-system sales
5 in the IEC is authorized under the CEP as part of the
6 agreement.

7 Q Explicitly or implicitly?

8 A Explicitly.

9 Q Does somebody have a copy of the CEP?

10 MS. KLIETHERMES: I can get one.

11 Q (By Chairman Gunn) I would just like you to
12 point out to me where it specifically authorizes it under
13 stipulation and agreement under the CEP that off-system
14 sales could be included in that.

15 A Fair. I mean, I would do that.

16 Q Yeah. If it's -- if it's possible. You're
17 going to be back a fair amount, I'm guessing, so if we
18 don't have it right here, we can --

19 A I may have it in my testimony.

20 Q And you know what? Why don't we do this? Why
21 don't -- we're going to specifically be talking about the
22 IEC in a portion of this. So why don't I wait for that?
23 Anticipate that that question is going to be asked during
24 the IEC portion.

25 A No problem.

1 Q And that will give everybody an opportunity to
2 rather than me springing it on you, it will allow everyone
3 to ask their questions on it and be prepared for -- for
4 any -- any questions from everybody.

5 A Sure.

6 Q So we'll do -- we'll do -- I would anticipate
7 that question coming up at the IEC portion.

8 A No problem. I'll add one piece to is that in
9 the FAC rules itself that establish the fuel adjustment
10 clause, it has a provision, like a paragraph that says you
11 can have an IEC, also. Companies can request an IEC.

12 Q So that's in the fuel adjustment clause?

13 A It's in the fuel adjustment.

14 Q Which you have specifically said you're not
15 going to utilize through the stipulation and agreement?

16 A That is correct.

17 Q Okay. I -- my -- my question isn't whether or
18 not -- let me -- the concern is that if it walks like a
19 duck and sounds like a duck, then it's a duck. So I have
20 to make sure that there actually is a distinction between
21 what you're requesting in the IEC from real practical
22 matter in the fuel adjustment clause?

23 A Right.

24 Q And so that's where some of my questions are
25 going to be coming from. And I'm not you know -- we've

1 authorized fuel adjustment clauses in other -- in other
2 cases, so I'm not saying that it shouldn't be allowed.
3 But there is a question about whether -- and I had the
4 Judge ask this question earlier, I think, and I apologize
5 for not being here.

6 But doesn't -- wasn't the signing of the
7 stipulation and agreement -- didn't that shift risk to the
8 company for potential conditions that would have arisen
9 that would -- that would have caused the fuel adjustment
10 clause to become necessary? Let me ask that again in
11 another way.

12 A Okay.

13 Q Since you signed the stipulation and agreement
14 that said that you wouldn't ask for a fuel adjustment
15 clause, wasn't the signing of that stipulation and
16 agreement an acceptance of some risk from the company that
17 conditions could occur that would be alleviated by a fuel
18 adjustment clause?

19 A Oh, absolutely.

20 Q And the company is saying, We're willing -- in
21 order to get -- in order to get this agreement, we're
22 willing to take that risk of those conditions changing
23 upon us rather than -- rather than somewhere else?

24 A That's correct. And one of the provisions in
25 there accepting that risk was the ability to -- in --

1 rather than a fuel adjustment clause to ask for an IEC.

2 Q All right. And we'll get to that when we talk
3 about IEC stuff.

4 CHAIRMAN GUNN: I don't have anything further.
5 I appreciate it very much.

6 A No problem.

7 COMMISSIONER JARRETT: Good afternoon, Mr. Rush.
8 I don't have any questions for you on policy, so thanks
9 for your testimony.

10 COMMISSIONER STOLL: I have no questions, your
11 Honor. Thank you, Mr. Rush.

12 JUDGE JORDAN: I have no questions for you. So
13 we'll see if that colloquy generated any recross. And
14 I'll ask if there's any recross from the Federal Executive
15 Agencies?

16 MR. MILLER: No recross.

17 JUDGE JORDAN: And is there any from the
18 Industrials, GMO or KCP&L?

19 MR. WOODSMALL: No, thank you.

20 JUDGE JORDAN: Any recross from the Office of
21 Public Counsel?

22 MR. MILLS: Just very briefly.

23 RE CROSS EXAMINATION

24 BY MR. MILLS:

25 Q Mr. Rush, under the IEC as you proposed it, what

1 fuel costs is the company not going to recover if the IEC
2 operates as you intend it to?

3 A If the fuel costs net of off-system sales are --
4 exceed the base, we would not recover those. There's
5 examples of that in my testimony that would show where we
6 would absorb the additional fuel costs that -- if there
7 were increases in fuel costs above the base.

8 Q And what would be -- and this is just high level
9 overview stuff. What would the company's reaction be if
10 the Commission said, yes, we're going to allow an IEC,
11 but, no, we're not going to allow off-system sales to
12 flow through it? Would the company still be interested in
13 an IEC?

14 A We would, if we understood what was going to
15 happen to offer system sales as far as the inclusion in
16 rates. When the company set the rates in its proposal, it
17 -- it set the base for off-system sales at the 40th
18 percentile, which was the number that was accepted in the
19 last case and ordered by the Commission.

20 If we -- and we are able to say we would agree
21 to the 40th percentile in conjunction with the IEC today.
22 If we did not include off-system sales in the IEC, we
23 would work with the parties. We would have to reconsider
24 moving that percentile instead of the 40th percentile to
25 probably something in the 25th percentile if we used a

1 tracker consistent with what we had done in the past.

2 So it's all conditioned on making the concept of
3 fuel cost and off-system sales net of each other, how does
4 it work together? Because it -- our whole issue that
5 we've talked about today and in our filings is they need
6 to look at both fuel cost and off-system sales both
7 together.

8 And I think even all the parties that have made
9 presentations today have talked in the same way that fuel
10 cost is doing one thing and off-system sales is doing
11 something else. And they really are jointly.

12 When you talk that you have more -- because of
13 hot weather, you use generation to make margins for retail
14 sales, which hurts off-system sales margins, you're saying
15 they net together, so that's what my position would be.

16 Q So to summarize your answer, it's yes, maybe,
17 depends on the details?

18 A Depends on the details of how the off-system
19 sales component would work. Yes.

20 MR. MILLS: Thank you. That's all I have.

21 JUDGE JORDAN: Anything from Staff?

22 MS. KLIETHERMES: No, thank you, Judge.

23 JUDGE JORDAN: Any redirect?

24 MR. FISCHER: Briefly.

25 REDIRECT EXAMINATION

1 BY MR. FISCHER:

2 Q On the subject of what an IEC is versus what a
3 fuel adjustment clause is, you were asked a question or
4 two about that.

5 A Okay.

6 Q Do you recall that? Does an IEC change monthly
7 or quarterly or anything like that?

8 A No, it does not. No, it does not. Our proposal
9 is for an IEC to be fixed for two years, and it would not
10 change at all for the two-year period.

11 At the end of the two-year period, you would see
12 where you're at as far as the plusses and minuses or maybe
13 hopefully you would have money either coming back to
14 consumers or -- you know, to absorb things. But the
15 concept is -- is that would about equal zero in two years.

16 Q Does GMO's fuel adjustment clause work that
17 way?

18 A No. It changes. I believe it changes. I
19 believe it's twice a year is how ours at GMO operates.
20 Some of them do it three times a year, but GMO does it
21 twice a year. And it -- and it fluctuates based on past
22 costs. And you're always trying to collect this historic
23 difference from the base. So it adjusts regularly.

24 Q Under GMO's FAC, do -- do off-system sales, to
25 the extent there are any, flow through that?

1 A They do. Yes, they do.

2 Q Would that be similar to an IEC as you've
3 proposed it? Or can you explain the difference?

4 A It -- it would be similar to an IEC that we've
5 proposed. There's 95 percent above the base, this 95/5
6 that exists today. But it would be similar where you net
7 the fuel costs and the off-system sales, which has been my
8 whole point. You've got to look at both of them together.

9 Now, GMO, hardly has any off-system sales at
10 all. And so, really, it's not an issue like it is at
11 Kansas City Power & Light Company. Very different.

12 Q Counsel for Staff also was asking you about an
13 amount to be refunded, and I thought she might have cut
14 you off. And if she did, I'd like to for you complete
15 your answer. Do you have something you'd like to
16 elaborate on?

17 MR. WOODSMALL: Your Honor, I don't believe
18 that's a question. It just invites a narrative. If he
19 wants to ask a question, he needs to ask a question.

20 Q (By Mr. Fischer) Okay. Let me rephrase. Do you
21 recall being asked a question from Counsel from Staff
22 about whether there was an amount to be refunded under
23 your proposal?

24 A I do.

25 Q Did you have anything else that you needed to

1 say that you were cut off from?

2 A Well, all I was attempting to say is that under
3 our plan of the IEC, our hope is that -- we're setting --
4 we propose to set IEC at zero. Our hope is that the net
5 of the off-system sales margins and the fuel costs, the
6 changes of those two above the base that's in our rates
7 will be such that we will be able to refund money to
8 customers, meaning that it will be negative.

9 The off-system -- the rate that you would
10 calculate. Instead of zero, it would be a negative
11 number. And, therefore, all that money would go back to
12 customers.

13 If it were a positive number, meaning that the
14 net of fuel costs and off-system sales were greater than
15 what's our base rates, we would absorb that. And that's
16 all I have been trying to say.

17 MR. FISCHER: Judge, that's all I have. Thank
18 you.

19 JUDGE JORDAN: Then you may stand down now, sir.

20 MR. RUSH: Thank you.

21 JUDGE JORDAN: Our next witness is from Staff.

22 MS. KLIETHERMES: Thank you, Judge. Staff calls
23 Cary Featherstone.

24 JUDGE JORDAN: Please raise -- please raise your
25 rights hand.

1 CARY FEATHERSTONE,
2 being first duly sworn to testify the truth, the whole
3 truth, and nothing but the truth, testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KLIETHERMES:

6 JUDGE JORDAN: You may proceed.

7 MS. KLIETHERMES: Thank you, Judge.

8 Q (By Ms. Kliethermes) Good afternoon, Mr.
9 Featherstone.

10 A Good afternoon.

11 Q Could you please spell your name for the court
12 reporter?

13 A First name is Cary, C-a-r-y, middle initial G,
14 last name Featherstone, F-e-a-t-h-e-r-s-t-o-n-e.

15 Q And what is your business address?

16 A It's Fletcher Daniel State Office Building in
17 Kansas City.

18 Q And what is your title?

19 A I'm a Regulatory Auditor.

20 Q And did you participate in the preparation of
21 Staff's cost of report in both the KCP&L and GMO cases?

22 A I did.

23 Q And did you also sponsor direct testimony in
24 both KCP&L and GMO cases?

25 A I did.

1 Q And are your case experience and credentials
2 attached to one or both of those documents?

3 A They are.

4 Q And this is quite a list of numbers here. I
5 believe including all of the appendices and accounting
6 schedules, those exhibit numbers would be for KCP&L Staff
7 Exhibit 200, Staff Exhibit 201-HC, 202, 203, 204-HC, 205,
8 206-HC, 207, 208-HC, and then your direct testimony is 209
9 in the KCP&L case.

10 And for GMO, those numbers would be 258, 259-HC,
11 260, 261, 262, 263-HC, 264, and your GMO direct would be
12 265. Is that your understanding?

13 A Yes.

14 Q And for your -- did you also prepare rebuttal
15 testimony?

16 A I did.

17 Q And would those -- would that be Exhibit 271 and
18 272-HC for GMO and 213 and 214-HC for KCP&L?

19 A Yes.

20 Q And did you also prepare surrebuttal?

21 A I did.

22 Q And would those numbers be 237, 238-HC for
23 KCP&L. And nearly done here. 292, 293-HC and 294-HC for
24 GMO?

25 A Yes.

1 Q And did you have any changes or corrections to
2 make to that testimony?

3 A I had one change. At page 5 of the cost of
4 service reports in the KCP&L case, the 174 case. Pardon
5 me. Line 14, instead of 58.3 million, it should be 25.2
6 million.

7 Q Was that 25.2?

8 A Yes.

9 Q Thank you. And with the exception of that
10 correction, were I to ask you the same questions today or
11 ask you to prepare the same documents today, would those
12 documents be substantially the same?

13 A Yes.

14 MS. KLIETHERMES: Judge, I tender this witness
15 for cross, and I will reserve offering these exhibits
16 until the last time he takes the stand.

17 JUDGE JORDAN: Thank you. And from Federal
18 Executive Agencies?

19 MR. MILLER: No questions, Judge.

20 JUDGE JORDAN: GMO Industrials or KCP&L
21 Industrials?

22 MR. WOODSMALL: No questions.

23 JUDGE JORDAN: Office of the Public Counsel

24 MR. MILLS: No questions.

25 JUDGE JORDAN: GMO or KCP&L?

1 MR. FISCHER: Judge, I have no questions for
2 Mr. Featherstone on these issues.

3 JUDGE JORDAN: Questions from the Bench?

4 JUDGE JORDAN: Commissioner Jarrett?

5 COMMISSIONER JARRETT: No questions.

6 COMMISSIONER STOLL: No questions, your Honor.

7 JUDGE JORDAN: I have no questions for you. We
8 didn't have any cross, so we can't really have any recross
9 -- or no questions from Bench for redirect, so you may
10 stand down.

11 MR. FEATHERSTONE: Thank you.

12 JUDGE JORDAN: Staff?

13 MS. KLIETHERMES: Judge, Staff would call Robin
14 Kliethermes.

15 ROBIN KLIETHERMES,
16 being first duly sworn to testify the truth, the whole
17 truth, and nothing but the truth, testified as follows:

18 DIRECT EXAMINATION

19 BY MS. KLIETHERMES:

20 JUDGE JORDAN: You may.

21 MS. KLIETHERMES: Thank you, Judge.

22 Q (By Ms. Kliethermes) Good morning, Ms.
23 Kliethermes.

24 A Good morning.

25 Q Could you please spell your name for the court

1 reporter?

2 A First name Robin, R-o-b-i-n. Last name
3 Kliethermes, K-l-i-e-t-h-e-r-m-e-s.

4 Q What is your business address?

5 A Governor's Office Building, 200 Madison Street,
6 Jefferson City, Missouri.

7 Q What is your title?

8 A Regulatory Economist.

9 Q And did you participate in the preparation of
10 Staff's cost of service reports?

11 A Yes, I did.

12 Q And are your case experience and credentials
13 attached to that?

14 A Yes.

15 Q Did you also participate in the class cost of
16 service report?

17 A No.

18 Q Thank you.

19 MS. KLIETHERMES: Judge, would you like me to
20 read the exhibit numbers for the various schedules again
21 -- or reports and schedules again, or is it understood
22 what those were?

23 JUDGE JORDAN: Please read them into the record.

24 MS. KLIETHERMES: Fair enough.

25 Q (By Ms. Kliethermes) For KCP&L -- well, how

1 about I do it this way? Those numbers were Staff Exhibit
2 200 through Staff Exhibit 208. And for GMO, it would be
3 258 through 264. Did you have any changes or corrections
4 to make to those documents?

5 A No, I do not.

6 Q And were I to ask you to prepare those documents
7 again today, would your answers be the same or
8 substantially the same?

9 A Yes.

10 MS. KLIETHERMES: Judge, I tender this witness
11 for cross. And I believe this is the only where she is
12 listed to testify, so I would offer her portions of the
13 Staff reports at this time.

14 JUDGE JORDAN: I'm not hearing any objections.
15 Those documents will be admitted into the record.

16 (Staff Exhibits 200 through 208 and 258 through
17 264 were offered and admitted into evidence.)

18 MS. KLIETHERMES: Thank you, Judge.

19 JUDGE JORDAN: Cross-examination, any from
20 Federal Executive Agencies or the Air Force?

21 MR. MILLER: No questions.

22 JUDGE JORDAN: Any from the GMO Industrials or
23 the KCP&L Industrials?

24 MR. WOODSMALL: No questions.

25 JUDGE JORDAN: Any from the Office of Public

1 Counsel?

2 MR. MILLS: No questions, your Honor.

3 JUDGE JORDAN: Any from GMO or KCP&L?

4 MR. FISCHER: No, thank you, Judge.

5 JUDGE JORDAN: Well, I will ask whether there
6 are any questions from the Bench?

7 CHAIRMAN GUNN: Everyone must have baseball
8 tickets for this afternoon. No. No questions. Thank
9 you.

10 JUDGE JORDAN: Commissioner Jarrett?

11 COMMISSIONER JARRETT: I think we're in a
12 Kliethermes time warp. No questions. Thank you for your
13 testimony.

14 COMMISSIONER STOLL: No questions, your Honor.
15 Thank you.

16 JUDGE JORDAN: I have no questions for you. You
17 may stand down.

18 MS. ROBIN KLIETHERMES: Thank you.

19 MS. KLIETHERMES: Thank you, Judge. Staff would
20 call Dan Beck.

21 JUDGE JORDAN: Please raise your right hand.

22 DAN BECK,
23 being first duly sworn to testify the truth, the whole
24 truth, and nothing but the truth, testified as follows:

25 DIRECT EXAMINATION

1 BY MS. KLIETHERMES:

2 JUDGE JORDAN: Proceed.

3 Q (By Ms. Kliethermes) Good afternoon, Mr. Beck.
4 Could you please spell your name for the record?

5 A Daniel, D-a-n-i-e-l, middle initial I, Beck,
6 B-e-c-k.

7 Q And what is your business address?

8 A It's 360 -- P.O. Box 360, Jefferson City,
9 Missouri, 65102.

10 Q And what is your title?

11 A I am the Utility Regulatory Engineering
12 Supervisor.

13 Q And did you participate in the preparation of
14 Staff's cost of service report and class cost of service
15 report?

16 A Yes, I did, for KCP&L. I did not have any
17 portion of that report that I actually sponsored in GMO.

18 Q And -- I'm sorry. Were You also a participant
19 in the class cost of service reports?

20 A No, I was not.

21 Q So those cost of service report numbers would be
22 Exhibit Nos. 200 through 209 and 258 through 264, I
23 believe; is that your understanding?

24 A That's my understanding.

25 Q Okay. Did you prepare direct in both GMO and

1 KCP&L, Exhibit Nos. 210 and 266?

2 A That's correct.

3 Q And did you prepare surrebuttal in both GMO and
4 KCP&L Exhibit Nos. 236 and 291?

5 A That's correct.

6 Q And have you filed your case experience and
7 credentials with your testimony?

8 A I did.

9 Q Do you have any changes or corrections to make
10 to any of those documents?

11 A No, I do not.

12 Q And were I to ask you the same questions today
13 or to prepare the same documents today, would your
14 opinions be the same or substantially the same?

15 A Yes, they would.

16 MS. KLIETHERMES: Judge, I tender this witness
17 for cross.

18 JUDGE JORDAN: Okay. Pardon me.
19 Cross-examination from the Federal Executive Agencies or
20 the Air Force?

21 MR. MILLER: I have no questions. Thank you.

22 JUDGE JORDAN: All right. From the GMO
23 Industrials or the KCP&L Industrials?

24 MR. WOODSMALL: No questions.

25 JUDGE JORDAN: Cross-examination from the Office

1 of Public Counsel?

2 MR. MILLS: No questions.

3 JUDGE JORDAN: Cross-examination from GMO or
4 KCP&L?

5 MR. FISCHER: No, thank you, Judge.

6 JUDGE JORDAN: Very well. I will ask whether
7 there are any questions from the Bench?

8 COMMISSIONER JARRETT: No questions.

9 COMMISSIONER STOLL: No questions, your Honor.

10 JUDGE JORDAN: I have no questions for you. You
11 may stand down.

12 MS. KLIETHERMES: Judge, I would note that
13 Mr. Beck is scheduled to take the stand again on the
14 transmission issues, so I will hold off on offering his
15 exhibits at this time.

16 JUDGE JORDAN: Thank you. And you may stand
17 down for now. Please raise your right hand.

18 BARBARA MEISENHEIMER,
19 being first duly sworn to testify the truth, the whole
20 truth, and nothing but the truth, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. MILLS:

23 JUDGE JORDAN: You may. I'm sorry. You may.

24 Q (By Mr. Mills) Could you state your name for the
25 record and please spell your last name for the court

1 reporter?

2 A My name is Barbara Meisenheimer. My last name
3 is spelled M-e-i-s-e-n-h-e-i-m-e-r.

4 Q And are you the same Barbara Meisenheimer that
5 has prepared and caused to be filed in this case direct
6 testimony on economic considerations in Case No.
7 ER-2012-0174, which has been numbered as Exhibit No. 302?

8 A Yes.

9 Q And did you also cause to be prepared direct
10 testimony on economic considerations in Case No.
11 ER-2012-0175, which has been numbered as Exhibit No. 309?

12 A Yes.

13 Q Do you have any corrections or modifications to
14 either of those pieces of testimony?

15 A No, I don't.

16 Q And if I were to ask you the same questions that
17 are contained therein, would your answers be the same
18 today?

19 A Yes.

20 Q And are those answers true and correct to the
21 best of your knowledge, information and belief?

22 A Yes, they are.

23 MR. MILLS: Judge, the exhibits that I've
24 identified, Exhibit 302 and 309, are, I believe, the only
25 pieces of her testimony that apply to the economic issue

1 that we're taking up today. So with that, I will offer
2 those two exhibits, 302 and 309, and tender the witness
3 for cross-examination.

4 JUDGE JORDAN: Not hearing any objections, those
5 exhibits will be admitted into the record.

6 (Exhibit Nos. 302 and 209 were offered and
7 admitted into evidence.)

8 JUDGE JORDAN: And I will ask whether there is
9 any consideration from the Air Force and associated
10 Federal Executive Agencies?

11 MR. MILLER: No questions.

12 JUDGE JORDAN: From the GMO Industrials or the
13 KCP&L Industrials?

14 MR. WOODSMALL: No questions.

15 JUDGE JORDAN: Questions from Staff?

16 MS. KLIETHEREMES: No questions.

17 JUDGE JORDAN: Any cross-examination from GMO or
18 KCP&L?

19 MR. FISCHER: No, thank you, Judge.

20 JUDGE JORDAN: Any questions from the Bench for
21 this witness? Mr. Chairman?

22 CHAIRMAN GUNN: I don't have any. Thank you.

23 JUDGE JORDAN: Commissioner Jarrett?

24 JUDGE JORDAN: No, thank you. Thanks, Barb.

25 COMMISSIONER STOLL: No questions, Judge.

1 JUDGE JORDAN: I have questions for you. Thank
2 you. According to my revised list of witnesses, that is
3 the last witness on this issue. I understand that the
4 parties would like to visit for the rest of the day. And,
5 also, we're not planning to convene tomorrow.

6 MR. STEINER: Correct.

7 JUDGE JORDAN: Because the parties will be in
8 discussion about the settlement of various issues; is that
9 correct?

10 MR. FISCHER: That's our hope, Judge.

11 JUDGE JORDAN: All right. Anything that we need
12 to take care of before we go off the record today then?

13 MR. MILLS: Judge, what time will we reconvene
14 on Friday?

15 JUDGE JORDAN: I believe we're scheduled to
16 convene at 8:30 each day.

17 MR. MILLS: Okay. Thank you.

18 JUDGE JORDAN: Anything else I can help the
19 parties with before we go off the record? I'm not seeing
20 anything. So with that, we will adjourn for today. We
21 will reconvene on Friday at 8:30. And we will go off the
22 record. Thank you.

23 MS. KLIETHERMES: Thank you, Judge.

24 (The proceedings were concluded at 2:20 p.m. on
25 October 17, 2012.)

26

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STAFF	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
200		Appendices & Accounting Schedules	*	*
201-HC		Appendices & Accounting Schedules	*	*
202		Appendices & Accounting Schedules	*	*
203		Appendices & Accounting Schedules	*	*
204-HC		Appendices & Accounting Schedules	*	*
205		Appendices & Accounting Schedules	*	*
206-HC		Appendices & Accounting Schedules	*	*
207		Appendices & Accounting Schedules	*	*
208-HC		Appendices & Accounting Schedules	*	*
209		Direct Testimony of Cary Featherstone	*	*
210		Direct Testimony of Dan Beck	*	*
213		Rebuttal Testimony of Cary Featherstone	*	*
214-HC		Rebuttal Testimony of Cary Featherstone	*	*
236		Surrebuttal Testimony of Dan Beck	*	*

E X H I B I T S (CONTINUED)				
STAFF	EXHIBIT	DESCRIPTION	OFFERED	ADMITTED
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2	237	Rebuttal Testimony of Cary Featherstone	*	*
3				
4	238-HC	Rebuttal Testimony of Cary Featherstone	*	*
5				
6	258	Schedules & Reports	*	*
7	259	Schedules & Reports	*	*
8	260	Schedules & Reports	*	*
9	261	Schedules & Reports	*	*
10	262	Schedules & Reports	*	*
11	263	Schedules & Reports	*	*
12	264	Schedules & Reports	*	*
13	265	Direct Testimony of Cary Featherstone	*	*
14	266	Direct Testimony of Dan Beck	*	*
15				
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17				
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20	291	Surrebuttal Testimony of Dan Beck	*	*
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22				
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(All exhibits were retained by the Missouri Public Service Commission.)

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