Exhibit No._____

Exhibit No.:	
Issue:	Cost of Capital
Witness:	Samuel C. Hadaway
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2006-____
Date Testimony Prepared:	January 27, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2006-____

DIRECT TESTIMONY

OF

SAMUEL C. HADAWAY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2006

Authorized Electric Utility Equity Returns

	2001	2002	2003	2004	2005
1st Quarter	11.38%	10.87%	11.47%	11.00%	10.51%
2nd Quarter	10.88%	11.41%	11.16%	10.54%	10.05%
3rd Quarter	10.78%	11.06%	9.95%	10.33%	10.84%
4th Quarter	11.50%	11.20%	11.09%	10.91%	10.75%
Full Year	11.09%	11.16%	10.97%	10.75%	10.54%
Average Utility Debt Cost	7.72%	7.53%	6.61%	6.20%	5.68%
Indicated Risk Premium	3.37%	3.63%	4.36%	4.55%	4.86%

Source: *Regulatory Focus*, Regulatory Research Associates, Inc., Major Rate Case Decisions, January 2006.

During 2005, interest rates declined to their lowest levels since the 1960s. Allowed equity returns followed the interest rate decline but declined by a smaller amount. Although utility interest rates have fluctuated by about 200 basis points over the past five years, average allowed ROEs generally have fluctuated less. Equity risk premiums (the difference between allowed equity returns and utility interest rates) have ranged from 3.37 percent to 4.86 percent. With recent allowed equity risk premiums, the indicated cost of equity based on projected Baa utility debt costs is 11.5 percent (6.65% projected Baa interest rate + 4.86% risk premium = 11.51%).

V. COST OF EQUITY CAPITAL FOR KCPL

Q. What is the purpose of this section of your testimony?

A. The purpose of this section is to present my quantitative studies of the cost of equity capital for KCPL and to discuss the details and results of my analysis.

Q. How are your studies organized?

A. In the first part of my analysis, I apply three versions of the DCF model to the 16-company group of electric utilities based on the selection criteria discussed