Exhibit No.:
Issue: Cost of Money

Witness/Type of Exhibits: DeStefano Direct

Sponsoring Party: KCPL
Case No.: HO-86-139

DIRECT TESTIMONY OF

John J. DeStefano

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. HO-86-139

DIRECT TESTIMONY
of
JOHN J. DESTEFANO
Manager, Financial Planning

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-HO-86-139
(October 1986)

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John J. DeStefano. My business address is 1330 Baltimore Avenue, Kansas City, Missouri, 64105.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Kansas City Power & Light Company ("KCPL" or "Company") as Manager of the Financial Planning Department under the direction of Mr. Bernard J. Beaudoin, Vice President of Finance.

Q. DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND, AND YOUR CURRENT RESPONSIBILITIES WITH KCPL.

A. I received a Masters of Business Administration with a concentration in Finance from the University of Missouri, Columbia, in 1976. I joined KCPL in 1976 as a Financial Planner; in 1980 I was named Supervisor of Financial Planning, and in January 1983, I was promoted to my present position as Manager of Financial Planning. My principal responsibilities include directing the Financial Planning and Corporate Modeling staffs in the analysis and recommendation of financial plans and the appropriate capital structure for KCPL, evaluation of alternative financing instruments, the analysis and determination of the Company's cost of capital for economic evaluations and rate of return testimony, and overseeing the Company's

corporate modeling system and investor relations program. I am in frequent contact with investment analysts, rating agencies and investment bankers and I have participated in the negotiation and sale of KCPL securities.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE REGULATORY COMMISSIONS?

A. I have testified before the Missouri Public Service Commission in Case Nos. ER-82-66 and ER-83-49, and before the Kansas Corporation Commission in Docket Nos. 133,022-U and 142,099-U. I have submitted testimony before the FERC in Docket Nos. ER-82-468, ER-83-548, and ER-83-665.

Q. MR. DESTEFANO, WERE SCHEDULES 1-21 OF KCPL EXHIBIT NO. __ (JJD), PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to develop and recommend what I believe to be the fair rate of return that KCPL should be allowed to earn on its original cost steam heat rate base and fair value steam heat rate base.

In determining a fair rate of return, I have considered various factors which affect the Company as a whole and not specifically as a producer and distributor of steam heat. The Company presents one profile to the financial community and investors and, as such, finances as "KCPL"—not as a confederation of retail electric, wholesale electric, or steam heat divisions. I would point out, however, that if it were appropriate to establish a rate of return specific to the KCPL's steam heat business, it is my opinion that this

rate of return would be higher than for its retail electric business. I base this opinion primarily on the fact that many of the steam customers have a greater opportunity to utilize alternative sources of supply, e.g. natural gas. Furthermore, since KCPL has only approximately 130 steam customers, the potential loss of one or more customers has a disproportionate effect on sales and revenues compared to its retail electric sales. Thus, there is a greater business risk associated with KCPL's steam business compared to its retail electric operations.

Q. PLEASE SUMMARIZE YOUR RATE OF RETURN TESTIMONY.

A. I support in this testimony that investors currently require a return of 15.5% to commit their capital to KCPL common stock equity. Adjusting the 15.5% required return for the costs associated with the issuance of common stock results in a current cost of common equity to KCPL of 16%. This cost of common equity reflects investment risk currently facing KCPL's common equity investors due to investor uncertainty as to the probability of recovery of their full Wolf Creek investment including a fair rate of return.

Exhibit No. ___ (JJD), Schedule 21, combines KCPL's component embedded cost of debt, embedded cost of preferred and preference stock, and the Company's recommended 16% return on equity, with the actual capital structure at the end of December 31, 1985, to arrive at the fair rate of return of 11.90% on original cost rate base, and it is this rate of return that has been utilized to determine KCPL's cost of service in this case.

Q. MR. DESTEFANO, WHAT PRINCIPAL FACTORS DID YOU CONSIDER IN DETERMINING THE FAIR RATE OF RETURN FOR THE COMPANY?

A. The principal factors include:

1. The legal tests applicable to a fair rate of return.
2. KCPL's financial profile in terms of the market based measures of financial integrity and the Company's ability to obtain required (new and refunding) capital.
3. The Company's cost of capital.

Q. WHAT LEGAL TESTS DID YOU CONSIDER?

A. I used as my guidelines the principles enunciated by the United States Supreme Court in the Hope Natural Gas and the Bluefield Waterworks cases.

Q. HOW DO THESE LEGAL PRINCIPLES RELATE TO THE DETERMINATION OF A FAIR RATE OF RETURN FOR KCPL?

A. In the Hope Natural Gas case, the United States Supreme Court defined as fair and reasonable that return which assures confidence in the utility's financial integrity. Specifically, the Court held:

> ". . . it is important that there be enough revenue not only for the operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." (emphasis added)

In the above language, the Court was reiterating the standard for a fair rate of return expressed in the Bluefield case, that the authorized rates must be adequate to allow the utility "to maintain and support its credit and enable it to raise the money necessary for

the proper discharge of its public duties" and thus "to assure confidence in the financial soundness of the utility."

Q. MR. DESTEFANO, WHAT IS FINANCIAL INTEGRITY?

A. Financial integrity is a characteristic of a company which has the flexibility to issue the type of security it desires when needed, even during difficult economic conditions or tight money periods. Crucially, financial integrity is required to obtain capital at the most reasonable cost.

In my opinion, an electric utility has financial integrity if its first mortgage bonds are rated double-A by major investment rating services, that is, Aa by Moody's Investors Service, Inc. (Moody's), AA by Standard & Poor's Corporation (S&P), and 3 by Duff and Phelps (D&P).

Q. MR. DESTEFANO, WHAT IS THE HISTORY OF KCPL'S BOND RATINGS?

A. KCPL's bond rating history is shown in the following table:

Year	Moody's	S&P	D&P
1969	Aaa	AAA	--
1970	Aaa	AA	--
1971-1975	Aa	AA	--
1976	Aa	AA	3 (Medium Double-A)
1977	Aa	A+	5
1978	Aa	A+	6
1979	Aa	A	6
1980	A	A	6
1981	A3	A	7
1982-1985	Baa2	BBB	8
1986	Baa2	BBB+	8 (High Triple-B)

As shown above, since 1969 when Moody's and S&P rated KCPL's bonds triple-A, the Company's first mortgage bonds have been downrated to the current levels of Baa2 by Moody's, and to BBB by S&P, and to 8 by D&P. Further, the Company's commercial paper ratings have been reduced from A-1 to A-3 (S&P) and from P-1 to P-2 (Moody's).

In May 1986, following the receipt of the April 23, 1986 rate order from the Missouri Public Service Commission, S&P upgraded the Company's first mortgage bonds from BBB to BBB+. S&P has made their guidelines for electric utility investment grade ratings more stringent, which heightens concern as to KCPL's ability to regain a credit rating indicative of financial integrity. This rating agency's perception of the industry's changing risk profile is summarized as follows:

> When business and industry risks are rising, as they are in the electric utility industry, fundamental financial protection must be strengthened if credit quality is to be maintained. In consideration of these increasing risks, we have re-evaluated the benchmarks we use to measure utility financial performance and tightened them up to more accurately relate the ratings to the risks. (Standard & Poor's Electric Utility Ratings Seminar, "The Outlook for Utility Ratings," January 28, 1985.)

The perceived increase in overall riskiness of the electric utility industry, and KCPL's above-average risk, is also indicated by Moody's confirmation of the Company's Baa2 rating, reflecting reluctance to increase KCPL's ratings even one notch although the Company's Wolf Creek construction program is completed.

Q. HOW DOES THE COMPANY'S CREDIT STANDING REFLECT THE COMPANY'S IMPAIRED FINANCIAL INTEGRITY?

A. To facilitate investors' evaluations of alternative investments, the rating agencies established the credit rating as a composite measure of a company's business and financial risk.

Moody's defines a bond credit rating as "the degree of risk attached to the borrower's ability and willingness to meet all the terms of the bond contract over its full life." (Electric Utility Bond and Preferred Stock Ratings, Moody's Investors Service, Inc.)

In applying this standard to the rating process, it is interesting to look at the definition which Moody's associates with its Aa bond rating category:

> Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities (Moody's Public Utility Manual, 1983);

as compared to Moody's definition of a Baa bond rating, which KCPL currently carries:

> Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payment and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well. (Moody's Public Utility Manual, 1985. Emphasis added.)

From these definitions, Moody's implies that KCPL's securities have speculative characteristics. This financial profile does not allow for continuous access to capital markets at reasonable cost.

As further evidence that higher-rated utilities are able to obtain capital at the most reasonable cost compared to lower-rated companies like KCPL, Exhibit No. __ (JJD), Schedules 1 and 2 show general information regarding level, direction, and yield differential of interest rates for Moody's four highest quality ratings of public utility bonds. Schedule 1 shows newly issued bonds by month since January 1979. Schedule 2 represents the average yield to maturity on ten typical outstanding issues in each of Moody's four highest quality categories. The yields were calculated from market prices or quotations by year from [illegible] and monthly from January 1982 through July 1985. Schedule 3 shows general information regarding

levels, direction, and cost differentials on preferred stock from 1965 through July 1986.

These schedules indicate a significant cost savings for utilities rated double-A or better, especially during periods of economic stress. For example, over the past five years the yield differential between double-A and triple-B public utility bonds was approximately 120 basis points, which would mean an additional interest cost to the triple-B utility of $.6 million per year, or nearly $20 million over the 30-year life of a $50 million bond issue. Similarly, preferred stock yield differentials between the higher and lower ratings were nearly as much as 100 basis points, which is equivalent to approximately 200 basis points on a revenue requirements (pre-tax) basis.

The double-A company thus has financial integrity because it can finance even under difficult economic conditions at the lowest cost. On the other hand, the triple-B company faces uncertainty regarding availability and cost of capital. Specifically, investors who have purchased KCPL's first mortgage bonds and preferred stock in the last decade have seen the value or "integrity" of their investment deteriorate in the past seven years to a rating level which displays speculative characteristics. Also during the last decade, KCPL's stockholders have experienced the dilutive impact of eight issues of common stock at prices below book value.

Q. MR. DESTEFANO, PLEASE DESCRIBE KCPL'S CURRENT FINANCIAL PROFILE IN TERMS OF SPECIFIC MEASURES OF FINANCIAL HEALTH AND INVESTMENT RISK.

A. KCPL exhibits greater than average common equity investment risk for an electric utility. This is illustrated in Exhibit No. __ (JJD), Schedule 4, page 1, which shows a comparison of certain financial

ratios including stock market based financial measures which convey a significant amount of information as to the financial strength of an electric utility. The data is shown for KCPL, the electric utility industry as a whole, and the electric utility industry categorized into three bond rating groups.

The market based measures shown are the market-to-book ratio and the dividend yield. Also shown on Schedule 4 is a comparison of pre-tax interest coverage ratios including and excluding Allowance for Funds used During Construction (AFDC) and other non-cash earnings, earned return on equity, and AFDC and other non-cash earnings as a percent of earnings. These are important financial ratios which are considered by the rating agencies in determining a bond rating for an electric utility, and also impact the stock market based financial measures. It should be noted that for the Company the pre-tax coverage ratio excluding AFDC is at just the average of Triple-B rated utilities. This coverage ratio is shown graphically on page 2 of Schedule 4 for the 1979-1985 period for KCPL versus three bond rating groups.

Q. PLEASE DISCUSS THE STOCK MARKET BASED FINANCIAL MEASURES SHOWN ON SCHEDULE 4.

A. Schedule 4 shows that KCPL's market-to-book ratio at December 31, 1985 was 84%, relative to the industry average of 117% at that time. At July 31, 1986 the Company's market-to-book ratio had increased to 98.2% which remains low relative to the industry average of 157% at month-end.

The information on Schedule 4 also indicates that increased risk is also reflected in higher dividend yields required by investors in the lower rated companies.

Q. PLEASE EXPLAIN THE CONCEPT OF EARNINGS QUALITY AND THE CURRENT QUALITY OF KCPL EARNINGS.

A. The concept of earnings quality can be defined simply in terms of the ratio of AFDC (and/or other non-cash earnings) to total earnings. Since AFDC cannot be used to meet fixed interest charges and preferred stock dividends, pay common stock dividends, or reinvest in the business, investors and rating agencies consider the AFDC contribution to earnings as poor quality earnings--"paper earnings"--and discount them accordingly.

A Standard & Poor's analysis of the electric utility industry presented the following insight concerning AFDC:

> Earnings with a high proportion of AFUDC on a continuing basis represent a huge level of construction work in progress in proportion to net plant in operation, and it is this level of investment, which is not yet earning any cash returns, that adds significantly to the risk exposure. One way of gauging that risk is by measuring AFUDC in proportion to earnings. (Standard & Poor's Industry Surveys: Utilities--Electric, Basic Analysis, September 9, 1982.)

Schedule 4 shows that KCPL had a 115% ratio of AFDC and non-cash earnings to earnings at December 1985 compared to the industry average of 35% and the double-A Company average of 18%. Furthermore, Schedule 4 illustrates that an increasing AFDC to earnings ratio is associated with lower interest coverage ratios and lower bond ratings. Significantly, KCPL's pre-tax coverage ratio excluding AFDC was only 1.9x at June 30, 1986 compared to the industry average of 2.3x at December 31, 1985.

Therefore, since KCPL has not yet earned a fair cash return on the total investment in Wolf Creek, this significant risk exposure will continue to impair the financial integrity of the Company until the rates for electricity actually reflect the fair rate of return on the completed plant.

Q. PLEASE SUMMARIZE YOUR DISCUSSION OF RISK MEASURES.

A. Industry-wide comparisons indicate that a high proportion of non-cash earnings is strongly related to depressed market-to-book ratios and low credit ratings. KCPL, in particular, has not been allowed to earn a cash return on Construction Work in Progress (CWIP) (i.e., 91% of earnings consisted of AFDC at December 31, 1985), and consequently the Company's market-to-book ratio remains significantly below the industry average. This financial profile reflects heightened investor uncertainty as to the recovery of a cash return on investment. Since investors have contributed capital throughout the construction period of Wolf Creek and received only a "paper return" for their risk, a fair "cash" return on their full investment is required to ensure that the financial integrity of the Company is restored. If KCPL is not allowed to regain financial integrity, the ability to raise capital or refund securities at reasonable cost in the future will continue to be seriously impaired.

Q. MR. DESTEFANO, YOU INDICATED THAT THE COMPANY'S "COST OF CAPITAL" WAS A PRINCIPAL FACTOR IN DETERMINING A FAIR RATE OF RETURN FOR KCPL. PLEASE DEFINE "COST OF CAPITAL" AS IT APPLIES TO KCPL IN THIS PROCEEDING.

A. The term "cost of capital" is a financial-economic concept by which the costs to KCPL of its long-term debt, preferred and preference stock, and common equity are determined and weighted by means of application to an appropriate capital structure to develop an overall cost of capital for use in setting a fair return on rate base.

Q. WHAT IS KCPL'S COST OF DEBT CAPITAL?

A. KCPL Exhibit No. __ (JJD), Schedule 5, calculates KCPL's weighted average embedded cost of long-term debt outstanding at December 31, 1985, to be 9.2%.

Schedules 6 and 7 detail the weighted average cost calculation of the Company's Floating Rate Monthly Demand Bonds and Customized Purchase Pollution Control Bonds. Schedules 8 and 9 show the cost calculation of the Eurodollar Term Loan Agreement and Acceptance Facility Agreement, which are also included in the overall embedded cost of debt. On Schedule 10, I have shown the cost calculation for the Company's nuclear fuel lease which the Commission has ordered in Case No. EF-81-366 to be accounted for as long-term debt.

Q. WHAT IS KCPL'S COST OF PREFERRED AND PREFERENCE STOCK?

A. KCPL Exhibit No. __ (JJD), Schedule 11, calculates KCPL's weighted average embedded cost of preferred and preference stock at the anticipated date of filing to be 10.3%.

Q. MR. DESTEFANO, PLEASE DEFINE THE CONCEPT OF "COST OF EQUITY" AS IT APPLIES TO KCPL IN THIS PROCEEDING.

A. The cost of equity reflects (1) the long-term return required by investors to commit their capital to KCPL common equity, plus (2) an upward adjustment to compensate the Company for flotation costs and pressure associated with past and/or prospective issuance of common stock.

Q. WHAT IS THE PRIMARY CONSEQUENCE TO KCPL OF BEING ALLOWED A RETURN ON EQUITY LESS THAN THE COST OF EQUITY AS DEFINED ABOVE?

A. As described earlier, when investors are denied that return which corresponds to the risk associated with their investment in the company, it is quite difficult for such a company to have financial integrity. An inadequate equity return increases risk, further depresses the stock price and, thus, further increases the cost of equity.

Q. WHAT IS THE INVESTORS' REQUIRED RETURN ON EQUITY FOR KCPL?

A. I believe investors are currently requiring a return of at least 15.5% annually to commit their funds to KCPL common equity. The total cost to KCPL is actually higher, since 15.5% is what investors require before adjustment for flotation costs and pressure associated with issuing common stock equity.

Q. WHAT IS THE BASIS FOR YOUR JUDGMENT AS TO THE INVESTORS' REQUIRED RETURN?

A. Among a number of factors, my judgment is based on (1) my responsibility for the analysis of and recommendations regarding the sale and/or refunding of KCPL securities while constantly monitoring the economic climate and capital market conditions, and (2) market based methodologies which attempt to quantify the return investors require to invest in KCPL's common stock.

Q. WHAT MARKET BASED METHODOLOGIES HAVE YOU UTILIZED?

A. I have used the Discounted Cash Flow (DCF) approach and the Risk Premium approach.

Q. PLEASE EXPLAIN THE DCF METHODOLOGY.

A. Basically, the DCF approach to determining the cost of equity capital is based on the theory that the current market price of the stock represents the present value of all expected future payments; that is, dividends and sale price. The discount rate that equates current market price and future cash payments is considered the investors' required return and is often represented mathematically as:

$$R = D/P + G$$

Where: R is the return required by investors.

D is the current dividend,

P is the current market price, and

G is the expected growth rate of dividends per share.

D/P, then, is the current yield, and, adding the growth rate, G, to the current yield will result in the investors' required rate of return, assuming the investment will be held to infinity.

Q. WHAT IS THE DIVIDEND YIELD ON KCPL COMMON STOCK?

A. KCPL's current dividend yield is measured by the current annual dividend rate divided by the current market price which reflects investor expectations as to his future cash flows resulting from an equity investment. Exhibit No. __ (JJD), Schedule 12, shows that KCPL's common stock yield has varied between approximately 7% and 13% since January 1985. The yield at August 1, 1986, was 7.2%. To avoid any stock yield irregularities which may be reflected in a spot price, I also calculated the twelve-week average of KCPL's stock yield through August 1, 1986. Schedule 13 shows that the twelve-week average through August 1, 1986, was 7.85%. I believe 7.9% is the appropriate yield (D/P) in the DCF formula, reflective of investor expectations.

Q. HOW CAN GROWTH RATES IN DIVIDENDS BE MEASURED?

A. The DCF method attempts to reflect investor expectations of future dividend growth. Because the average annual long-term growth rate expected for dividends cannot be directly observed, the growth rate expected by investors in reaching their decisions concerning the purchase and sale of common stock must be estimated.

Q. MR. DESTEFANO, IN REGARD TO ESTIMATING THE DIVIDEND GROWTH RATE COMPONENT FOR THE DCF METHODOLOGY, PLEASE EXPLAIN THE IMPACT OF MEASURES TAKEN BY THE COMPANY'S BOARD OF DIRECTORS ON MAY 6, 1986.

A. Due to the inadequate rate relief granted in the Wolf Creek rate cases by regulators in Missouri and Kansas, the Board of Directors implemented a Fiscal Recovery Program on May 6, 1986. As part of the overall Program, the Board declared a reduced second quarter dividend on common stock of $.50 per share. This represented a reduction of 15.25% from the previous quarterly dividend of $.59 per share.

Since the DCF method attempts to reflect investor expections of future dividend growth, it is necessary to integrate the circumstance of a temporary reduced dividend level, with the longer-term expectation that the Company will regain competitiveness in the industry in regard to its dividend record as non-cash earnings are converted to cash flow.

Therefore, in determining the appropriate growth rate to utilize in the DCF equation I examined KCPL's five-year dividend history as well as historical industry dividend growth rates, researched the consensus analyst outlook for industry dividend growth, and applied those findings to the KCPL-specific situation to develop a expected growth rate relative to the current level of dividend payout.

Q. MR. DESTEFANO, WHAT HAS BEEN KCPL'S HISTORICAL DIVIDEND GROWTH?

A. Schedule 14 shows the calculations of KCPL's cash dividend continuous (or trended) growth rates from the 1980 through the 1985 period.

Over this period trended growth rates averaged from 4.2% to 6.0% with 6.0% as the trended growth rate over the past 5-year period.

In terms of an annual dividend rate, KCPL raised its dividend from $2.11 in 1982 to $2.24 in 1983, a 6.2% increase, and to $2.36 in the 1984, a 5.4% increase. Schedule 15 shows the compound annual dividend growth rates for KCPL and for the electric utility industry since 1979. The average dividend increase for the industry ranged from 5.7% to 7.0% over this period.

Q. WHAT IS THE CONSENSUS DIVIDEND GROWTH RATE PROJECTED FOR THE UTILITY INDUSTRY BY INVESTMENT ANALYSTS?

A. Schedule 16 outlines several industry dividend growth estimates by electric utility investment analysts. The projected 5-year dividend growth rate for the electric utility industry ranges from 4%-6%.

Q. WHAT DO YOU CONCLUDE TO BE INVESTORS' EXPECTATIONS AS TO KCPL'S LONG-TERM DIVIDEND GROWTH RATE?

A. To estimate investors' long-term expectations of dividend growth, I first looked at the dividend level of $2.36 per share which was in effect before the dividend was reduced to the annual rate of $2.00 per share. Based on a blend of KCPL's historical dividend growth of 6% and analysts' expectation of industry dividend growth of 4%-6% growth, a "normal" expected KCPL dividend level in five years, using $2.36 as a basis, was extrapolated to be $2.87 - $3.16. However, since the $2.36 annual rate was reduced to $2.00, given that the Company is expected to show improved earnings and cash flow, if the $2.00

dividend is restored to the competitive "normal" range just indicated, the implied growth rate would be 8%-10%.

Therefore, I believe investors currently expect future restoration of the dividend, which implies, conservatively an expected long-term dividend growth rate of 8%.

Q. WHAT DO YOU CONCLUDE FROM YOUR DCF ANALYSIS?

A. Based on a 7.5% current dividend yield and an estimated dividend growth rate of 8%, the resulting investors' required return on equity is 15.5%.

Q. PLEASE DESCRIBE THE RISK PREMIUM APPROACH TO DETERMINING THE INVESTOR'S REQUIRED RETURN ON EQUITY.

A. The risk premium approach is based on the risk versus reward (return) relationship between bonds and common stocks.

The yield of a bond is that instrument's expected and required rate of return given the bond price at which investors are just willing to hold the bond considering contractual interest payments, the term of the bond and final payment for refunding the bond.

The notable differences between the attributes of a bond and a share of common stock are: (1) the stock, unlike the bond, has no maturity date and (2) the expected returns from holding the stock (i.e., dividends and capital gains) are uncertain rather than contractually stated. Therefore, the cost of equity is a kind of interest rate, albeit for a long-term financial investment with no specific return guaranteed to the investor. Common stock, then, has more risk than a bond, and given two investments of different risk, an investor will rationally require a higher return from the riskier investment. Thus, for a given firm, the required return for common stock is higher

than the required return for a bond and the difference between the required return for common equity and the required return for bonds is the "equity risk premium."

Q. MR. DESTEFANO, IS THERE AN EMPIRICAL BASIS FOR THIS RISK-REWARD PHENOMENON BETWEEN STOCKS AND BONDS?

A. Yes, this risk-reward relationship can be illustrated by comparing average annual returns of common stocks and long-term Government bonds; then, the standard deviation, or volatility, of the returns can be calculated as a measure of comparative risk.

Roger Ibbotson and Rex Sinquefield conduct an annual study which measures average annual returns since 1926 (dividends or interest, plus capital gains or losses) on various types of investments (Stocks, Bonds, Bills, and Inflation: 1986 Yearbook, Chicago: R. G. Ibbotson Associates, Inc.; 1986). The results of their latest update indicate that the 1926-1985 annual compound return from a composite of Standard & Poor's 500 (90 prior to 1957) common stocks is 9.8% while long-term U.S. Government bonds over the same period have yielded only 4.1%. The volatility (an indication of risk) of the common stock returns as measured by the standard deviation (21.4%) is substantially greater than the standard deviation (8.2%) of the bond returns. Thus, although common stock investors have realized higher returns than bondholders over the 1926-1985 period, common stock investors' returns have been more volatile from year to year than bond returns. The reward required for more risk taken by the common stock investor in terms of volatile returns has thus been proven to be, in the long run, a higher average return.

Q. WHAT ARE THE ELEMENTS REQUIRED TO DERIVE THE REQUIRED RETURN ON EQUITY UNDER THE RISK PREMIUM APPROACH?

A. Adding an additional risk premium, the equity risk premium, to the current long-term U.S. Government bond yield, reflects the uncertainty of residual returns and provides an estimate of current investor requirements for common equity. While current bond yields are readily available from daily or weekly financial publications, equity risk premiums are not readily available and thus must be measured.

Q. PLEASE DESCRIBE THE RISK PREMIUMS YOU MEASURE IN YOUR ANALYSIS.

A. This analysis focuses on the average annual equity risk premiums for KCPL common equity over long-term U. S. Government bonds, for the period 1951 through 1985 (1950 was the first year KCPL's common stock was publicly traded). For the same period, I also calculated the average annual equity risk premium for the portfolio of S&P 20 electric utility common stocks over long-term U. S. Government bonds.

Finally, I calculated an equity risk premium for a composite of all industries based on historical common stock returns from 1926 through 1985 as measured by the S&P Composite Index compared to long-term U. S. Government bonds.

Q. MR. DESTEFANO, WHAT IS YOUR RATIONALE FOR USING HISTORICAL RISK PREMIUMS TO MEASURE EXPECTED INVESTOR REQUIREMENTS?

A. Risk premiums, as Ibbotson and Sinquefield noted in their study, have historically followed a "random walk", i.e., there is no apparent historical trend to an equity risk premium. Therefore, if an average equity risk premium is derived from returns measured over a long period of time this average should be a valid measure of expected future equity risk premiums.

Q. PLEASE EXPLAIN YOUR MEASUREMENT OF THE EQUITY RISK PREMIUM FOR KCPL COMMON STOCK OVER LONG-TERM GOVERNMENT BONDS.

A. I calculated the annual returns for KCPL common stock, for the period 1951 through 1985--the period of time over which KCPL's common stock has been publicly traded. I believe this 35-year period is sufficient in length to validly measure an average equity risk premium since this period encompasses the economic variabilities of many business cycles. Over this period, my calculations show KCPL common stock returns at an annual geometric average of 9.9%. I then verified and used the Ibbotson and Sinquefield return calculations on long-term U.S. Government bonds for the 1951-1985 period. This bond return of 4.1% was used to determine the equity risk premium for KCPL common stock. The resulting equity risk premium over long-term U. S. Government bonds for the 1951-1985 period was approximately 550 basis points for KCPL common stock.

Q. MR. DESTEFANO, PLEASE DISCUSS YOUR SECOND EQUITY RISK PREMIUM MEASURE.

A. While the first measure of an equity risk premium was specific to KCPL, I also calculated the annual returns for the portfolio of S&P electric utility common stocks for the period of 1951 through 1985 to check the reasonableness of the first measure. The portfolio of S&P's 20 electric utility stocks returned an annual geometric average of 9.6% for this 35-year period. The resulting risk premium over long-term U. S. Government bonds was also approximately 600 basis points for the electric utility common stocks.

Q. WHAT OTHER RISK PREMIUM MEASURE DID YOU LOOK AT?

A. I also calculated an equity risk premium for all common stocks as represented by the S&P Composite Index. Over the 60-year period 1926

through 1985 the S&P Index returned a compounded annual average rate of 9.8%, and long-term U.S. Government bonds returned a compounded average of 4.1% annually. From these returns, an "all industry" composite equity risk premium was found to be about 550 basis points over long-term U. S. Government bonds.

Q. PLEASE SUMMARIZE YOUR DEFINITION OF THE APPROPRIATE EQUITY RISK PREMIUM FOR KCPL.

A. A summary of my equity risk premium analysis based on historical returns is shown on Exhibit No. __ (JJD), Schedule 15. Focusing on the return experienced by electric utility stocks and KCPL common stock versus long-term Government bond returns over the time period 1951-1985, I conclude from this analysis that a reasonable equity risk premium for KCPL is about 600 basis points or 6 percentage points over long-term U. S. Government bond yields.

Q. TO WHAT LONG-TERM U. S. GOVERNMENT BOND YIELD IS IT APPROPRIATE TO ADD KCPL'S EQUITY RISK PREMIUM?

A. Yields on long-term U. S. Government bonds have averaged 9.1% over the 12 months ending July 1986. With current long-term U.S. Government bond yields at 7.5%-8.0%, I believe 8%-9% is a conservative estimate of long-term U. S. Government bond yields that can be reasonably expected in the future. Adding the 6 percentage point equity risk premium to the expected 8% long-term U.S. Government bond yield results in a required return on equity of at least 14%. Realizing that the electric utility industry, and KCPL, specifically have been rated "A" by the bond rating agencies over the 1951-1985 study period, I believe it is appropriate to add an additional premium of at least 100 basis points to the 14% historical required return to compensate

for KCPL's current credit risk indicated by its Baa2/BBB+ credit rating. This results in a required return on equity for KCPL of at least 15%.

Q. MR. DESTEFANO, WHAT DO YOU CONCLUDE FROM YOUR MARKET BASED APPROACHES TO DETERMINING THE INVESTORS' REQUIRED RETURN ON EQUITY?

A. The market-based methodologies support my judgement that investors are requiring a return on equity of at least 15%-15.5%, for investment in KCPL common stock. Furthermore, since investors in KCPL's common equity currently assume the heightened level of risk characterized by this period prior to the full recovery of the Wolf Creek investment, I believe a point estimate of 15.5% appropriately reflects the investors' current required return on equity.

Q. MR. DESTEFANO, IS THE 15.5% RETURN ON EQUITY THAT INVESTORS ARE REQUIRING TO INVEST IN KCPL COMMON EQUITY THE TRUE COST OF EQUITY FOR KCPL?

A. No. If a company is expected to earn a return on equity which equals the investors' required return, then the Company must also be compensated in its authorized return on equity for its costs of issuance and for the effect of market pressure. Without specific compensation for the costs of flotation and market pressure, a return on equity set just equal to the investors' required return will not permit the sale of common stock at a market price per share that results in proceeds equal to book value per share, as a portion of the proceeds will be consumed by the costs of flotation and market pressure. In other words, for the Company to be able to actually earn the investors' required return after the costs of flotation and the effect of market pressure, the authorized return on equity must equal the investors'

required return plus compensation for the costs of issuance and market pressure.

Therefore, the required return of 15.5% must be adjusted for the expenses incurred whenever common is or has been issued (flotation), and also for the effects of pressure, or the downward movement of stock prices below the market levels that would exist if no stock had ever been issued.

Q. PLEASE EXPLAIN THE FLOTATION ADJUSTMENT.

A. The required return on equity must be adjusted to compensate for issuing costs which are expenses for legal, administrative, clerical, and printing services. There are also costs of the underwriters for assuming the risk of selling the issue. Every common stock issue of KCPL has experienced flotation costs; Exhibit No. __ (JJD), Schedule 18 shows KCPL common stock issues and related flotation costs since 1950.

Q. MR. DESTEFANO, HAVE FLOTATION COSTS FOR PAST ISSUES OF COMMON STOCK BEEN FULLY RECOVERED BY KCPL?

A. No. The costs of flotation associated with past issues are a continuing or permanent cost to the Company. To understand how they are "permanent" costs, it is useful to review the nature of flotation costs and their true impact on the cost of common equity capital.

Suppose, for example, KCPL required $50 million to pay for construction expenditures. If KCPL stock is selling for $25 per share and there were no flotation costs it could issue 2 million shares of common stock to raise the $50 million needed. However, because flotation costs do exist, KCPL must issue more shares of common stock to realize net proceeds of $50 million. If flotation costs are 5%,

the Company must issue 105,263 more shares (obtaining $2.6 million more in gross proceeds), for a total of about $52.6 million of common stock, in order to realize the $50 million required. In addition, the common equity account of the Company will only reflect the net amount of $50 million even though the Company actually issued 2,105,263 shares and must pay capital costs (return on equity) on the $52.6 million.

Thus, the flotation costs of $2.6 million are a real cost to the Company by virtue of the Company having to pay capital costs (dividends) on $2.6 million which it does not have the opportunity to use. Furthermore, since the Company will never have the use of the $2.6 million of common stock capital it has issued just to compensate for the flotation costs, this real cost remains a cost <u>every year the common stock is outstanding</u>, not just in the year of the issue. Another important aspect of this real cost is that flotation costs are not "expensed" by the Company and thus, there is no other cost of service mechanism to recover these costs except through a permanent adjustment to the return on equity.

Q. PLEASE DESCRIBE KCPL EXHIBIT NO. __ (JJD), SCHEDULE 18.

A. Schedule 18 shows that KCPL has issued over $429 million of common stock with associated flotation costs of nearly $15 million since 1950. This means that KCPL is paying dividends on over $429 million of common stock of which only about $414 million has been utilized by the Company. Thus, the total cumulative flotation cost of approximately $15 million carries a real financing cost at the Company's current required return on equity today and every day in the future.

Q. ARE YOU SUGGESTING THAT THE ENTIRE $15 MILLION OF PAST FLOTATION COSTS BE RECOVERED IN THIS PROCEEDING?

A. No, but I am suggesting that the financing cost of the $15 million should be recovered. Therefore, I am recommending an adjustment to the return on equity to "make whole" the return to the investor by correctly reflecting the true cost of the flotation costs of previous common stock issues.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT FOR FLOTATION COSTS?

A. Historical issuance costs as a percent of the common stock issue amount (Schedule 18) ranged from 0.2% to 5.6% since 1950. The average ratio of flotation expenses to net proceeds has been about 3%, which is the adjustment I recommend in this analysis.

Q. MR. DESTEFANO, PLEASE EXPLAIN THE CONCEPT OF MARKET PRESSURE.

A. Market pressure is a measurement of the decline in stock price associated with the public knowledge of potential issuance of new shares of common stock. The pressure arises because of the potential increase in supply relative to existing demand for shares of KCPL stock. This pressure effect represents a true cost of selling shares, because the Company must issue at the reduced price on the sale date. Since the Company has had to issue stock at a market price well below book value, this pressure further reduces the overall return to existing shareholders because of the dilutive impact on earnings per share.

Q. HOW CAN PRESSURE BE MEASURED?

A. Numerous research studies have been done on this subject. The usual method used to measure the pressure on common stock price is to gauge

the stock price versus some index during a defined period before and after a stock offering.

KCPL has issued common stock six times in the last seven years. After looking at KCPL's common stock price history in relation to the Dow Jones Utility Average Index for the last six years, I calculated 5% as the average measure of the pressure phenomenon. The results of this study are shown on KCPL Exhibit No. __ (JJD), Schedule 19.

Q. WHAT DO YOU RECOMMEND AS THE ADJUSTMENT FOR ISSUANCE AND PRESSURE?

A. Combining the 3% flotation adjustment with the effect of pressure of 5%, I conclude that a 8% adjustment be made to the investors' required return to arrive at the cost of common equity to KCPL.

Q. MR. DESTEFANO, HOW DOES THIS ADJUSTMENT OF 8% AFFECT THE INVESTORS' REQUIRED RETURN OF 15.5%?

A. As shown in KCPL Exhibit No. __ (JJD), Schedule 20, after incorporating the issuance and pressure costs into the required return on equity, the resulting cost of equity for KCPL is 16%.

Q. HOW DOES YOUR RETURN ON EQUITY RECOMMENDATION TRANSLATE INTO AN OVERALL RATE OF RETURN RECOMMENDATION FOR KCPL?

A. KCPL Exhibit No. __ (JJD), Schedule 21, illustrates the effect on overall rate of return of combining the 16.00% return on equity with capitalization and cost of debt and preferred at December 31, 1985. The resulting rate of return is 11.90%.

Q. MR. DESTEFANO, HAVE YOU DETERMINED AN APPROPRIATE RETURN APPLICABLE TO THE COMPANY'S FAIR VALUE RATE BASE?

A. Yes. The fair value of the Company has been calculated as of the year ended December 31, 1985, based on original cost applied to that portion of capital represented by fixed income securities (bonds and preferred stock) and the remaining portion (common stock) on a trended basis. This has been more fully described by Mr. R. A. Kite in his testimony. Since 38.42% has been used as the risk element, and considering an inflation rate of 3.3% (as measured by the implicit Gross National Product price deflator for 1985) applicable to the total value of the Company, I would say that 38.42% of that 3.3% inflation risk has now been removed from the stockholder. In such case, the return on equity would be 1.3% less than the 16.0% found to be appropriate on an original cost basis, or 14.7%. Based on the capitalization ratios at December 31, 1985, the return on fair value rate base would be 11.40%.

Q. MR. DESTEFANO, DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

John J. DeStefano, being first duly sworn, on his oath states: that he has participated in the preparation of the foregoing written testimony, in question and answer form, consisting of 27 pages, to be presented to the Public Service Commission of the State of Missouri in Case No. HO-86-139; that the answers therein contained were given by him; that he has knowledge of the matters set forth in said answers; and that such answers are true to the best of his knowledge and belief.

John J. DeStefano

Subscribed and sworn to before me this 19th day of September, 1986.

Notary Public

My Commission Expires:

CAROL GILES
Notary Public, State of Missouri
Clay County

KANSAS CITY POWER & LIGHT COMPANY

Yields and Spreads on
Newly Issued Public Utility Bonds
January 1978 - July 1986

Year	Moody's Averages				Spreads		
	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1978							
January	--	8.97	8.90	9.35	--	(0.07)	0.45
February	--	8.80	8.90	9.45	--	0.10	0.55
March	8.72	8.75	9.02	9.53	0.03	0.27	0.51
April	--	9.04	9.08	9.42	--	0.04	0.34
May	--	9.01	9.35	9.69	--	0.34	0.34
June	8.90	9.41	9.42	10.00	0.51	0.01	0.58
July	9.10	9.57	9.53	9.88	0.47	(0.04)	0.35
August	8.75	8.86	8.90	--	0.11	0.04	--
September	8.63	8.95	9.04	--	0.32	0.09	--
October	9.12	9.55	9.50	9.75	0.43	(0.05)	0.25
November	9.16	9.54	9.63	--	0.38	0.09	--
December	9.27	9.31	9.32	--	0.04	0.01	--
1979							
January	9.37	9.85	9.95	10.15	0.48	0.10	0.20
February	9.59	--	9.95	10.50	--	--	0.55
March	9.65	9.87	--	10.47	0.22	--	--
April	9.58	--	10.27	10.70	--	--	0.43
May	--	9.82	10.34	10.65	--	0.52	0.31
June	9.37	10.01	9.90	--	0.64	(0.11)	--
July	--	9.73	--	--	--	--	--
August	9.53	9.67	9.88	--	0.14	0.21	--
September	10.00	--	10.36	10.99	--	--	0.63
October	10.73	11.85	12.04	--	1.12	0.19	--
November	10.93	12.00	12.49	13.08	1.07	0.49	0.59
December	--	11.54	12.25	12.45	--	0.71	0.20
1980							
January	12.47	12.56	12.51	--	1.09	(0.05)	--
February	12.70	13.63	13.13	--	0.93	1.32	--
March	14.20	14.99	15.04	15.56	0.79	0.05	0.52
April	13.15	12.70	14.54	14.67	0.55	1.84	0.13
May	11.79	12.00	11.77	--	0.21	(0.23)	--
June	11.45	11.85	11.69	12.38	0.40	(0.16)	0.69
July	11.76	--	12.79	13.63	--	--	1.34
August	12.35	12.87	13.04	13.88	0.52	0.17	0.84
September	12.97	13.30	13.64	15.02	0.33	0.38	1.38
October	13.94	13.88	14.41	14.67	(0.06)	1.54	0.25
November	--	14.00	--	--	--	--	--
December	14.25	--	--	--	--	--	--

TOTAL

Yields and Spreads on
Newly Issued Public Utility Bonds
January 1978 - July 1986

Year	Moody's Averages				Spreads		
	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1981							
January	--	14.86	15.00	15.00	--	0.14	0.00
February	14.80	--	--	--	--	--	--
March	--	15.23	16.10	16.20	--	0.87	0.10
April	15.68	16.35	16.70	17.50	0.67	0.35	0.80
May	--	--	16.94	17.51	--	--	0.57
June	15.36	--	16.24	16.73	--	--	0.49
July	15.98	--	--	17.74	--	--	--
August	--	--	--	--	--	--	--
September	16.94	--	18.04	18.75	--	--	0.71
October	--	17.75	--	--	--	--	--
November	16.62	15.80	15.86	--	(0.82)	0.06	--
December	15.91	15.85	16.01	18.14	(0.06)	0.16	2.13
1982							
January	--	--	--	18.16	--	--	--
February	--	--	16.81	--	--	--	--
March	--	16.20	16.71	18.18	--	0.51	1.47
April	16.11	16.12	16.26	--	0.01	0.14	--
May	--	15.57	15.43	16.98	--	(0.14)	1.55
June	15.95	16.24	16.56	--	0.29	0.32	--
July	16.00	15.68	--	16.40	0.32	--	--
August	--	--	15.66	16.26	--	--	0.60
September	--	14.38	14.60	15.15	--	0.22	0.55
October	--	12.63	13.13	14.13	--	0.50	1.00
November	11.70	12.04	12.48	13.23	0.34	0.44	0.75
December	--	12.17	13.00	13.94	--	0.83	0.94
1983							
January	--	--	--	12.94	--	--	--
February	12.48	13.02	14.26	14.61	0.54	1.24	0.35
March	--	11.98	12.27	13.02	--	0.29	0.75
April	--	11.14	11.83	12.41	--	0.69	0.58
May	--	10.93	11.85	12.58	--	.92	.73
June	--	--	12.06	13.28	--	--	1.22
July	--	--	12.91	13.75	--	--	.84
August	--	--	12.88	13.45	--	--	.57
September	12.34	--	13.01	13.13	--	--	.12
October	--	--	13.02	13.50	--	--	.48
November	--	12.50	13.19	13.59	--	.69	.40
December	--	--	12.93	--	--	--	--

TEST0

Yields and Spreads on
Newly Issued Public Utility Bonds
January 1978 - July 1986

Year	Moody's Averages				Spreads		
	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1984							
January	--	--	12.94	--	--	--	--
February	--	--	--	14.50	--	--	--
March	--	13.57	--	--	--	--	--
April	--	13.70	--	--	--	--	--
May	--	--	--	--	--	--	--
June	--	--	--	15.43	--	--	--
July	--	--	--	16.00	--	--	--
August	--	--	--	--	--	--	--
September	--	13.57	--	13.42	--	--	--
October	--	12.88	12.87	14.50	--	(.01)	1.63
November	--	12.45	12.48	13.13	--	.03	.65
December	--	--	--	15.25	--	--	--
1985							
January	--	--	12.23	--	--	--	--
February	--	12.38	12.75	--	--	.37	--
March	--	13.06	12.95	--	--	(.11)	--
April	--	12.80	12.31	--	--	(.49)	--
May	11.54	--	12.25	11.81	--	--	(.44)
June	--	--	10.91	11.50	--	--	.59
July	--	10.41	--	12.00	--	--	--
August	--	11.73	11.70	--	--	(.03)	--
September	11.50	--	12.04	10.84	--	--	(1.20)
October	11.50	11.60	11.88	12.10	.10	.28	.22
November	--	11.34	11.28	11.72	--	(.06)	.44
December	--	10.62	10.84	11.65	--	.22	.81
1986							
January	--	10.23	10.76	11.25	--	.53	.49
February	9.63	9.32	9.76	10.34	(.31)	.44	.58
March	--	8.98	9.26	9.63	--	.28	.37
April	8.88	8.83	9.11	9.39	(.05)	.28	.28
May	--	9.02	9.36	10.61	--	.34	1.25
June	--	9.45	9.81	10.03	--	.36	.22
July	--	8.93	9.15	9.67	--	.62	.52

SOURCE: Moody's Public Utility Manual, 1986; Moody's Bond Survey

KANSAS CITY POWER & LIGHT COMPANY

Yields and Spreads on
Outstanding Public Utility Bonds
1965 to 1981 by Year
1982 to 1986 by Month

	Moody's Averages				Spreads		
Year	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1965	4.50	4.52	4.58	4.78	0.02	0.06	0.20
1966	5.19	5.25	5.39	5.60	0.06	0.14	0.21
1967	5.58	5.66	5.87	6.15	0.08	0.21	0.28
1968	6.22	6.35	6.51	6.87	0.13	0.16	0.36
1969	7.12	7.34	7.54	7.93	0.22	0.20	0.39
1970	8.31	8.52	8.69	9.18	0.21	0.17	0.49
1971	7.72	8.00	8.16	8.63	0.28	0.16	0.47
1972	7.46	7.60	7.72	8.17	0.14	0.12	0.45
1973	7.60	7.72	7.84	8.17	0.12	0.12	0.33
1974	8.71	9.04	9.50	9.84	0.33	0.46	0.34
1975	9.03	9.44	10.09	10.96	0.41	0.65	0.87
1976	8.63	8.92	9.29	9.82	0.29	0.37	0.53
1977	8.19	8.43	8.61	9.06	0.24	0.18	0.45
1978	8.87	9.10	9.29	9.62	0.23	0.19	0.33
1979	9.86	10.22	10.49	10.96	0.36	0.27	0.47
1980	12.30	13.00	13.34	13.95	0.70	0.34	0.61
1981	14.64	15.30	15.95	16.56	.66	.65	.61
1982							
January	15.79	16.48	16.83	17.83	0.69	0.35	1.00
February	15.88	16.33	16.84	17.83	0.45	0.51	0.99
March	15.05	15.57	16.50	17.36	0.52	0.93	0.86
April	14.86	15.12	16.31	17.00	0.26	1.19	0.69
May	14.68	15.01	16.04	16.68	0.33	1.03	0.64
June	15.32	15.78	16.42	17.21	0.46	0.64	0.79
July	14.96	15.67	16.42	17.09	0.71	0.75	0.67
August	13.98	14.71	15.83	16.37	0.73	1.12	0.54
September	13.34	13.92	15.40	15.68	0.58	1.48	0.28
October	12.42	13.21	14.79	15.10	0.79	1.58	0.31
November	12.11	12.93	14.44	14.81	0.82	1.51	0.37
December	12.32	12.76	14.43	14.69	0.44	1.67	0.26

KANSAS CITY POWER & LIGHT COMPANY

Yields and Spreads on
Outstanding Public Utility Bonds
1965 to 1981 by Year
1982 to 1986 by Month

Year	Moody's Averages				Spreads		
	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1983							
January	12.29	12.74	14.24	14.56	0.45	1.50	0.32
February	12.48	13.02	14.26	14.61	0.54	1.24	0.35
March	12.19	12.67	13.94	14.33	0.48	1.27	0.39
April	12.00	12.43	13.61	14.07	0.43	1.18	0.46
May	12.01	12.44	13.50	14.05	0.43	1.06	0.55
June	12.23	12.64	13.64	14.16	0.41	1.00	0.52
July	12.69	12.86	13.58	14.01	0.17	0.72	0.43
August	13.04	13.18	13.57	14.21	0.14	0.39	0.64
September	12.85	13.04	13.42	14.10	0.19	0.38	0.68
October	12.66	12.88	13.25	13.95	0.22	0.37	0.70
November	12.82	12.97	13.38	14.12	0.15	0.41	0.74
December	13.00	13.14	13.52	14.23	0.14	0.38	0.71
1984							
January	--	13.02	13.39	14.05	--	0.37	0.66
February	--	13.04	13.41	14.05	--	0.37	0.64
March	--	13.66	13.87	14.56	--	0.21	0.69
April	--	13.93	14.16	14.82	--	0.23	0.66
May	--	14.66	14.90	15.28	--	0.24	0.38
June	--	14.90	15.09	15.50	--	0.19	0.41
July	--	14.42	14.82	15.50	--	0.40	0.68
August	--	13.67	14.43	14.79	--	0.76	0.36
September	--	13.43	14.17	14.51	--	0.74	0.34
October	13.00	13.38	13.80	14.17	0.38	0.42	0.37
November	12.66	13.00	13.23	13.72	0.34	0.23	0.49
December	12.49	12.76	13.11	13.46	0.27	0.35	0.35
1985							
January	12.47	12.68	12.99	13.36	0.21	0.31	0.37
February	12.61	12.87	13.08	13.44	0.26	0.21	0.36
March	13.08	13.50	13.87	14.19	0.42	0.37	0.32
April	12.77	13.17	13.61	14.11	0.40	0.44	0.50
May	12.18	12.65	13.12	13.62	0.47	0.47	0.50
June	11.17	11.68	12.13	12.66	0.51	0.45	0.53
July	11.18	11.55	12.07	12.70	0.37	0.52	0.63
August	11.23	11.65	12.13	12.73	0.42	0.48	0.60
September	11.27	11.68	12.13	12.72	0.41	0.45	0.59
October	11.23	11.61	12.01	12.52	0.38	0.40	0.51
November	10.71	11.10	11.49	12.04	0.39	0.39	0.55
December	10.54	10.97	11.37	11.88	0.43	0.40	0.51

Yields and Spreads on
Outstanding Public Utility Bonds
1965 to 1981 by Year
1982 to 1986 by Month

Year	Moody's Averages				Spreads		
	Aaa	Aa	A	Baa	Aaa-Aa	Aa-A	A-Baa
1986							
January	10.14	10.44	10.79	11.24	0.30	0.35	0.45
February	9.65	9.98	10.26	10.74	0.33	0.28	0.48
March	8.75	9.16	9.48	9.91	0.41	0.32	0.43
April	8.45	8.87	9.14	9.63	0.42	0.27	0.49
May	9.07	9.38	9.59	10.02	0.31	0.21	0.43
June	9.02	9.36	9.62	10.03	0.34	0.26	0.41
July	8.66	9.05	9.37	9.69	0.39	0.32	0.32

SOURCE: Moody's Public Utility Manual, 1985; Moody's Bond Survey.

KANSAS CITY POWER & LIGHT COMPANY

Yields on Public Utility Preferred Stocks
1965 to 1981 by Year
1982 to 1986 by Month

Year	High Grade	Medium Grade
1965	4.53	4.72
1966	5.19	5.41
1967	5.54	5.77
1968	6.07	6.28
1969	6.76	6.91
1970	7.56	7.78
1971	7.10	7.36
1972	7.23	7.43
1973	7.56	7.73
1974	9.26	9.88
1975	9.45	10.64
	New Basis (1)	
	"aa"	"a" & "baa"
1976	8.71	9.41
1977	8.12	8.74
1978	8.59	9.29
1979	9.53	10.51
1980	11.84	13.12
1981	13.94	14.88

(1) The issues in Moody's average, which have "new money" tax status, were selected on the basis of current dividend rates, lack of a sinking fund, and broad marketability. To help with historical comparisons, care was taken to keep the new averages reasonably comparable to the long- standing high- and medium-grade series. Moody's new "aa" series and a composite of their new "a" and "baa" average compare quite favorably with the prior series. There is no "aaa" average because of an insufficient number of prime-quality preferred stocks.

KANSAS CITY POWER & LIGHT COMPANY

Yields on Public Utility Preferred Stocks
1965 to 1981 by Year
1982 to 1986 by Month

	New Basis (1)	
	"aa"	"a" + "baa"
1982		
Jan.	15.01	15.68
Feb.	14.97	15.67
Mar.	14.44	15.11
Apr.	14.27	14.97
May	13.47	14.43
June	13.91	14.83
July	14.22	15.09
Aug.	13.53	14.39
Sept.	12.82	13.80
Oct.	12.28	13.12
Nov.	11.64	12.56
Dec.	11.56	12.71
1983		
Jan.	11.45	12.41
Feb.	11.34	12.31
Mar.	11.16	12.10
Apr.	11.16	12.03
May	11.02	11.75
June	11.23	12.07
July	11.64	12.51
Aug.	11.75	12.61
Sept.	11.69	12.55
Oct.	11.70	12.35
Nov.	11.85	12.57
Dec.	12.07	13.00
1984		
Jan.	12.08	12.75
Feb.	11.88	12.67
Mar.	12.25	13.15
Apr.	12.37	13.33
May	12.04	14.02
June	13.10	14.37
July	13.22	14.48
Aug.	12.88	13.88
Sep.	12.39	13.37
Oct.	12.49	13.63
Nov.	12.33	13.31
Dec.	12.37	13.30

KANSAS CITY POWER & LIGHT COMPANY

Yields on Public Utility Preferred Stocks
1965 to 1981 by Year
1982 to 1986 by Month

	New Basis (1)	
	"aa"	"a" + "baa"
1985		
Jan.	11.99	12.88
Feb.	11.43	12.37
Mar.	11.60	12.64
Apr.	11.38	12.44
May	10.85	12.05
June	10.30	11.39
July	10.28	11.32
Aug.	10.46	11.65
Sept.	10.58	11.82
Oct.	10.59	11.88
Nov.	10.25	11.15
Dec.	9.97	10.78
1986		
Jan.	9.74	10.55
Feb.	9.07	9.85
Mar.	8.61	9.46
Apr.	8.28	9.09
May	8.22	9.14
June	8.49	9.64
July	8.48	9.48

SOURCE: Moody's Public Utility Manual, 1985, Moody's Bond Survey

COMPARATIVE FINANCIAL STATISTICS

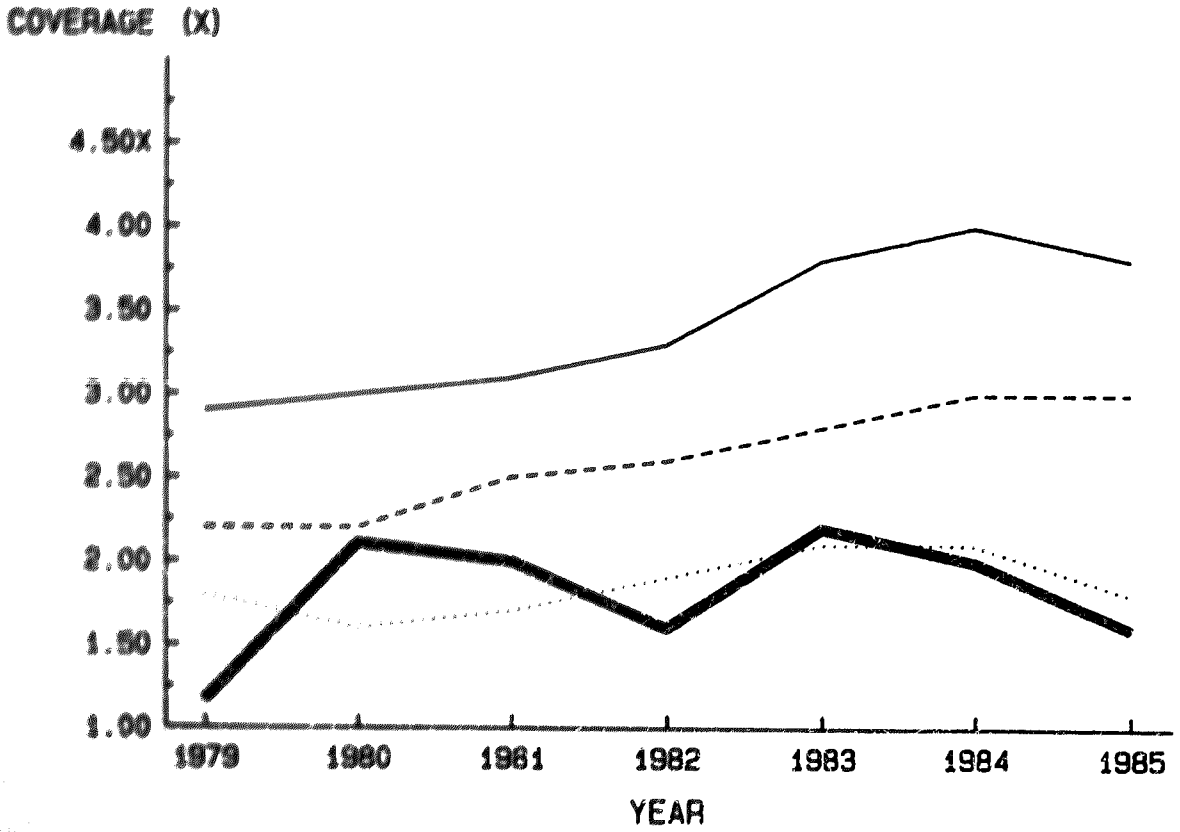
ELECTRIC UTILITY INDUSTRY
At December 31, 1985

Bond Rating Groups	Market-to-Book Ratio	Dividend Yield	Pre-tax[1] Interest Coverage	Pre-tax[2] Interest Coverage	Return on Average Equity	AFDC as % of Earnings
Aa	130.8%	7.8%	4.0x	3.7x	14.5%	18.1%
A	116.1%	8.8%	3.1x	2.8x	14.4%	32.1%
Baa	97.5%	9.8%	2.5x	1.9x	13.5%	68.3%
Industry Average	117.0%	8.3%	3.3x	2.9x	13.7%	34.7%
Kansas City Power & Light Company						
12/31/85	83.5%	10.4%	3.1x	1.6x	16.7%	114.9%
3/31/86	105.7%	8.2%	3.0x	1.6x	15.3%	115.1%
6/30/86	88.6%	8.2%	3.0x	1.9x	13.9%	102.9%

(1) Including AFDC and Deferred Carrying Costs
(2) Excluding AFDC and Deferred Carrying Costs

Sources: First Boston, Electric Utility Industry Credit and Equity Analysis, May, 1986.
KCPL Books and Records.

PRETAX INTEREST COVERAGE RATIOS
EXCLUDING AFDC
BY BOND RATING GROUP



TAKEN FROM SALOMON BROTHERS "ELECTRIC UTILITY QUALITY MEASUREMENTS - QUARTERLY REVIEW" DATED APRIL 28, 1988.

KCPL Exhibit No. ___ (JJD)
Schedule 4
Page 2 of 2
Sponsor: DeStefano

KANSAS CITY POWER & LIGHT COMPANY
Rate of Return
Weighted Average Cost of Debt Capital
at December 31, 1985

Line	Items	(A) Initial Offering	(B) Price to Public	(C) Underwriters Discounts & Commissions	(D) Issuance Expense	(E) Net Proceeds to Company	(F) Cost to Company	(G) Long-term Debt Capital Outstanding	(H) Annual Cost of Long-term Debt Capital
1	[illegible]	$20,000,000	$20,155,400	$125,400	$102,669	$19,927,331	5.024%	$20,000,000	$1,004,800
2	[illegible]	15,000,000	15,241,200	96,300	87,432	15,057,468	4.726	15,000,000	708,900
3	[illegible]	30,000,000	30,112,500	301,530	73,232	29,737,738	5.812	30,000,000	1,743,600
4	[illegible]	25,000,000	25,250,000	284,250	68,487	24,897,263	6.782	25,000,000	1,695,500
5	[illegible]	26,000,000	26,177,060	216,320	73,273	25,887,467	7.160	26,000,000	1,861,600
6	[illegible]	35,000,000	35,269,500	430,850	86,708	34,751,942	9.195	35,000,000	3,218,250
7	[illegible]	27,000,000	27,067,500	279,990	86,184	26,701,326	7.846	27,000,000	2,118,420
8	[illegible]	30,000,000	30,375,000	253,200	99,533	30,022,267	7.619	30,000,000	2,285,700
9	[illegible]	40,000,000	40,000,000	253,600	144,079	39,602,322	8.971	40,000,000	3,588,400
10	[illegible]	30,000,000	30,150,000	222,900	96,977	29,830,123	8.176	30,000,000	2,452,800
11	[illegible]	30,000,000	30,300,000	264,900	117,423	29,917,677	8.525	30,000,000	2,557,500
12	[illegible]	25,000,000	25,000,000	184,500	136,921	24,678,579	9.379	25,000,000	2,344,750
13	[illegible]	50,000,000	50,000,000	231,500	156,835	49,611,665	12.097	50,000,000	6,048,500
14	[illegible]	50,000,000	49,500,000	437,500	210,223	48,852,277	16.891	50,000,000	8,445,500
15	[illegible]	60,000,000	60,000,000	525,000	111,950	59,363,050	13.143	60,000,000	7,885,800
16	[illegible]	50,000,000	50,000,000	337,500	139,753	49,522,748	14.274	50,000,000	7,137,000
17	[illegible]	$25,000,000	$25,000,000	$125,000	$ 52,052	$24,822,949	13.660%	$25,000,000	$3,415,000
18	[illegible]	$21,940,000	$21,830,300	$310,451	$ 0	$21,519,849	6.014%	$ 21,940,000	$ 1,319,472
19	[illegible]	20,000,000	20,000,000	147,000	206,231	19,646,769	6.003	20,000,000	1,200,600
20	[illegible]	9,200,000	9,200,000	119,600	86,282	8,994,118	7.055	9,200,000	649,060
21	[illegible]	21,800,000	21,800,000	283,400	207,529	21,309,071	7.057	21,800,000	1,538,426
22	[illegible]	11,980,000	11,980,000	333,763	104,165	11,542,072	12.468	11,980,000	1,493,666
23	[illegible]	7,500,000	7,500,000	208,950	8,716	7,282,334	11.241	7,500,000	843,075
24	[illegible]	60,000,000	60,000,000	0	348,973	59,651,027	9.682	60,000,000	5,809,200
25	[illegible]	$25,000,000	$25,000,000	$150,000	$ 38,787	$24,811,213	13.651%	$ 25,000,000	$ 3,412,750
26	[illegible]	$15,000,000	$15,000,000	$165,000	$ 68,714	$14,766,286	5.861%	$ 15,000,000	$ 879,150
27	[illegible]	40,000,000					6.411	40,000,000	2,564,400
28	[illegible]	50,000,000					6.235	50,000,000	3,117,500
29	[illegible]	56,500,000					5.768	56,500,000	3,258,920
30	[illegible]	250,000,000					5.769%	$50,000,000	$ 2,884,500
31	[illegible]						9.410%	$ 100,000,000	$ 9,410,000
32	[illegible]						8.839%	$ 18,000,000	$ 1,591,020
33	[illegible] (Long-Term Debt in Accordance with MPSC Order in Case No. EF81-366)						9.187%	$ 63,305,234	$ 5,815,852
34	Total Long-Term Debt Capital Outstanding at December 31, 1985							$1,138,225,234	$104,299,611
35	Weighted Average Cost of Long-Term Debt Capital at December 31, 1985						9.163%		

[illegible] D-4

KCPL Exhibit No. (JJD)
Schedule 5
SPONSOR: DESTEFANO

KCPL Exhibit No.__(JJD)
Schedule 6
Sponsor: DeStefano

KANSAS CITY POWER & LIGHT COMPANY
Rate of Return
"eighted Average Cost of Floating Rate Monthly Demand Bonds
For the Twelve Months Ended December 31, 1985

(A) $40 million Floating Rate Demand Series Due 10/15/2014 (CITIBANK Letter of Credit):

Line	(a) Effective Interest Date	(b) Interest Rate (%)	(c) Days Outstanding	(d) Interest Expense ((b)x(c)x(40mm))/365
1	12/14/84	6.40%	15 Days	$105,205
2	1/15/85	6.40	31	217,425
3	2/15/85	5.15	28	158,027
4	3/15/85	4.95	31	168,164
5	4/15/85	5.15	30	169,315
6	5/15/85	5.30	30	174,247
7	6/14/85	4.95	31	168,164
8	7/15/85	4.55	31	154,575
9	8/15/85	5.30	29	168,438
10	9/13/85	5.55	32	194,630
11	10/15/85	5.45	31	185,151
12	11/15/85	5.15	30	169,315
13	12/15/85	7.05%	16	123,616
	Totals		365 Days	$2,156,272

14	Weighted Interest Rate (Total Interest Expense/Principal)	5.3907%
15	Letter of Credit Fee (.0085 x 41,508,493/40,000,000)	.8821
16	Annual Remarketing Fee ($14,310/$40 million)	.0358
17	Carrying Cost of Put Bonds (Annual Carrying Cost/Principal = $10,095/$40 million)	.0252
18	Effective Average Annual Interest Rate Before Issuance Expenses	6.3338%
19	Cost to Company on $40 million Series (Based on Net Proceeds of $39,589,048)	6.4119%

(B) $50 million Floating Rate Demand Series Due 12/15/2014 (WESTPAC Letter of Credit):

20	Weighted Interest Rate (Line 13)	5.390[illegible]%
21	Incremental Interest Rate on $50 million Series[1]	.0300
22	Letter of Credit Fee (.008[illegible] x 51,[illegible]/50,000,000)	.[illegible]
23	Annual Remarketing Fee ($[illegible]/$50 million)	.0[illegible]
24	Carrying Cost of Put Bonds ($[illegible]/$50 million)	.[illegible]
25	Effective Average Annual Interest Rate Before Issuance Expenses	[illegible]%
26	Cost to Company on $50 million Series (Based on Net Proceeds of $[illegible])	[illegible]%

(1) Due to relatively [illegible] of WESTPAC in this market.

[illegible] 8-8

KCPL Exhibit No. (JJD)
Schedule 7
SPONSOR: DESTEFANO

KANSAS CITY POWER & LIGHT COMPANY

Rate of Return
Weighted Average Cost of Customized Purchase Pollution Control Bonds
For the Twelve Months Ended December 31, 1985

A. Series A $56.5 million Customized Purchase Pollution Control Bonds due 9/1/2015

1.	Weighted Average Interest Rate Before Other Expenses (1)	4.8843%	
2.	Letter of Credit Fee [(.625% x $63,117,466)/$56.5 million]	.6982	
3.	Annual Remarketing Fee	.1250	
4.	Effective Average Annual Interest Rate Before Issuance Expenses	5.7075%	
5.	Cost to Company on $56.5 million Series (Based on Estimated Net Proceeds of $56,010,245)		5.7683%

B. Series B $50.0 million Customied Purchase Pollution Control Bonds due 9/1/2015

1.	Weighted Average Interest Rate Before Other Expenses (1)	4.7854%	
2.	a. Letter of Credit Fee [(.70% x $56,041,096)/$50 million]	.7846	
	b. LOC Administration Fee ($5,000/$50 million)	.0100	
3.	Annual Remarketing Fee	.1250	
4.	Effective Average Annual Interest Rate Before Issuance Expenses	5.7050%	
5.	Cost to Company on $50.0 million Series (Based on Estimated Net Proceeds of $49,346,588)		5.7683%

(1) Interest rate based on 30-Day Tax-Exempt Commercial Paper Index from January 1, 1985 through September 26, 1985 and KCPL CP issues from September 27, 1985 through December 31, 1985.

ATTACHMENT B-1

KANSAS CITY POWER & LIGHT COMPANY
Rate of Return
Weighted Average Cost of Eurodollar Term Loan Agreement
For the Twelve Months Ended December 31, 1985

Line	(a) Borrowing Date	(b) Maturity Date	(c) Amount (000's)	(d) Interest Rate	(e) Balance (000's)	(f) Days Outstanding Loan	(g) Days Outstanding Balance	(h) Interest Expense (1)	(i) Weighted Balance (2)
1	10-09-84	01-09-85	25,000	11.3750	50,000	9	--	71,094	0
2	10-17-84	01-17-85	25,000	11.0000	75,000	17	--	129,861	0
3	11-02-84	02-04-85	25,000	9.9375	100,000	35	--	241,536	0
4	01-09-85	04-09-85	25,000	8.5000	75,000	90	17	531,250	3,493,151
5	01-04-85	05-07-85	25,000	8.4375	50,000	92	82	539,063	11,232,877
6	04-09-85	07-09-85	25,000	9.0625	50,000	91	28	572,700	3,835,616
7	05-07-85	08-07-85	25,000	8.5625	50,000	92	44	547,049	6,027,397
8	06-20-85	09-20-85	25,000	7.3750	75,000	92	19	471,181	3,904,110
9	07-09-85	10-09-85	25,000	7.8125	75,000	92	14	499,132	2,876,712
10	07-23-85	10-23-85	25,000	8.0000	100,000	92	59	511,111	16,164,384
11	08-07-85	11-07-85	25,000	8.1250	75,000	92	19	519,097	3,904,110
12	10-09-85	01-09-86	25,000	8.1250	75,000	83	14	468,316	2,876,712
13	10-23-85	01-23-86	25,000	8.0625	75,000	69	15	386,328	3,082,192
14	11-07-85	02-07-86	25,000	8.0000	75,000	54	43	300,000	8,835,616
15	12-20-85	03-20-86	$25,000	7.7500	100,000	11 days	11 days	59,201	$ 3,013,699
	Totals						365 days	$5,846,919	$69,246,576
16	Commitment Fee (3)							250,000	
17	Amortization - Other Expenses (4)							419,333	
18	Total Expenses							$6,516,252	
19	Weighted Average Cost (5)							9.4102%	

NOTES:
(1) Col. (e) x Col. (d) x Col. (f)/360.
(2) Col. (e) x Col. (g)/365.
(3) Commitment Fee ($200 million x .00125)
(4) Other expenses: Annual expenses of a $5,000 bank fee and a $16,000 transaction fee ($21,000) apply to the $200 million facility effective 6-29-84 expiring 6-30-88. The arrangement fee and other expenses of $701,281 are amortized over the life of the new agreement ($701,281 x 365/1462 = 175,000). Borrowing fees of $223,253 also apply to the new agreement.
(5) Total Expenses / Weighted Balance.

KCPL Exhibit No. (JJD)
Schedule 8
Sponsor: DeStefano

KCPL Exhibit No. (JJD)
Schedule 9
SPONSOR: DESTEFANO

KANSAS CITY POWER & LIGHT COMPANY

Weighted Average Cost of Acceptance Facility Agreement
Estimated For the Twelve Months Ended December 31, 1985

Line	(a) Date Issued	(b) Amount (000's)	(c) Discount Rate	(d) Balance (000's)	(e) Days Outstanding Loan	(f) Balance	(g) Cost (1)	(h) Weighted Balance (2)
1	12-26-84	0	8.60%	40,000	17 days	17	$162,444	$1,863,014
2	01-17-85	$26,000	8.62	26,000	90	29	560,300	2,065,753
3	02-15-85	11,000	9.15	37,000	61	61	170,546	6,183,562
4	04-17-85	35,000	8.90	35,000	50	50	432,639	4,794,521
5	06-06-85	35,000	8.00	35,000	48	48	373,333	4,602,740
6	07-24-85	37,000	8.28	37,000	43	43	365,930	4,358,904
7	09-05-85	0	8.28	37,000	29	29	246,790	2,939,726
8	10-04-85	0	8.35	37,000	60	60	514,917	6,082,192
9	12-03-85	$ 0	8.50%	$37,000	28 days	28	$ 244,611	$ 2,838,356
	Totals					365 days	$3,071,510	$35,728,768
10	Warehousing Fees (3)						35,729	
11	Commitment Fees (5)						50,657	
12	Total Expenses						$ 3,157,896	
13	Weighted Average Cost (4)						8.8385%	

(1) Col. (b) x Col. (c) x Col. (e)/360.
(2) Col. (d) x Col. (f)/365.
(3) Total Weighted Balance x 0.001.
(4) Total Expenses ÷ Weighted Balance.
(5) Unused Balance x (.0025) x Days ÷ 365.
[($50,000,000 x .0025 x (134/365)) + ($24,000,000 x .0025 x (29/365))

KCPL Exhibit No. (JJD)
Schedule 10
SPONSOR: DESTEFANO

KANSAS CITY POWER & LIGHT COMPANY
Rate of Return

Weighted Average Cost of Nuclear Fuel Lease
For the Twelve Months Ended December 31, 1985

1.	Weighted Average Cost of Commercial Paper (1) before Other Interest Charges and Expenses		8.3759%
2.	Other Interest Charges Annualized (2):		
	Facility Fee	$ 15,176.45	
	Support Fees:		
	Commercial Paper	404,844.95	
	Total	$420,021.40	
	Cost of Other Interest Charges (3)		0.6305%
3.	Annual Amortization of Other Company Expenses:		
	Annual Amortization	$120,912.31 (4)	
	Cost of Other Expense (5)		0.1805%
4.	Total Weighted Average Cost		9.1869%

NOTES:

(1) Based on issues of commercial paper from January 1, 1985 through December 31, 1985.

(2) Average of Annualized Monthly Charges for January 1985 through December 1985.

(3) Cost of Other Interest = (Other Interest Charges Annualized) ÷ (Average of Daily Discounted Amount of Commercial Paper and Term Notes Outstanding).

(4) Actual Expenses of $604,562 Amortized Over 5 Year Commitment Period.

(5) Cost of Other Expenses = (Annual Amortization of Other Expenses) ÷ (Average of Daily Discounted Amount of Commercial Paper and Term Notes Outstanding).

KANSAS CITY POWER & LIGHT COMPANY

Weighted Cost of Preferred/Preference Stock Capital
Outstanding at December 31, 1985

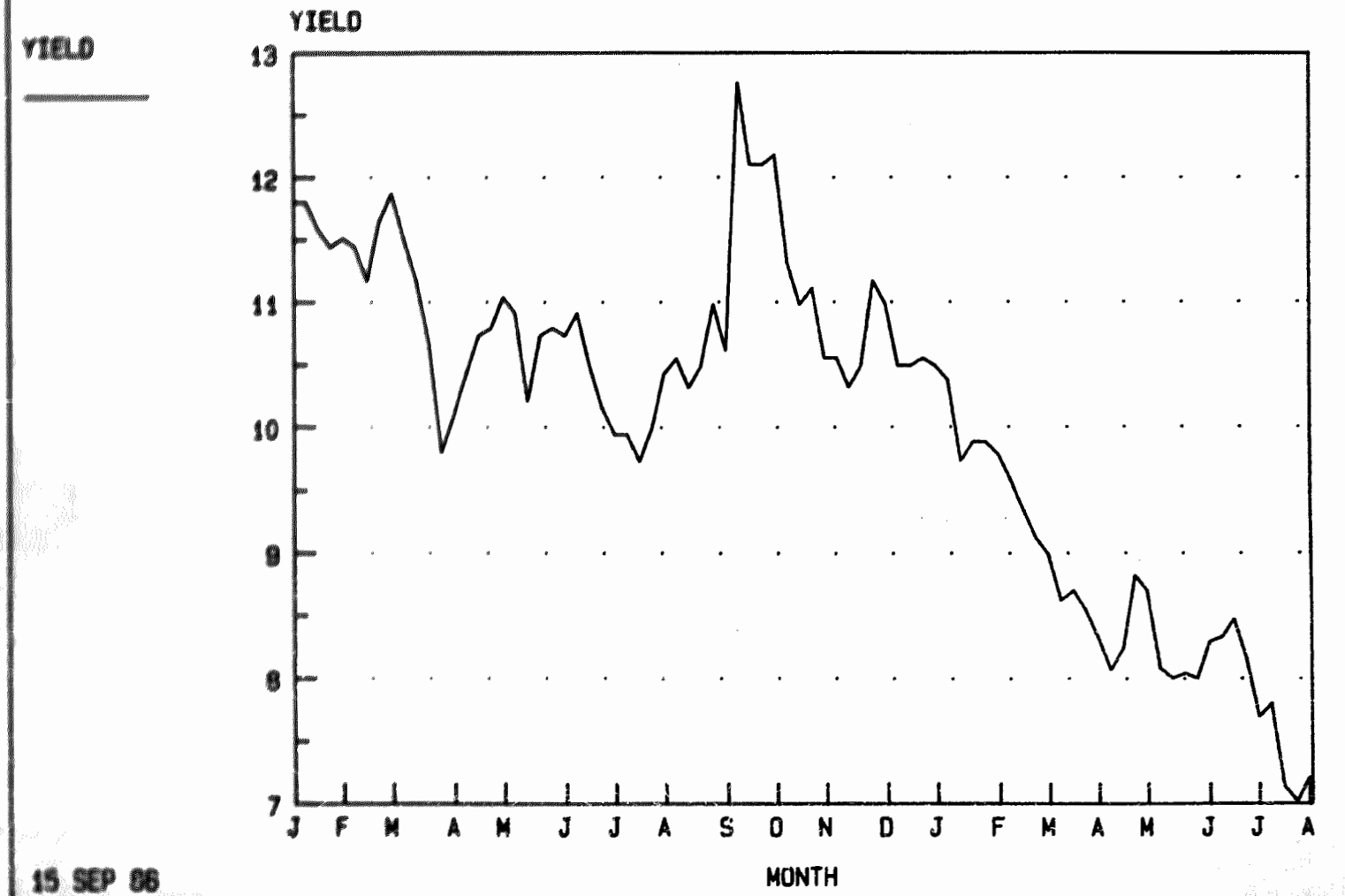
Line	(A) Description of Issue	(B) Date of Issuance	(C) No. of Shares Initial Offering	(D) Price to Public	(E) Underwriters Discounts & Commissions	(F) Issuance Expense	(G) Net Proceeds to Company	(H) Cost to Company	(I) Preferred Stock Capital Outstanding	(J) Annual Cost Of Preferred Stock Capital
1	[illegible] cum $100 par	12-01-46	100,000	$10,270,000	$179,000	$ 58,391	$10,032,609	3.788%	$ 10,000,000	$ 378,800
2	[illegible] cum $100 par	6-01-48	80,000	8,100,000	78,320	74,696	7,946,984	4.038	3,035,700	122,582
3	[illegible] cum $100 par	1-20-52	100,000	10,000,000	195,000	79,241	9,725,759	4.627	10,000,000	462,700
4	[illegible] cum $100 par	1-21-54	70,000	7,070,000	122,500	41,270	6,906,230	4.257	7,000,000	297,990
5	[illegible] cum $100 par	4-17-56	120,000	12,000,000	201,600	71,304	11,727,096	4.451	12,000,000	534,120
6	[illegible] cum $100 par	6-15-71	130,000	13,000,000	167,310	26,518	12,806,172	7.837	13,000,000	1,018,810
7	[illegible] cum no par	6-12-75	200,000	20,000,000	250,000	92,276	19,657,724	10.886	20,000,000	2,177,200
8	[illegible] cum no par	12-01-76	800,000	20,000,000	720,000	94,009	19,185,991	9.715	20,000,000	1,943,000
9	[illegible] cum no par	8-04-77	800,000	20,000,000	680,000	94,214	19,225,786	9.154	20,000,000	1,830,800
10	[illegible] cum no par Pref.	12-06-78	250,000	25,000,000	--	101,597	24,898,403	8.073	12,499,900	1,009,117
11	[illegible] cum no par Pref.	6-02-80	250,000	25,000,000	--	98,536	24,901,464	12.833	20,833,300	2,673,537
12	[illegible] cum no par	2-11-82	228,000	22,800,000	--	91,830	22,708,170	17.125	22,800,000	3,904,500
13	[illegible] cum no par	9-29-82	300,000	30,000,000	$252,000	$39,692	29,708,308	13.450	30,000,000	4,035,000
14	[illegible] cum no par	6-19-84	100,000	$10,000,000	$ 50,000	$62,349	$ 9,887,651	13.149%	$ 10,000,000	$ 1,314,900
15	Total Preferred/Preference Stock Capital at 12-31-85								$211,168,900	$21,703,056
16	Weighted Average Cost at 12-31-85							10.278%		

KCPL EXHIBIT NO. __ (JJD).
Schedule 11
SPONSOR: DESTEFANO

[illegible] D-3

KCPL WEEKLY COMMON STOCK YIELDS

JAN. 1, 1985 - AUG. 1, 1986



15 SEP 86

KCPL Exhibit No. ___ (JJM)
Schedule 12
Sponsor: DeStefano

KCPL Exhibit No. __ (JJD)
Schedule 13
Sponsor: DeStefano

KANSAS CITY POWER & LIGHT COMPANY

Average Common Stock Dividend Yield
For Twelve Weeks Ending 5/16/86
through 8/01/86

DATE		ANNUAL DIVIDEND RATE	CLOSING STOCK PRICE	DIVIDEND YIELD
May	16	$2.00	$25	8.00%
	23	2.00	24 7/8	8.04
	30	2.00	25	8.00
June	6	2.00	24 1/8	8.29
	13	2.00	24	8.33
	20	2.00	23 5/8	8.47
	27	2.00	24 1/2	8.16
July	3	2.00	26	7.69
	11	2.00	25 5/8	7.80
	18	2.00	28	7.14
	25	2.00	28 1/2	7.02
August	1	$2.00	$27 3/4	7.21%

12-Week Average 7.63%

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KANSAS CITY POWER & LIGHT COMPANY

Percent Growth in
Cash Dividends per Share

Years	Period	Continuous Dividend Growth Rate (%)
1983-1985	2 Years	4.2%
1982-1985	3 Years	5.5%
1981-1985	4 Years	6.0%
1980-1985	5 Years	6.0%

TEST4

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SCHEDULE 15
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ELECTRIC UTILITY INDUSTRY

Compound Annual Dividend Growth Rate
1980-1985

Years	Average Growth Rate per Increasing Company (1)
1984-1985	6.1%
1983-1984	5.9
1982-1983	5.7
1981-1982	6.4
1980-1981	7.0%

(1) Reflects average dividend growth rate of utilities which increased their dividend over the given period.

Source: Salomon Brothers, Electric Utility Dividends, January 2, 1986.

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INVESTMENT ANALYST

PROJECTED DIVIDEND GROWTH RATES

Investment Company	Electric Utility Industry
Value Line	4%
Salomon Brothers	6%
First Boston	5%
Smith Barney	4.5%
Rothschild, Unterberg, Towbin	4%

Sources: Value Line Investment Survey, June 27, 1986.
Salomon Brothers, Inc., The Outlook for Electric Utilities in 1986, January 6, 1986.
First Boston, Electric Utilities: 1985 Market Review, January 16, 1986.
Smith Barney, Electric Utilities - 1985 Dividend Report, November 14, 1985.
L. F. Rothschild, Unterberg, Towbin, Electric Utilities: The Mid-Year Outlook, July 1986.

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KANSAS CITY POWER & LIGHT COMPANY

Equity Risk Premiums From
Historical Return Relationship
Between Stocks and Bonds

	Geometric Mean Returns 1926-1985	Geometric Mean Returns 1951-1985	Equity Risk Premiums Over Long-Term Government Bonds 1926-1985	Equity Risk Premiums Over Long-Term Government Bonds 1951-1985
All Common Stocks (1)	9.8% (2)	11.4% (2)	5.5%	7.0%
Electric Utility Common Stocks (3)	--	9.6%	--	6.0%
KCPL Common Stock	--	9.9%	--	5.5%
Long-Term U.S. Government Bonds	4.1% (2)	4.1% (2)		

(1) The Standard & Poor's Composite Index.

(2) Source: Roger G. Ibbotson Associates, Inc. Stocks, Bonds, and Inflation: 1986 Yearbook.
(3) The Standard & Poor's 20 Electric Utility Index, (Standard & Poor's 22 Prior to 1983).

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Schedule 18
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FUNDS AVAILABLE TO KCPL FROM
ISSUES OF COMMON STOCK

1950 THROUGH December 31, 1985

Common Stock Issues

YEAR	Number of Shares Issued	Issue Amount	Flotation Costs	Net Proceeds	Flotation Costs As A % of Issue Amount
1950	400,122	$ 5,000,000	$ 8,444	$ 4,991,556	.17%
1952	476,688	8,421,488	195,660	8,225,828	2.32
1954	338,190	7,096,354	45,224	7,051,130	.64
1955	367,500	9,005,000	170,363	8,834,637	1.89
1972	750,000	15,250,000	510,875	14,739,125	3.35
1975	1,200,000	20,400,000	924,824	19,475,176	4.53
1976	1,200,000	21,400,000	836,885	20,563,115	3.91
1977	1,650,000	33,137,500	938,949	32,198,551	2.83
1978	1,800,000	33,900,000	1,053,300	32,846,700	3.11
1979	2,400,000	40,800,000	1,350,719	39,449,281	3.31
1980	2,250,000	27,750,000	1,558,741	26,191,259	5.62
1982	3,000,000	47,250,000	1,327,631	45,922,369	2.81
1983	3,000,000	65,250,000	1,440,252	63,809,748	2.21
Subtotal	16,832,500	$334,660,342	$10,361,867	$324,298,475	3.10% Ave.
ESOP*	588,961	10,464,078	28,461	10,435,617	.27
DRIP**	4,928,708	84,112,533	4,510,327	79,602,206	5.36
Total	24,350,169	$429,236,953	$14,900,655	$414,336,298	3.47% Ave.

Source: KCPL Books and Records

* Total from Employee Stock Ownership Since 1978
** Total from Dividend Reinvestment Plan Since 1978

KANSAS CITY POWER & LIGHT COMPANY

Market Pressure on Common Stock
From Issues in 1977 to 1983

		(A) KCPL STOCK PRICE (CLOSE)	(B) PERCENTAGE CHANGE IN KCPL STOCK PRICE	(C) DJUA (CLOSE)	(D) PERCENTAGE CHANGE IN DJUA INDEX	(E) PERCENTAGE INCREASE IN DIVIDENDS DECLARED DURING MEASUREMENT PERIOD	(F) (B - D - E) PERCENTAGE PRESSURE
1977							
1 Day Before Announcement	(2-10-77)	30.250	0.000	107.17	3.938	--	(3.938)
Date Of Pricing	(5-17-77)	30.250		111.39			
1978							
1 Day Before Announcement	(2-08-78)	28.750	(2.174)	106.13	.349	4.065	(6.588)
Date Of Pricing	(3-15-78)	28.125		106.50			
1979							
1 Day Before Announcement	(4-05-79)	25.875	(1.932)	104.87	(5.607)	3.906	(0.231)
Date Of Pricing	(5-08-79)	25.375		98.99			
1980							
1 Day Before Announcement	(1-25-80)	23.125	(20.000)	107.58	(5.382)	--	(14.618)
Date Of Pricing	(3-19-80)	18.500		101.79			
1982							
1 Day Before Announcement	(9-20-82)	25.50	(7.843)	113.04	(3.689)	--	(4.154)
Date Of Pricing	(6-15-82)	23.50		108.87			
1983							
1 Day Before Announcement	(2-22-83)	28.500	14.474	123.62	10.815	6.329	(2.670)
Date of Pricing	(10-19-83)	32.625		136.99			
Average Market Pressure on Common Stock From Issues in 1977 to 1983							(5.367)

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KCPL Exhibit No. (JJD)
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ESTIMATION OF THE COST OF EQUITY CAPITAL

Definitions:

COST OF EQUITY = Investors' Required Return Adjusted for Effects of Flotation Costs and Market Pressure

INVESTORS REQUIRED RETURN ON EQUITY = 15½%

FLOTATION COSTS = 3%

MARKET PRESSURE = 5%

Incorporating Flotation and Market Pressure into ROE:

K = Cost of Equity

$$K = \frac{R}{(1 - F) + (bF)}$$

R = Investors' Required Return on Equity (15½%)

F = Flotation Costs and Pressure (8%)

b = The Retention Rate (1.0 - Payout Ratio) = (1.0 - .55)

Solving for K based on 15½% required return:

$$K = \frac{.155}{(1 - .08) + (.45)(.08)} = \underline{16.2\%}$$

Conclusion:

THE COST OF EQUITY FOR KCPL IS APPROXIMATELY 16%.

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KANSAS CITY POWER & LIGHT COMPANY
Rate of Return

Capitalization and Rate of Return
Based on Capital Structure and Costs at December 31, 1985

($ in 000's)

Capital Component	Amount	Percent	Required Return	Weighted Return
Long-term Debt	$1,138,225	51.94%	9.16%	4.76%
Preferred/Preference Stock	211,169	9.64	10.28%	.99
Common Equity	841,950	38.42	16.00%	6.15
Total	$2,191,344	100.00%		11.90%