

THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

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TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

January 28, 2011

Jefferson City, Missouri

Volume 29

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

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

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RONALD D. PRIDGIN, Presiding  
SENIOR REGULATORY LAW JUDGE.

ROBERT CLAYTON, Chairman  
JEFF DAVIS  
TERRY M. JARRETT  
KEVIN GUNN  
ROBERT S. KENNEY,  
Commissioners.

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REPORTED BY:  
LISA M. BANKS, CCR  
TIGER COURT REPORTING, LLC

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A P P E A R A N C E S

DOUG HEALY, Attorney at Law  
Healy & Healy  
939 North Boonville Avenue  
Springfield, MO 65802  
417.864.8800

FOR: MJMEUC

DAVID WOODSMALL, Attorney at Law  
STUART CONRAD, Attorney at Law  
Finnegan, Conrad & Peterson  
428 E. Capitol, Suite 300  
Jefferson City, MO 65101  
573.635.2700

FOR: AGP/SIEUA/MEUA

CARL J. LUMLEY, Attorney at Law  
Curtis, Heinz, Garrett & O'Keefe  
130 S. Bemiston, Suite 200  
Clayton, MO 63105  
314.725.8788

FOR: Dogwood Energy, LLC

TODD J. JACOBS, Attorney at Law  
DEAN COOPER, Attorney at Law  
3420 Broadway  
Kansas City, MO 64111  
816.360.5976

FOR: Southern Union Company d/b/a Missouri Gas Energy

THOMAS R. SCHWARZ, JR., Attorney at Law  
Blitz, Bardgett & Deutsch  
308 E. High  
Jefferson City, MO 65101  
573.634.2500

For: Missouri Retailers Association

MARK W. COMLEY, Attorney at Law  
Newman, Comley & Ruth, PC  
601 Monroe Street, Suite 301  
Jefferson City, MO 65102-0537  
573.634.2266

FOR: City of Kansas City

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25

MARK W. COMLEY, Attorney at Law  
Newman, Comley & Ruth, PC  
601 Monroe Street, Suite 301  
Jefferson City, MO 65102-0537  
573.634.2266  
FOR: City of Lee's Summit

MICHAEL TRIPP, Attorney at Law  
Smith Lewis, LLP  
111 S. 9th Street  
Columbia, MO 65201  
573.443.3141  
FOR: Ameren Missouri

JAMES SWEARENGEN, Attorney at Law  
Brydon, Swearngen & England  
312 E. Capitol Avenue  
P.O. Box 456  
Jefferson City, MO 65102-0456  
573.635.0427  
FOR: The Empire District Electric Company

ARTHUR PERRY BRUDER, Attorney at Law  
1000 Independence Avenue, SW  
Washington D.C. 20585  
202.586.3409  
FOR: U.S. Department of Energy

JAMES FISCHER, Attorney at Law  
LARRY DORITY, Attorney at Law  
Fischer & DORITY, P.C.  
101 Madison Street, Suite 400  
Jefferson City, MO 65101  
573.636.6758  
FOR: Kansas City Power & Light Company

HEATHER A. HUMPHREY, Attorney at Law  
ROGER STEINER, Attorney at Law  
Kansas City Power & Light Company  
P.O. Box 418679  
Kansas City, MO 64141-9679  
816.556.2314  
FOR: Kansas City Power & Light Company

1 KARL ZOBRIST, Attorney at Law  
SUSAN CUNNINGHAM, Attorney at Law  
2 SNR Denton US LLP  
4520 Main Street, Suite 1100  
3 Kansas City, MO 64111  
816.460.2400  
4 FOR: Kansas City Power & Light Company

5  
6 CHARLES HATFIELD, Attorney at Law  
Stinson Morrison Hecker, LLP  
230 W. McCarty Street  
7 Jefferson City, MO 65101  
573.636.6263  
8 FOR: Kansas City Power & Light Company

9  
10 GLENDA CAFER, Attorney at Law  
Cafer Law Office, LLC  
3321 Southwest Sixth Street  
11 Topeka, KS 66606  
785.271.9991  
12 FOR: Kansas City Power & Light Company

13  
14 MICHAEL AMASH, Attorney at Law  
Blake and Uhlig PA  
753 State Ave., 475  
15 Kansas City, KS 66101  
913.321.8884  
16 FOR: IBEW Locals 412, 1613 and 1464

17  
18 WILLIAM STEINMEIER, Attorney at Law  
William D. Steinmeier PC  
P.O. Box 104595  
19 Jefferson City, MO 65110-4595  
573.659.8672  
20 FOR: The City of St. Joseph, Missouri

21  
22 CAPT. SHAYLA MCNEILL, Attorney at Law  
United States Air Force  
119 Sugar Sand Lane  
23 Santa Rosa Beach, FL 32459  
312.371.2673  
24 FOR: The Federal Executive Agencies

25

1 SARAH MANGELSDORF, Attorney at Law  
P.O. Box 899  
2 Jefferson City, MO 63130  
573.751.0052  
3 FOR: Missouri Department of Natural Resources

4  
5 JOHN R. KINDSCHUH, Attorney at Law  
Bryan Cave LLP  
13220 Metcalf, Suite 320  
6 Overland Park, KS 66213  
913.338.7700  
7 FOR: MIEC and FORD

8  
9 JOHN B. COFFMAN, Attorney at Law  
John B. Coffman, LLC  
871 Tuxedo Boulevard  
10 St. Louis, MO 63119  
314.395.8002  
11 FOR: AARP and Consumers Council of Missouri

12  
13 ROBERT WAGNER  
9005 N. Chatham Ave.  
Kansas City, MO 64154  
14 FOR: Pro Se Intervenors

15  
16 STEVE DOTTHEIM, Chief Deputy Counsel  
NATHAN WILLIAMS, Deputy Counsel  
JAIME OTT, Legal Counsel  
17 KEVIN THOMPSON, Chief Staff Counsel  
JENNIFER HERNANDEZ, Legal Counsel  
18 SARAH KLIETHERMES, Legal Counsel  
ERIC DEARMONT, Legal Counsel  
19 ANNETTE SLACK, Legal Counsel  
MEGHAN MCCLOWERY, Legal Counsel  
20 Public Service Commission  
200 Madison Street  
21 P.O. Box 309  
Jefferson City, MO 65102  
22 573.751.6514  
FOR: The Staff of the Missouri Public Service Commission

23  
24  
25

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2  
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LEWIS MILLS  
Office of Public Counsel  
200 Madison Street  
P.O. Box 2230  
Jefferson City, MO 65102  
FOR: Office of Public Counsel

1 JUDGE PRIDGIN: All right. Good morning. We  
2 are on the record. I understood that we would begin with  
3 Mr. Gorman and continue with cost of capital witnesses this  
4 morning.

5 And I guess I'd like to verify with counsel,  
6 number one, if that's correct; and, number two, if you have  
7 anything you need to bring up before we begin with testimony  
8 this morning?

9 MR. STEINER: Yes, Your Honor. Thanks. We  
10 had good discussions this morning. We would like to do all  
11 the cost of capital ROE witnesses starting now.

12 And then we propose that the hearing would  
13 end this week after the last ROE witness, and we would have  
14 additional discussions. So there would be no other  
15 witnesses beyond what was contemplated with the ROE cost of  
16 capital for today.

17 JUDGE PRIDGIN: And I'm looking at my list,  
18 and I'm seeing -- I'm counting six cost of capital  
19 witnesses. Were you contemplating --

20 MR. STEINER: Seven, I think.

21 JUDGE PRIDGIN: Seven. Are you contemplating  
22 getting them on and off the stand today?

23 MR. STEINER: That's correct.

24 JUDGE PRIDGIN: All right. Zoom, zoom, zoom.  
25 I'm ready when you are.

1 Anything else?

2 MR. MILLS: Judge.

3 JUDGE PRIDGIN: Mr. Mills.

4 MR. MILLS: It was my understanding that  
5 doing the mini openings yesterday was an option, and that  
6 today is also an option.

7 JUDGE PRIDGIN: Correct.

8 MR. MILLS: Because I would like to do a mini  
9 opening today.

10 JUDGE PRIDGIN: Absolutely.

11 MR. MILLS: And I understand that we have a  
12 lot more witnesses. I will do a very, very mini, mini  
13 opening.

14 JUDGE PRIDGIN: Yeah. And that opportunity  
15 goes to anyone. I think I asked yesterday, and I think only  
16 the company gave a mini opening on return on equity.

17 MR. DEARMONT: Staff did, too.

18 JUDGE PRIDGIN: No. I'm sorry.

19 MR. MILLS: I think Mr. Woodsmall did.

20 JUDGE PRIDGIN: Mr. Dearmont did, and  
21 Mr. Woodsmall.

22 MR. MILLS: Everybody but me.

23 JUDGE PRIDGIN: I'm sorry. I'm tired.  
24 Everybody except Mr. Mills did one. So besides that, I got  
25 it right. Okay.

1                   So you would want to give a mini opening  
2 before we go on to evidence; is that correct?

3                   MR. MILLS: Yes.

4                   JUDGE PRIDGIN: All right.

5                   Is there anything else, then, before  
6 Mr. Mills gives his opening on cost of capital?

7                   MR. KINDSCHUH: Yeah, Judge. This is John  
8 Kindschuh with the MIEC. I would like to prepare a mini  
9 opening, as well.

10                  JUDGE PRIDGIN: Absolutely. All right.

11                  Anything else?

12                  All right. Mr. Mills, when you're ready,  
13 sir.

14                  MR. MILLS: And I'm not really -- I'm not  
15 going to take very long, because we've got a lot of  
16 witnesses to do, and I think that Mr. Dearmont and  
17 Mr. Woodsmall did a good job yesterday. I'm going to echo a  
18 couple of things that they brought up.

19                  And in particular, I'm going to talk about  
20 the question of the whole zone of reasonableness concept and  
21 the growth rates.

22                  And with respect to the -- to the zone of  
23 reasonableness, the way the Commission has implemented it  
24 and the way that the parties talked about it in their  
25 openings yesterday, it necessarily implies looking at

1 actions that commissions have done in the past.

2           Because if you're looking at historically  
3 awarded ROEs, you're necessarily looking at things that  
4 commissions have already done. And even if you look at the  
5 recent past, that means that the change in the ROEs around  
6 the country will be slower than it otherwise would be, and,  
7 in fact, slower than it ought to be.

8           So, for example, if the Missouri Commission  
9 in this case looks at the last two quarters of 2010 of  
10 awarded returns as reported by the RRA, it's likely that the  
11 commissions making those awards were probably looking  
12 backwards themselves at the RRA data from the first two  
13 quarters of 2010.

14           And, of course, the commissions making the  
15 decisions in the first two quarters of 2010 were looking  
16 back at 2009 and so on.

17           So looking at what other commissions have  
18 done, particularly if you focus at a point rather than the  
19 trend in where returns are going, it appropriately brings  
20 past economic conditions into the analysis.

21           And I understand that there's -- that the  
22 pressure is there. And it's not just in Missouri; it's the  
23 same pressure in every state. The Missouri Commission has  
24 utilities telling the Missouri Commission that you will have  
25 trouble attract -- that the Commissions -- the utilities

1 regulated by the Missouri Commission will have trouble  
2 attracting capital if the Missouri Commission goes below  
3 what other states did last year.

4           And every state, and every utility in every  
5 state, is saying the same thing to their state commissions.  
6 And as a result, awarded ROEs to regulated utilities  
7 continue to be way higher than the required returns.

8           And I think it's important to focus in on  
9 that, because what we're trying to do with respect to the  
10 ROE is to determine what return is required by investors to  
11 continue to invest in KCP&L and GMO.

12           And that brings me to the growth rate.  
13 Because if what we're trying to do is try to understand what  
14 investors are looking at and what investors believe when  
15 they do an analysis of KCPL and GMO, we need to understand  
16 what it is that investors are likely to think in terms of  
17 the growth rate.

18           And I think if you look in particular at the  
19 growth rate that Dr. Hadaway has proposed in this case, that  
20 leads to some absurd results. And I think it's way beyond  
21 what anybody would expect a reasonable investor to assume is  
22 going to take place with respect to the growth of KCPL and  
23 GMO.

24           Dr. Hadaway has proposed in his DCF  
25 calculations a growth rate -- a long-term growth rate of 6

1 percent. And 6 percent doesn't really seem that high until  
2 you really put it in context.

3           If you really believe that KCPL and GMO will  
4 grow at a 6 percent rate indefinitely, that means that  
5 revenues -- because we're talking about growth and  
6 revenues -- revenues will double in just 12 years.

7           Think about that. Twelve years from now, if  
8 you -- if you -- if you postulate a 12 -- a 6 percent growth  
9 rate starting today, 12 years from now, KCPL's revenues will  
10 be double. That's absurd. No rational investor is  
11 expecting that.

12           If, on the other hand, you look at a 3  
13 percent growth rate, it takes almost 24 years for revenues  
14 to double. If you look at a 3 -- I'm sorry -- a 3 percent  
15 growth rate is about 24 years. A 2 percent growth rate,  
16 revenues would double in 35 years.

17           So I think somewhere in the neighborhood of 2  
18 or 3 for a growth rate is a much more rational expectation  
19 to approximate what investors are thinking about. And I  
20 think that's exactly what the Commission should try to do in  
21 this issue.

22           And as a result, I recommend that the  
23 Commission give little weight to Dr. Hadaway's  
24 recommendation for ROE in this case, and look instead to the  
25 recommendations of Dave Murray from the Staff and Mike

1 Gorman for the industrials.

2 Thank you.

3 JUDGE PRIDGIN: Mr. Mills, thank you.

4 And Counsel, when you're ready. And could  
5 you give me your name and your client again, please. I'm  
6 sorry.

7 MR. KINDSCHUH: Sure. Yes. My name is John  
8 Kindschuh, and I'm here on behalf of the MIEC -- the  
9 Missouri Industrial Energy Consumers.

10 The MIEC is co-sponsoring the revenue  
11 requirement testimony of Mike Gorman today. The MIEC  
12 supports and echoes Mr. Woodsmall's opening remarks on this  
13 issue yesterday.

14 Thank you.

15 JUDGE PRIDGIN: Thank you very much.

16 All right. Anything further before  
17 Mr. Gorman takes the stand?

18 All right. Mr. Gorman, when you're ready,  
19 sir. If you'll raise your right hand to be sworn, sir.

20 (Witness sworn.)

21 JUDGE PRIDGIN: Thank you very much, sir.

22 Please have a seat.

23 Mr. Woodsmall, when you're ready, sir.

24 MR. WOODSMALL: Thank you, Your Honor.

25 MICHAEL GORMAN testifies as follows:

1 DIRECT EXAMINATION BY MR. WOODSMALL:

2 Q. Good morning, Mr. Gorman.

3 A. Good morning.

4 Q. Could you give us your name and business  
5 address for the record, please.

6 A. My name is Michael Gorman. My business  
7 address is 16690 Swingley Ridge Road, Chesterfield,  
8 Missouri.

9 Q. And did you cause to be filed in this case  
10 what has been marked as Exhibit Number 1203, which is your  
11 direct testimony in the KCP&L case, 1204, the rebuttal  
12 testimony, 1205, the surrebuttal testimony; and then on the  
13 GMO case, 1403, 1404, 1405?

14 A. Yes.

15 Q. Do you have any corrections, clarifications  
16 to that testimony?

17 A. No corrections to that testimony, no.

18 Q. Do you have any clarifications regarding your  
19 recommended return on equity?

20 A. I do. In the time period between filing the  
21 KCP&L and KCPL/GMO testimony, I revised my estimated return  
22 on equity from 9.65 percent down to 9.5 percent based on  
23 declining capital market costs during that period.

24 Since I filed the GMO testimony, the capital  
25 market costs have since gone back up, so I would recommend

1 that a 9.65 percent return on equity be awarded for both  
2 KCP&L and KCP&L/GMO.

3           Those return on equities, I believe are  
4 consistent with recent Commission findings, for AmerenUE in  
5 particular, where the Commission awarded a 10.1 percent  
6 return on equity, but capital market costs have decreased in  
7 the range of 20 to 30 basis points since that time.

8           So that puts an adjusted previous authorized  
9 return on equity for AmerenUE well within my recommended  
10 range for these utilities of 9.4 to 9.9 percent, with my  
11 recommended midpoint of 9.65 percent.

12           Q.     Thank you. And with that clarification to  
13 your six pieces of testimony, would your answers be correct,  
14 to the best of your knowledge and belief?

15           A.     Yes.

16           MR. WOODSMALL: With that, Your Honor, I  
17 would offer Exhibits 1203, 1204, 1205 in the KCP&L case;  
18 1403, 1404, 1405 in the GMO case, and tender the witness for  
19 cross-examination.

20           JUDGE PRIDGIN: Mr. woodsmall, thank you.  
21 Any objection to those exhibits?

22           MR. ZOBRIST: No objection.

23           JUDGE PRIDGIN: All right. Hearing none,  
24 those exhibits are admitted.

25           (Wherein; Industrials Exhibit Nos. KCPL 1203,

1 KCPL 1204, KCPL 1205, GMO 1403, GMO 1404 and 1405 were  
2 received into evidence.)

3 JUDGE PRIDGIN: Mr. Gorman is ready for  
4 cross.

5 Mr. Mills.

6 MR. MILLS: No questions.

7 JUDGE PRIDGIN: Mr. Dearmont or Mr. Thompson.

8 MR. DEARMONT: No questions. Thank you.

9 Mr. Zobrist?

10 Anyone else with cross?

11 JUDGE PRIDGIN: All right. Mr. Zobrist.

12 CROSS-EXAMINATION BY MR. ZOBRIST:

13 Q. Good morning, Mr. Gorman.

14 A. Good morning.

15 Q. I appreciate your clarifying the  
16 recommendation that you made here. And if I understood you  
17 correctly, when Mr. Woodsmall was just asking you this  
18 question, you've restored your recommendation to the 9.65  
19 based upon increased costs in the capital markets; is that  
20 correct?

21 A. Yes.

22 Q. Okay. Yesterday when the company's expert,  
23 Dr. Hadaway, was on the stand, a number of the lawyers had a  
24 discussion with him about the trough, so to speak, that  
25 occurred in interest rates.

1                   And I want to show you -- this happens to be  
2 the U.S. Treasury five-year note during 2011. And just ask  
3 you if this is a fair representation of what we've seen, at  
4 least in this interest rates -- these interest rates?

5                   Have you had a chance to take a look at  
6 that, Mr. Gorman?

7           A.       Yes. Yes.

8           Q.       Is that generally an accurate representation  
9 of what the five-year Treasury had done during the year  
10 2010?

11          A.       well, I can't speak specifically for this  
12 document, but it appears to be generally consistent with  
13 what my -- I recall the five-year Treasury yield cycle to  
14 be.

15          Q.       Okay. Thank you. And so, we've sort of hit  
16 a trough in interest rates in October and November, and then  
17 they have come up since that time. Is that a fair  
18 characterization?

19          A.       well, the five-year Treasury certainly hit a  
20 bottom during that time period, and has come back.

21          Q.       Okay. Did the long-term 30-year Treasury hit  
22 a bottom approximately at that time, and then come back up?

23          A.       It did move up and down during that period,  
24 and has come back up since then. I don't know if it's as  
25 dramatic as this five-year Treasury note.

1 Q. Okay.

2 MR. ZOBRIST: I don't know the numbers -- so  
3 I have to look at the number to see what they're going to --  
4 Judge, I would ask that that be marked as the next Company  
5 exhibit in both the KCPL and the GMO cases. I don't have  
6 that number available.

7 JUDGE PRIDGIN: I have KCPL as 100. I don't  
8 know that I would have a GMO number for you, because that  
9 case hasn't started yet --

10 MR. ZOBRIST: Okay.

11 JUDGE PRIDGIN: -- and I'm not sure what will  
12 happen there.

13 (Wherein; KCP&L Exhibit No. KCPL-100 was  
14 marked for identification.)

15 MR. ZOBRIST: well, I would offer KCPL  
16 Exhibit 100 at this time, then.

17 JUDGE PRIDGIN: Any objections?

18 MR. WOODSMALL: Your Honor, I'd object to the  
19 extent that Mr. Gorman said that this represents, visually,  
20 a representation of how he understands interest rates have  
21 gone. He was not able to say that these are -- numbers are  
22 correct.

23 So to the extent this is being offered for  
24 the numbers that are contained here, I would object. If  
25 it's being offered just to show generally the shape of the

1 curve over the last year, I wouldn't object.

2 MR. ZOBRIST: And Judge, my offering is based  
3 on what Mr. Gorman said. And so I don't have a problem with  
4 the limitations that Mr. Woodsmall has asked for.

5 JUDGE PRIDGIN: Okay. Very good.

6 with that understanding --

7 MR. MILLS: And Judge --

8 JUDGE PRIDGIN: Yes.

9 MR. MILLS: Can I ask a clarifying question?

10 JUDGE PRIDGIN: Yes.

11 MR. MILLS: What is the source of this  
12 document?

13 MR. ZOBRIST: Market Data Center. I mean, I  
14 think the ultimate source is the United States Treasury.  
15 But it came off this Market Data Source website. But it's  
16 the U.S. Treasury five-year note as of January 21, 2011.

17 MR. MILLS: Okay. And just so that I'm  
18 understanding this, this is only being offered to show that  
19 there was a trough and a rebound, and we're not verifying  
20 that as of 01/21/2011 that these were the actual numbers.  
21 Is that correct?

22 MR. ZOBRIST: Well, I'm -- I'm not offering  
23 it for the purpose of the exact numbers. But I am offering  
24 it for the purpose of the trend, which I believe Mr. Gorman  
25 has confirmed.

1 MR. MILLS: With that, I have no objection.

2 JUDGE PRIDGIN: All right. Offered for that  
3 purpose, KCP&L Number 100 is admitted. And let me also give  
4 it the same number for the GMO case. I think that was the  
5 purpose of having the different numbers. So --

6 (Wherein; KCP&L Exhibit No. KCPL 100 was  
7 received into evidence.)

8 (Wherein; KCP&L Exhibit No. GMO 100 was  
9 marked for identification.)

10 MR. ZOBRIST: All right. Thank you, Judge.  
11 Because I was going to say, at least for this purpose of the  
12 case, the ROE -- the return on equity witnesses, and at  
13 least certain of the cost of capital witnesses, are being  
14 offered in both cases, although we have one or two discreet  
15 GMO issues to be dealt with when we come back here in a  
16 couple of weeks.

17 JUDGE PRIDGIN: All right. Thank you.

18 BY MR. ZOBRIST:

19 Q. Now, Mr. Gorman, in your discounted cash flow  
20 analysis, you did both a constant growth, a sustainable  
21 growth, and a multi-stage growth model. Correct? You ran  
22 those models?

23 A. Yes.

24 Q. Okay. And am I correct that you relied upon  
25 the 31 company group of comparable companies that

1 Dr. Hadaway proposed?

2 A. Yes.

3 Q. Okay. And in your constant growth DCF model,  
4 you used an average of the ZACKS -- Z-A-C-K-S -- SNL  
5 Financial and the Reuters' growth rates; is that correct?

6 A. It is.

7 Q. Okay. And I believe that you stated in your  
8 direct in the KCPL case, around Page 20, that there was a  
9 consensus of published economists who project growth of no  
10 more than 4.8 percent and 4.7 percent over the next five and  
11 ten years; is that correct?

12 A. Well, the proxy group average, three- to  
13 five-year growth forecast by the sources, produced an  
14 average for the proxy group of about 5.68 percent and 5.41  
15 percent.

16 Q. Okay. Well, the consensus published  
17 economists that you quoted seems to be lower in your direct  
18 testimony, at 20. Is that -- have you changed that opinion,  
19 or -- help me out on that.

20 A. Well, at Page 20 of my direct testimony, for  
21 KCP&L --

22 Q. Correct.

23 A. -- I list the average and median proxy group  
24 growth rate estimates as 5.68 percent and 5.41 percent.

25 Q. All right. All right. And so the consensus

1 of published economists who project growth of no more than  
2 4.8 percent, 4.7 percent, you think that's low?

3 A. No. I think that three- to five-year growth  
4 rate outlook is reasonable for the next three to five years.

5 Q. All right.

6 A. I think it's too high to be sustainable  
7 indefinitely.

8 Q. Okay. Now, did you have a chance to look at  
9 the Congressional Budget Office outlook report that came out  
10 on Wednesday, January 26th?

11 A. Briefly, yes.

12 Q. Okay. And is it true that it raised its  
13 projected growth rate for 2013 to 2016 to 5.1 percent?

14 A. For the GDP?

15 Q. Yes.

16 A. Yes.

17 Q. Okay. Okay. Now, on -- there was a summary  
18 in your direct testimony -- I believe it's around Page 27 of  
19 the KCPL direct -- it's Table 2, where you have both mean  
20 and average results; is that correct?

21 A. For Table 2 on Page 27, they contain the  
22 proxy group medians, I believe. Let me verify that. Yeah.  
23 The proxy group medians are shown in Table 2 on that page.

24 Q. Okay. Now, would your results change if you  
25 used the average results in that calculation?

1 A. They would change, yes.

2 Q. Okay. And am I correct that if the average  
3 results had been used for KCP&L, it would have been 10.00  
4 percent, as opposed to the 9.88 percent that is appearing on  
5 Table 2?

6 A. I will accept that, subject to check.

7 Q. Okay. And similarly, with the GMO -- I  
8 believe there's a Table 2 in your direct there -- the  
9 result, had you used the average, would have been about 13  
10 points higher; it would have risen from 9.82 percent to 9.95  
11 percent?

12 A. 9.95?

13 Q. Yes, sir.

14 A. I'll accept that, subject to check.

15 Q. Okay. Thank you. Now, let's just talk a  
16 minute about growth rates. I want to confirm the growth  
17 rates that you used in your models, if I could, please.

18 The constant growth rate that you used -- and  
19 maybe a better way of phrasing it is saying, the growth rate  
20 you used for your constant growth model was 5.41 percent; is  
21 that true?

22 A. Well, the proxy group median growth rate is  
23 5.41 percent.

24 Q. And if you had used the average, it would  
25 have been 5.63 percent; is that correct?

1 A. Yes.

2 Q. Now, for the long-term -- I think you called  
3 it a sustainable growth model, you used a median percentage  
4 of 4.61; is that correct?

5 A. Yes.

6 Q. And if you had used the average, it would  
7 have been 5.89 percent. Correct?

8 A. 4.89 percent.

9 Q. I'm sorry. 4.89.

10 A. Yes. Right.

11 Q. And the multi-stage model that you ran for  
12 the multi-stage growth analysis, you used a growth rate of  
13 4.75 percent, which was an average of the blue chip, 4.7  
14 percent for years one through five, and then 4.8 percent for  
15 years six through ten?

16 A. Correct.

17 Q. Okay. And in examining analyst growth rates,  
18 your sources were ZACKS, SNL and Reuters; is that correct?

19 A. Yes.

20 Q. Okay. Now, if I can turn to your risk  
21 premium analysis, the risk premium analysis is done on the  
22 premise that investors require a higher rate of return to  
23 take on the greater risk of common stock versus debt; is  
24 that correct?

25 A. It is.

1 Q. Okay. And you conducted two analysis. One  
2 was taking utility common equity investments and -- pardon  
3 me -- utility common equity investments based upon returns  
4 on equity authorized by public utility commissions?

5 A. Correct.

6 Q. Okay. And you took that in on your Stage 1,  
7 looked at that versus U.S. Treasury bonds. In Stage 2, you  
8 took the ROEs, and you compared them with utility bonds; is  
9 that correct?

10 A. That is.

11 Q. Okay. And there was no authorized return on  
12 equity in your model that was below 10.36 percent; is that  
13 correct?

14 A. Yes.

15 Q. Okay. Now, on the capital asset pricing  
16 model that you ran, the range that you came up with for --  
17 and I'll just take KCP&L -- was 8.33 percent to 9.38  
18 percent, with a midpoint of 8.86 percent; is that correct?

19 A. Well, at Page 39, I summarize results. And  
20 the range for -- did you say -- I'm sorry -- KCP&L?

21 Q. Yes, sir.

22 A. Yeah. The range for KCP&L was 8.33 to 9.38.  
23 But I used the high end of that range rounded to  
24 9.4 percent --

25 Q. Okay.

1 A. -- to estimate their -- to support my  
2 recommended range.

3 Q. So you took the high range, which was 9.38  
4 percent, and then you actually rounded it up to 9.4 percent?

5 A. Yes.

6 Q. Okay. Why did you round it up even further  
7 beyond your range?

8 A. It just seemed reasonably comparable to say  
9 9.38 and 9.40 percent -- just rounded the numbers. There's  
10 a lot of estimation that goes into these numbers, and I just  
11 wanted to make it a --

12 Q. Well, did --

13 A. -- whole number.

14 Q. -- did you believe that it was so low that --  
15 so far below investors' expectations that it was reasonable  
16 for you to go to the high end, rather than the low end?

17 A. In this case, based on these results and  
18 based on bond yields and stock prices, I would say yes, I  
19 felt more comfortable giving all weight to the high end of  
20 my CAPM return estimate in this case.

21 Q. Okay. Will you generally agree with the  
22 proposition that government monetary policies in the form of  
23 these low interest rates and investors' flight to safety  
24 will cause the CAPM analysis to be one that understates  
25 market costs?

1           A.       I don't agree with that, no. Government  
2 monetary policy has a bigger impact on short-term interest  
3 rates. Long-term interest rates are driven more by market  
4 forces.

5                   The CAPM model is based on long-term interest  
6 rates, not short-term interest rates. So it is driven  
7 predominantly by long-term -- by the -- the investment  
8 community and how they set long-term interest rates.

9                   One important characteristic of the CAPM in  
10 this marketplace is that beta estimates have come down to  
11 more normal levels for utility companies -- about .7  
12 approximately.

13                   If you look at utility betas over a very long  
14 period of time, you'll see they average about .7 during that  
15 time. Utility betas can be quite volatile, moving as high  
16 as .9 in some markets, down to as low as .5 in other  
17 markets.

18                   So I believe the CAPM return estimate is  
19 impacted by long-term Treasury bonds, which are  
20 market-driven interest rate instruments. But based on my  
21 judgment, I just felt more comfortable giving all weight to  
22 the high end of my CAPM return estimate in this case.

23           Q.       Okay. And it's certainly appropriate for  
24 experts like yourself, like Dr. Hadaway, like Mr. Murray, to  
25 use your judgment in coming to conclusions that you believe

1 are reasonable?

2 A. I believe so. The reliability of these  
3 models can vary between rate case to rate case.

4 In one case where the CAPM return is  
5 producing a reasonable estimate, and I'll give a full  
6 consideration to the entire range would be appropriate.

7 In other cases, I might find it to be too  
8 high. In some cases, I might find it to be too low.

9 This is one of those cases where I was  
10 concerned about it coming in a little bit low, so I went to  
11 the high end of the range to help form my recommended range  
12 for KCP&L and GMO.

13 Q. Okay. Thank you. Let's go back to your risk  
14 premium analysis. You and Dr. Hadaway had a debate on  
15 rebuttal and surrebuttal about the relationship of risk  
16 premiums when interest rates are low. Do you recall that,  
17 generally?

18 A. Well, his argument is there is a simplistic  
19 inverse relationship between interest rates and equity risk  
20 premiums, and my position is that the relationship is more  
21 complicated than that; it's driven by changes in perceptions  
22 of risk between bond investments and equity investments, and  
23 not just simply nominal interest rate variations.

24 Q. Now, to be fair, you're the witnesses that  
25 used the word "simple." Correct? You believe that

1 Dr. Hadaway's position is a simplistic approach?

2 A. Yes.

3 Q. Okay. Dr. Hadaway didn't use the word simple  
4 or simplistic. Correct?

5 A. He didn't use the word, but his analysis is  
6 based on a very simplistic relationship.

7 Q. So if I understand your position, you don't  
8 say when risk premiums are higher, it's not -- or that when  
9 interest rates are low, it's not true that interest -- let  
10 me start again -- that when -- that when risk premiums are  
11 higher --

12 when interest rates are low, you don't say  
13 there isn't a relationship; you just disagree with the  
14 interpretation that Dr. Hadaway puts on this inverse  
15 relationship?

16 A. I disagree with Dr. Hadaway that it's only  
17 based on changes in nominal interest rates. I think there  
18 are other important factors that help describe where an  
19 appropriate equity risk premium is. It's not simply  
20 interest rate variations.

21 Q. Okay. Now, do you recall Dr. Hadaway's  
22 surrebuttal testimony? I happen to have the page from his  
23 GMO surrebuttal. Do you have any of Hadaway's testimony in  
24 front of you?

25 A. I'm sorry. I do not.

1 Q. Let me show you the page that I'm going to  
2 refer to, here.

3 MR. ZOBRIST: For the -- for Counsel, it's  
4 Page 10 of the GMO testimony of Dr. Hadaway.

5 And Judge, this is just really for  
6 demonstrative purposes, because I think this is already in  
7 the record. But I think it will be easier for Mr. Gorman  
8 and I to have a conversation about this. So this is Page 10  
9 of Dr. Hadaway's surrebuttal testimony in the GMO case.

10 JUDGE PRIDGIN: Thank you.

11 BY MR. ZOBRIST:

12 Q. Mr. Gorman, do you remember this Table 1 in  
13 Dr. Hadaway's surrebuttal?

14 A. Yes.

15 Q. Okay. Now, he, in response to your criticism  
16 of his view of the inverse relationship of low interest rate  
17 and high equity premiums, measured the average interest rate  
18 during three periods of time.

19 One was 1981 to 1983, when interest rates  
20 were very high; 1999 to 2001, when they were at least lower;  
21 and then today, 2008 to 2010, when they were quite low. Do  
22 you recall that?

23 A. I do recall this --

24 Q. Okay.

25 A. -- this testimony, yes.

1 Q. Do you have any dispute with the data he used  
2 to form Table 1?

3 A. Well, I do with respect to whether or not  
4 he's measuring the volatility appropriate interest rate  
5 instrument.

6 The publication I was referring to was  
7 Morningstar. Morningstar reviewed the interest rate  
8 volatility of Treasury instruments.

9 He's reviewing the interest rate volatility  
10 of BAA utility bonds. The variation in BAA utility bonds  
11 can reflect a lot of other factors, rather than just  
12 volatility of the market changes in interest rates.

13 So it isn't a direct measure of whether or  
14 not interest rate volatility is causing an impact on equity  
15 risk premiums, which is what Morningstar is attempting to  
16 measure.

17 Rather his is a measure of the interest rate  
18 volatility of utility securities, which is impacted by  
19 market factors impacting interest rates, as well as industry  
20 factors, affecting the investment risk characteristics of  
21 utility companies during this period.

22 Q. And I understand your difference of opinion  
23 with Dr. Hadaway. But is the data that he's quoting direct,  
24 did you find any flaws in the actual numbers that he  
25 reported here in the table, and I believe in Hadaway

1 schedule SCH-2010-12?

2 A. I did not attempt to replicate these numbers.  
3 I didn't validate their accuracy.

4 Q. Okay. So you don't have -- you can't say  
5 they're good, you can't say they're bad; you don't have an  
6 opinion?

7 A. Correct.

8 Q. Okay. Did -- do you recall that Dr. Hadaway  
9 stated that he applied a standard regression analysis to  
10 calculate the interest rate adjustment factors that he made  
11 to take into account the inverse relationship between equity  
12 risk premiums and interest rates?

13 A. Yes.

14 Q. Okay. Did you do such a regression analysis?

15 A. I reviewed his regression analysis. But  
16 again, I don't think that's an appropriate analysis to  
17 capture the change in investment risk perceptions of equity  
18 securities versus debt securities, which is the factor that  
19 helps describe what an appropriate equity risk premium is.

20 Q. And my question was, sir, did you conduct a  
21 regression analysis yourself?

22 A. I did not do an independent regression  
23 analysis. I did review his work papers on that regression.

24 Q. Okay. Thank you. Now, in your criticism of  
25 Dr. Hadaway's risk premium analysis, around Page 11 of your

1 rebuttal, you noted Dr. Hadaway's consideration of projected  
2 interest rates, and you were critical of that; is that true?

3 A. Yes.

4 Q. Okay. Now, you yourself have used projected  
5 estimates of the 30-year long-term bond rate in your risk  
6 premium analysis, as well, though, didn't you?

7 A. Yeah. I used both current observable  
8 interest rates and projected interest rates.

9 Q. Okay. I just have a couple of final  
10 questions with regard to Mr. Murray's rebuttal. Mr. Murray  
11 is the Staff expert. Did you read Mr. Murray's rebuttal?

12 A. Yes.

13 Q. Okay. Now, do you recall at Page 20 that he  
14 criticized and raised concerns regarding your constant  
15 growth DCF analysis, because he felt that your study was  
16 based on sustained growth rates that are still above what  
17 investors would reasonably expect?

18 A. I would have to review his testimony  
19 specifically, but that was one concern Mr. Murray had with  
20 my analysis, yes.

21 Q. And did you respond to Mr. Murray in your  
22 surrebuttal?

23 A. No.

24 Q. Do you agree with Mr. Murray's criticisms?

25 A. Well, generally, yes, for the reasons

1 outlined in my direct testimony, where I also state concern  
2 with the sustainability in the analyst growth rate  
3 estimates.

4 Q. But you didn't respond to him in your  
5 surrebuttal. Correct?

6 A. I didn't -- no, I did not.

7 Q. Okay. Did you change your analysis as a  
8 result of Mr. Murray's criticisms?

9 A. I did not.

10 Q. Okay. Now, Mr. Murray offered some concerns  
11 regarding your risk premium analysis, because he stated it  
12 assumed that ROEs, returns on equity, issued by regulatory  
13 commissions represented market-determined costs of equity  
14 for electric utilities. Do you recall that?

15 A. I think generally, yes.

16 Q. Okay. And am I correct, you did not respond  
17 to Mr. Murray in your surrebuttal?

18 A. That's correct.

19 Q. Okay. And did you change your analysis with  
20 regard to his criticisms?

21 A. I did not.

22 Q. Okay. Now, Mr. Murray also criticized your  
23 use of using a BAA utility bond in the second stage of your  
24 risk premium analysis, instead of either using BAA or BAAs  
25 all the way through, or A-rated all the way through. Do you

1 remember that criticism?

2 A. Generally, yes.

3 Q. And again, you didn't respond to that  
4 criticism in your surrebuttal, did you?

5 A. No.

6 Q. Okay. And you have not changed your  
7 analysis?

8 A. I have not.

9 Q. Okay. Okay.

10 MR. ZOBRIST: Judge, that's all I have.

11 JUDGE PRIDGIN: Mr. Zobrist, thank you.

12 Let's see if we have any bench questions.

13 Commissioner Jarrett.

14 COMMISSIONER JARRETT: I don't have any  
15 questions. Thank you.

16 THE WITNESS: You're welcome.

17 COMMISSIONER JARRETT: Thank you.

18 JUDGE PRIDGIN: Commissioner Kenney.

19 COMMISSIONER KENNEY: Mr. Gorman, how are  
20 you?

21 THE WITNESS: Very good, Commissioner. Thank  
22 you.

23 COMMISSIONER KENNEY: Can you see and hear me  
24 okay?

25 THE WITNESS: I can, yes.

1 QUESTIONS BY COMMISSIONER KENNEY:

2 Q. Good. Good. I don't have too many  
3 questions.

4 I just want to ask a couple of general  
5 questions about three different methods -- the discounted  
6 cash flow, the risk premium and the CAPM model.

7 would it be fair to say that deriving of the  
8 appropriate return on equity is part art and part science?

9 A. That's a fair description, yes.

10 Q. And just generally speaking, which of the  
11 three methods is, in your opinion, the best or the most  
12 accurate in deriving the appropriate ROE between the DCF,  
13 the risk premium, the CAPM model?

14 A. Well, I've been doing these studies for about  
15 25 years now, and it's my opinion based on that length of  
16 time I've been doing these studies that you should give  
17 consideration to all three methods.

18 At any point in time, market conditions and  
19 data available for those models can produce returns which  
20 are not reasonable by themselves. That's true for the DCF.  
21 I believe it's true for the risk premium. And I also  
22 believe it's true for the CAPM.

23 By performing all three of those models, you  
24 have a broad assessment of different information to help  
25 estimate what the current market cost of capital is, current

1 equity capital is for a utility.

2           And that's necessary because any one of those  
3 models can produce results at any point in time that may not  
4 be a reasonable estimate of what that market cost of equity  
5 is.

6           So I believe it's important to give  
7 consideration to all three of those methodologies in each  
8 rate case.

9           Q.       So the science would be in the calculations,  
10 and then the art would be in synthesizing the three models  
11 and deciding on an appropriate ROE?

12          A.       I think the art is looking at the data --  
13 generally, yes. I think the art component is looking at the  
14 data to determine whether or not the result is a rational  
15 expectation.

16                I mean, there's an adage in investing that if  
17 it sounds too good to be true, it probably is. And you can  
18 get that sense by looking at the data in some of these  
19 studies -- for example, a growth rate and a DCF model --  
20 that is a wild expectation of what a reasonable expectation  
21 of future long-term sustainable growth rate could be.

22                Consequently, the DCF models, in some cases,  
23 are producing numbers that are too high. There are other  
24 instances where a DCF model growth rate can be reasonable,  
25 but the constant growth rate result is so low that it's

1 below what I've found to be a reasonable return on equity,  
2 and it fell below my recommended range in some cases.

3           CAPM returns can be -- can vary significantly  
4 from rate case to rate case, also, because of changes in  
5 beta factors, which are driven by market run-up in utility  
6 stock prices rather than changes in investment risk of  
7 utility investments.

8           And that gives the false impression that  
9 utility industry investments are getting more risky by  
10 measuring the beta estimate, when all other risk factors  
11 describing the industry suggest the risk is either level to  
12 declining.

13           So in some instances, the CAPM result can be  
14 skewed high. Or in other instances, like in this case,  
15 it's, I believe, a little low.

16           So I think the science is to collect as much  
17 information using rational inputs to these models as you can  
18 collect in order to make a decision -- an informed  
19 decision -- on whether current market cost to capital is  
20 based on as much information as available to you, and then  
21 critically evaluate the results of each of the analyses and  
22 the data used to create those results to make a judgment on  
23 where the current market cost of equity is.

24           Q.     Very good. Thank you. And then, finally,  
25 what, if any, impact does the utility's frequency of coming

1 in for a rate case have on selecting an appropriate growth  
2 rate, if it does at all?

3 A. It really shouldn't have an impact on that.  
4 I mean, the frequency of a utility rate case might be an  
5 indication of their construction cycle, so if rate base  
6 grows, they are going to file more frequent rate cases.  
7 That would help support an expectation of very high  
8 short-term growth rate.

9 But that is really driven by the expectation  
10 that prices will reflect their cost of service. And their  
11 cost of service is driven by investments in utility plant  
12 and equipment, which in turn can generate a lot of rate case  
13 activity or little rate case activity, if there is not  
14 significant growth in rate base.

15 So there is a relationship there, but the  
16 growth rate is not driven by the frequency of rate case  
17 filings; rather, the growth rate is driven by increases in  
18 earnings outlooks for the utility, which is a direct  
19 function of how much growth there is in the utility rate  
20 base.

21 COMMISSIONER KENNEY: I don't have any other  
22 questions. Thank you very much for your time.

23 THE WITNESS: Thank you.

24 JUDGE PRIDGIN: All right. Commissioner  
25 Kenney, thank you.

1 Any recross based on bench questions?

2 MR. ZOBRIST: No questions.

3 JUDGE PRIDGIN: All right.

4 Redirect?

5 MR. WOODSMALL: Thank you, Your Honor.

6 REDIRECT EXAMINATION BY MR. WOODSMALL:

7 Q. Mr. Gorman, you were given Exhibit 100. Do  
8 you recall that exhibit?

9 A. Yes.

10 Q. Do you know what interest rates are -- do you  
11 know if interest rates today are lower than what they're  
12 expressed on that Exhibit 100, today?

13 A. For five-year Treasury notes, you know, I'd  
14 have to check. The last time I looked at a five-year note,  
15 this is about where interest rates were.

16 Q. Okay. Can you tell me how -- you were  
17 generally able to verify the shape of this trough. But  
18 extending back a little ways prior to this time, can you  
19 tell me how interest rates compare now to where they were  
20 when the UE studies were prepared?

21 A. I would say there's probably another trough  
22 during the UE case, as well.

23 I mean, short-term interest rates in  
24 particular, because of that monetary policy, have been  
25 moving to, you know, the 2 to 3 percent area, down to less

1 than 1 percent, because the short-term interest rates are so  
2 heavily keyed into the Federal Reserve monetary policy  
3 changes.

4           And then that is what's largely driving the  
5 volatility in the short-term interest rate market, which is  
6 what this table shows.

7           So we -- there was considerable volatility in  
8 short-term interest rates over the last few years.

9           Q.       Can you tell me how, though, how the interest  
10 rates compare today to the interest rates when you prepared  
11 your UE studies?

12           A.       Well, I more carefully focused on long-term  
13 interest rates. And long-term interest rates today are  
14 lower than they were at the time I prepared my AmerenUE  
15 testimony. And they're also lower today than the AmerenUE  
16 witness, when he revised his return on equity study, as  
17 well.

18           Again, interest rates about -- long-term  
19 interest rates are about 20 to 30 basis points lower right  
20 now than they were at the time the evidence was submitted in  
21 support of a return on equity for AmerenUE.

22           Q.       Okay. And you were asked questions about  
23 your consensus growth -- your consensus group growth rates.  
24 And it was mentioned that those are only three- to five-year  
25 growth rates. Can you tell me, are consensus group growth

1 rates available for a longer period of time to than three to  
2 five years?

3 A. No.

4 Q. And why is that?

5 A. There's -- it's difficult to forecast what  
6 the growth rates will be over the next three to five years,  
7 and there is a market for analysts to provide those  
8 projections.

9 But long-term growth rates are so uncertain  
10 that there just doesn't appear to be many, if any, analysts  
11 that I'm aware of -- certainly not consensus analysts --  
12 that are willing to offer long-term growth rate outlooks for  
13 utility industries.

14 Q. You were asked a question or two about the  
15 GDP growth rate from the CBO. Do you remember that?

16 A. Yes.

17 Q. And can you tell me, do you have concerns or  
18 not with the GDP growth rate contained in that CBO report?

19 A. Generally, no. The growth rate over the next  
20 five years was about 5.1 percent; but over longer, it was  
21 consistent with the blue chip economic GDP growth forecast  
22 that I used in my study. So that CBO report generally  
23 supported the growth rates used in my testimony.

24 Q. And can you tell me how the GDP growth rate  
25 contained in that CBO study compares to the GDP growth rate

1 used by Dr. Hadaway?

2 A. It's considerably lower than the GDP growth  
3 rate Dr. Hadaway used, of 6 percent versus the consensus  
4 analysts, which is about 4.7, and the long-term GDP growth  
5 outlook by the CBO. And you can double-check the number,  
6 but it was right around 4.7 percent, also.

7 Q. You were asked some questions regarding your  
8 chart on Page 27 -- I know it's on Page 27 of your KCP&L  
9 direct -- regarding the summary of your DCF results. Do you  
10 recall that?

11 A. Yes.

12 Q. And you were asked to do a calculation of  
13 what the result would be if you used averages instead of  
14 medians. Do you recall that?

15 A. Yes.

16 Q. Can you tell me why you didn't use the  
17 average when you did that calculation of the three studies?

18 A. Well, there were several estimates within the  
19 proxy group which were outliers that skewed the average up.  
20 So I thought the median of the group provided a better  
21 assessment of the central tendencies of all the results of  
22 the companies within the group.

23 So I thought the median was a better estimate  
24 of what that proxy group was telling us about the DCF  
25 required return for the proxy group.

1 Q. Okay. And just to clarify, you were asked  
2 some questions regarding the growth rate you used for  
3 sustainable growth, both the average and median.

4 And I don't know if I heard you wrong or if  
5 it was said wrong, but I believe you said that the median  
6 used in your sustainable growth study was 4.89. Would you  
7 check and see if that was supposed to be 4.59. I believe  
8 it's MPG 7, Page 1.

9 A. Yeah. For KCP&L, as shown on Schedule MPG 7,  
10 Page 1, the group average sustainable growth rate is 4.92  
11 percent, and the group median growth rate is 4.59 percent.

12 Q. Okay. You were asked some questions about  
13 your CAPM study and that you had a range of 8.33 to 9.38,  
14 but that you used just the top end -- in fact, rounded up to  
15 9.4. Can you tell me why you didn't use the entire range?

16 A. It was a judgment call on my part. I was  
17 concerned about the return on equity estimates at the low  
18 end of that CAPM range.

19 I just felt that they were lower than what I  
20 thought would be appropriate for including in the --  
21 ultimately in -- including as information used to develop my  
22 recommended return on equity range for KCP&L and GMO in this  
23 case.

24 Q. Is it fair to say that by using the high end  
25 of that range, it increased your overall recommendation for

1 KCP&L and GMO?

2 A. It did, yes.

3 Q. So if you would use the entire range, your  
4 recommendation would be lower here today; is that correct?

5 MR. ZOBRIST: Objection, leading.

6 BY MR. WOODSMALL:

7 Q. Can you tell me what would be the effect on  
8 your recommendation if you'd used the entire range?

9 A. The low end of my recommended range would  
10 have decreased, and my midpoint estimate would have  
11 decreased, and my recommendation being at the midpoint would  
12 have gone down, as well.

13 Q. You were asked some questions about  
14 Dr. Hadaway's regression analysis. Do you recall those  
15 questions?

16 A. Yes.

17 Q. Can you tell me why his regression analysis  
18 is not appropriate?

19 A. well, his regression analysis, again,  
20 continues with his very simplistic view that there's an  
21 inverse relationship between interest rates and equity risk  
22 premiums. And his regression study supports that general  
23 expectation.

24 But I believe a review of the data included  
25 in that regression study provides more meaningful

1 information and suggests that there is more to a  
2 relationship between equity risk premiums and interest  
3 rates.

4           Again, I've been performing rate of return  
5 studies for many years, and it's been my experience over the  
6 last 25 years that regulatory commissions are slower in  
7 reducing authorized return on equity than the market is at  
8 reducing interest rate costs.

9           There's a conservative -- an element of  
10 conservation in regulatory decisions where they don't reduce  
11 the authorized return on equity as fast as the market will  
12 in interest rates. So that gives the impression that the  
13 equity risk premium will expand when interest rates are  
14 declining.

15           But I believe it's -- it as much attributable  
16 to regulatory commissions' concern about whether or not low  
17 interest rates will stay low when rates are in effect, and  
18 therefore don't reduce the return on equity quite as fast as  
19 the market does.

20           So I think more assessment of what is  
21 appropriate in describing what an appropriate equity risk  
22 premium is needed in order to better estimate what a fair  
23 equity risk premium and an accurate equity risk premium is  
24 at the time I do my testimony.

25           Q.       You were asked some questions regarding some

1 criticisms in Mr. Murray's rebuttal testimony. Do you  
2 recall that?

3 A. Yes.

4 Q. Can you tell me, what would have been the  
5 effect on your recommendation if -- of Mr. Murray's  
6 criticisms?

7 A. There would not have been a change to my  
8 studies based on Mr. Murray's criticism. His criticisms of  
9 the analyst growth rates being long-term sustainable is  
10 really the same conclusion I came to.

11 I understand his concern about relying on  
12 regulatory commissions' authorized returns on equity as a  
13 proxy for what the market-required return is. It's not a  
14 perfect estimate, but I believe it's a very good estimate.

15 Regulatory commissions typically tend to  
16 authorize a return on equity that is generally consistent  
17 with the current market cost of equity, and it's the best  
18 information available to create an equity risk premium over  
19 time.

20 So while I appreciate his concern on those  
21 issues, I believe the risk premium study as I performed it  
22 is best -- is based on the best available information to try  
23 to describe what equity risk premiums have been over time.

24 Q. Finally, you were asked a few questions by  
25 Commissioner Kenney regarding the three different analysis

1 and which one is most appropriate; which one is better  
2 perhaps under -- given your expert -- expertise.

3 Did you consider all three; CAPM, risk  
4 premium, and DCF analysis?

5 A. I did after I critically reviewed the results  
6 of each of those studies in forming what I believe to be an  
7 appropriate DCF, risk premium and CAPM return. Then I  
8 considered all three of those point estimates in forming my  
9 recommended range.

10 Q. Do you know if Dr. Hadaway gave consideration  
11 to all three studies?

12 A. I don't believe he gave consideration to the  
13 CAPM return estimate in this case.

14 Q. Okay.

15 MR. WOODSMALL: I have no further questions.

16 Thank you.

17 JUDGE PRIDGIN: Mr. Woodsmall, thank you.

18 Mr. Gorman, thank you. You may step down.

19 THE WITNESS: Thank you.

20 (Witness excused.)

21 JUDGE PRIDGIN: Let me verify with counsel  
22 the order in which you would like witnesses to be called.  
23 I -- maybe I can just ask once, get it right, and we can  
24 move on.

25 MR. ZOBRIST: Judge, we were going to do

1 Mr. Cline next, and then Mr. Blanc and Mr. Alberts.

2 JUDGE PRIDGIN: All right.

3 And then for Staff?

4 MR. DEARMONT: That's consistent with my  
5 understanding. After that time, I believe we're going to do  
6 Staff witness Murray, followed by Staff witnesses Kremer and  
7 Brossier.

8 JUDGE PRIDGIN: Thank you very much.

9 All right. Anything further?

10 MR. DEARMONT: Judge, I know we haven't been  
11 on the record that long, but might I request an extremely  
12 short recess --

13 JUDGE PRIDGIN: Certainly.

14 MR. DEARMONT: -- just a few minutes?

15 JUDGE PRIDGIN: All right.

16 We'll go off the record for five minutes.

17 MR. DEARMONT: Thank you.

18 JUDGE PRIDGIN: You're welcome.

19 (A short break was taken.)

20 JUDGE PRIDGIN: All right. We are back on  
21 the record. And I believe Mr. Cline is the next witness.

22 And anything further before he takes the  
23 oath?

24 All right. If you'll raise your right hand  
25 to be sworn, please.

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(Witness sworn.)

JUDGE PRIDGIN: Thank you very much, sir.

Please have a seat.

And Mr. Zobrist, when you're ready, sir.

MR. ZOBRIST: Okay. Thank you, Judge.

MICHAEL CLINE testifies as follows:

DIRECT EXAMINATION BY MR. ZOBRIST:

Q. Please state your name.

A. Michael Cline.

Q. And by whom are you employed, Mr. Cline?

A. Great Plains Energy.

Q. And what's your position there?

A. Vice president investor relations, and treasurer.

Q. Okay. And do you -- you hold a comparable position at Kansas City Power and Light Company?

A. Yes. I do.

Q. Okay. Thank you. Did you cause to be prepared in this case direct testimony and rebuttal testimony in the KCP&L proceeding?

A. Yes. I did.

Q. Okay. And did you prepare rebuttal testimony only in the GMO case?

A. Yes.

Q. Okay. And do you have any corrections or

1 changes to any of these three pieces of testimony?

2 A. I have one minor correction to my direct  
3 testimony in the KCP&L proceedings. It would apply to GMO  
4 as well. On Page 2 of the direct testimony, at Line 8, I'm  
5 now a Level 2 candidate for the charter financial analyst  
6 designation.

7 Q. All right.

8 A. That's the only correction.

9 Q. That's it? Okay. And if you were asked  
10 these questions, would your answers be the same as contained  
11 in Exhibits KCPL 11 and 12, and Exhibit GMO 9?

12 A. They would.

13 MR. ZOBRIST: Okay. Your Honor, I offer  
14 those exhibits at this time.

15 (Wherein; KCP&L Exhibit Nos. KCP&L-11,  
16 KCP&L-12 and GMO-9 were marked for identification.)

17 JUDGE PRIDGIN: I'm sorry. Could you recite  
18 the numbers back?

19 MR. ZOBRIST: Yes. It is GMO exhibit 9,  
20 which is Mr. Cline's rebuttal testimony, and KCPL Exhibit  
21 11, which is his direct testimony, and KCPL Exhibit 12,  
22 which is his rebuttal testimony.

23 JUDGE PRIDGIN: Thank you.

24 Any objection?

25 Hearing none, GMO-9, KCP&L-11, KCPL-12 are

1 admitted.

2 (Wherein; KCP&L Exhibit Nos. KCP&L-11,  
3 KCP&L-12 and GMO-9 were received into evidence.)

4 MR. ZOBRIST: Thank you. I will deliver  
5 these to the court reporter, and tender the witness for  
6 cross-examination.

7 JUDGE PRIDGIN: All right. Mr. Zobrist,  
8 thank you.

9 who wishes cross?

10 Staff?

11 MR. DEARMONT: Staff has some questions.

12 JUDGE PRIDGIN: Mr. Dearmont, thank you.

13 MR. DEARMONT: Thank you.

14 CROSS-EXAMINATION BY MR. DEARMONT:

15 Q. Good morning, Mr. Cline.

16 A. Good morning, Mr. Dearmont.

17 Q. You testified in a recent rate case in the  
18 state of Kansas, did you not?

19 A. I did.

20 Q. Prior to acquisition by GPE, Aquila's credit  
21 rating was lower than GPE's. Correct?

22 A. Yes. It was.

23 Q. Okay. If GPE only owned KCPL, GPE's credit  
24 metrics would be substantially similar to that of KCPL.  
25 Correct?

1 A. That's correct.

2 Q. Okay. A lot of the questions that I'm going  
3 to ask you involve the issuance of some equity units. You  
4 understand what I mean by that term?

5 A. Yes. I do.

6 Q. Okay. Now, when were those equity units  
7 issued?

8 A. May 2009.

9 Q. And at that time, you also issued what I'll  
10 call normal common equity.

11 A. Yes. We did.

12 Q. And you issued both of those at the same  
13 time?

14 A. Yes.

15 Q. Okay. And in conjunction with those  
16 issuances, you hired, I believe it was Goldman Sachs as your  
17 joint book-running manager?

18 A. Yes. We did.

19 Q. Okay. What's the duty of a joint  
20 book-running manager?

21 A. They're the firm that along with, in this  
22 case, J.P. Morgan -- which was the other firm -- that  
23 essentially run the transaction on behalf of the Company.  
24 So they are the ones that have the direct interface with the  
25 investment community and actually sell the investment

1 security.

2 Q. Okay. Now, you hired Goldman because you  
3 believe them to be a credible institution; is that fair?

4 A. Yes.

5 Q. And the issuances of the equity units and the  
6 normal common stock, those were designed to generate  
7 additional cash flow?

8 A. Yes, among other things.

9 Q. Cash flow necessary to meet GPE's capital  
10 expenditure needs?

11 A. Yes.

12 Q. But you didn't want to issue all of what I  
13 call common equity because you were concerned about dilution  
14 in shareholder earnings. Correct?

15 A. That's correct.

16 Q. Okay. Now, leaving the equity side and going  
17 to the debt, technically, you could have issued -- you could  
18 have issued some type of debt to fund these CAPX projects?

19 A. That's one financing vehicle. Sure.

20 Q. Okay. Would the issuance of debt instead of  
21 equity possibly have caused GPE's unsecured credit rating to  
22 be downgraded to junk status?

23 A. And potentially KCP&L's as well. Yes.

24 Q. That's yes?

25 A. Yes.

1 Q. Okay. When you issued the equity units, it  
2 was GPE's credit metrics that were the focus?

3 A. Not only GPE's metrics, no.

4 Q. Some of the focus was on GPE?

5 A. Of course.

6 MR. DEARMONT: Okay. May I approach the  
7 witness, Your Honor?

8 JUDGE PRIDGIN: You may.

9 BY MR. DEARMONT:

10 Q. I've handed you a document. Do you recognize  
11 this?

12 MR. DEARMONT: And before you even answer  
13 that, I might stop and say, I think we probably need to go  
14 into HC, in camera, at this time.

15 JUDGE PRIDGIN: Very good. Thank you. Just  
16 a moment, please.

17 THE WITNESS: Yes. I recognize the document.

18 (REPORTER'S NOTE: At this point, an  
19 in-camera session was held, which is contained in volume 30,  
20 pages 2894 to 2896 of the transcript.)

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1 MICHAEL CLINE testifies as follows:

2 BY MR. DEARMONT:

3 Q. Okay. Now, in this case -- by "this case,"  
4 you understand I mean the KCPL and even the GMO case? For  
5 the purpose of these questions, that's what I mean, these  
6 current Missouri rate cases.

7 A. Sure.

8 Q. Understood?

9 A. Yes.

10 Q. Now, in these cases, you filed rebuttal  
11 testimony addressing cost of capital, specifically the cost  
12 of the equity units.

13 A. Yes. I did.

14 Q. Correct?

15 A. (Witness nodded.)

16 Q. And in KCPL, you filed that rebuttal  
17 testimony on December 8th, 2010?

18 A. Yes.

19 Q. Staff filed its direct case on November 10th  
20 for KCPL. Correct?

21 A. I believe that's correct.

22 Q. And November 17th for GMO?

23 A. Yes.

24 Q. Now, it's safe to say that the company and  
25 Staff do not agree about the cost of the equity units? I'll

1 leave it there.

2 A. That's correct. We disagree.

3 Q. Okay. And they also disagree, obviously,  
4 about the cost of normal common equity?

5 A. Yes.

6 Q. Okay. But your rebuttal testimony only  
7 addresses the cost of the equity units?

8 A. That's correct.

9 Q. Okay. Do you have a copy of your rebuttal  
10 testimony with you?

11 A. Yes. I do.

12 Q. Okay. Including the attachments?

13 A. Yes. I do.

14 Q. Okay. I ask you to turn to schedule 5  
15 attached to your rebuttal testimony.

16 A. Yes. I have it.

17 Q. You there?

18 A. Uh-huh.

19 Q. Okay. And you attached this as a schedule to  
20 your rebuttal testimony in the KCPL case?

21 A. Yes. I did.

22 Q. Okay. And this attachment, schedule 5, is  
23 entitled Mandatory Equity Unit Materials for Great Plains  
24 Energy?

25 A. Yes. It is.

1 Q. Issued by Goldman Sachs and Company on  
2 November 19th, 2010?

3 A. Yes.

4 Q. Okay. And is it accurate that this document  
5 was in fact issued on November 19th, 2010?

6 A. It is.

7 Q. Okay. Nine days after staff filed its direct  
8 case for KCPL?

9 A. Yes.

10 Q. Okay. And you attached this document,  
11 schedule 5, because you believe it supports your position in  
12 regard to the cost of the equity units?

13 A. Yes.

14 Q. Okay. You requested this document from  
15 Goldman Sachs?

16 A. I did.

17 MR. DEARMONT: No further questions.

18 JUDGE PRIDGIN: Commissioner Kenney, any  
19 questions?

20 COMMISSIONER KENNEY: No, thank you.

21 JUDGE PRIDGIN: Thank you.

22 Redirect?

23 MR. ZOBRIST: Just a couple questions, Judge.

24 REDIRECT EXAMINATION BY MR. ZOBRIST:

25 Q. Mr. Cline, would you go to schedule

1 MWC-2010-5 that Mr. Dearmont was just asking you about.

2 A. Yes. I'm there, Mr. Zobrist.

3 Q. Okay. On the third page of that document,  
4 which is actually labeled as Page 2, there's a graph of  
5 declining and inclining lines; is that correct?

6 A. Yes.

7 Q. Okay. There's a footnote that talks about  
8 where GPE is in that. And I -- it didn't come through on  
9 the color. Can you tell the Commission which of those dots  
10 is the GPE dot?

11 A. Sure. It's the dot that is kind of lightly  
12 shaded at the very end of the line. If you look at the two  
13 axes, GPE is the one that's at 12 percent on the Y axes, and  
14 about 6 percent on the X axes.

15 Q. So it's the larger dot of the --

16 A. Yes.

17 Q. -- of the black dots?

18 A. It's lightly shaded, and the others are dark  
19 black.

20 Q. Okay. Now, you told Mr. Dearmont that you  
21 requested this document?

22 A. Yes. I did.

23 Q. And what was the reason why you asked Goldman  
24 Sachs to prepare this document?

25 A. We were looking for some historical

1 perspective on the cost of equity units and how these units  
2 are, in fact, priced in the marketplace. So they went back  
3 and looked at transactions back to the 2005 period. So  
4 there was a historical perspective here.

5 Q. Now, there is a preceding schedule in your  
6 testimony, Schedule MWC-2010-4 that was also prepared by  
7 Goldman Sachs; is that correct?

8 A. Yes. That's correct.

9 Q. And what's the date of that document?

10 A. March 17th, 2009, about seven weeks before  
11 the offering.

12 Q. Is there any contradiction between these two  
13 documents?

14 A. There is not.

15 Q. Now, Mr. Dearmont asked you about the credit  
16 ratings of GPE and KCPL and the meeting that you and  
17 Mr. Bassham had with Standard & Poor's. Correct?

18 A. Yes.

19 Q. Okay. What was the result as far as Standard  
20 & Poor's was after the meeting with you and Mr. Bassham?

21 A. They shifted the outlook for the Great Plains  
22 Energy family of companies, which would include Great Plains  
23 Energy, KCP&L and GMO, from stable to negative, but they did  
24 not change the credit rating.

25 Q. So there was no downgrade to the credit

1 rating?

2 A. There was downgrade of the credit rating by  
3 Standard & Poor's.

4 Q. Now, Mr. Dearmont also asked you about the  
5 equity units being issued at the time that common stock was  
6 being issued. Do you recall that?

7 A. Yes.

8 Q. What is cheaper to be issued, equity units or  
9 common stock?

10 A. Equity units are cheaper because a portion of  
11 the quarterly distribution is tax deductible.

12 Q. And if the costs of equity units and the  
13 costs of common stock are borne by the ratepayers, what  
14 costs the ratepayers less?

15 A. Equity units would be a lower cost financing  
16 alternative than common stock.

17 Mr. Zobrist, I'm sorry. I need to clarify my  
18 earlier question. There was actually -- out of the February  
19 2009 meeting, there was a downgrade of the KCP&L short-term  
20 credit rating. I had forgotten about that.

21 There were no changes in the long-term  
22 ratings, but the short-term commercial paper rating was  
23 lowered one notch.

24 Q. And that was the only one?

25 A. Yes.

1 Q. Okay.

2 A. That was the only change.

3 Q. What were the ratings that were sustained?

4 A. The long-term credit rating and the corporate  
5 credit rating.

6 Q. And what's the relative importance of those  
7 two ratings?

8 A. KCP&L uses commercial paper as a funding  
9 mechanism for day-to-day activities. But at any given time,  
10 the amount of short-term borrowings might be 200 to 300  
11 million, whereas obviously the long-term debt outstanding at  
12 KCP&L would be north of \$2.5 billion.

13 Q. Okay. And then, finally just one other  
14 question on your Schedule 5 that Mr. Dearmont asked you  
15 about. What do those two graphs on Page 2 of that exhibit  
16 mean, the ascending and descending axis?

17 A. It simply shows that -- using the chart on  
18 the left-hand side, that there is a -- an unclear amorphous  
19 effect in terms of the pricing of an equity unit with credit  
20 rating, whereas the real driver is shown in the chart on the  
21 right, where the company's dividend yield is really the  
22 primary influence, because investors are looking for a  
23 relatively fixed spread to the company's dividend yield.

24 Q. Okay. And do you believe those costs to have  
25 been reasonable and in the best interests of the ratepayers?

1 A. I do.

2 MR. ZOBRIST: Nothing further, Judge.

3 JUDGE PRIDGIN: Mr. Zobrist, thank you.

4 Mr. Cline, thank you, sir. You may step  
5 down.

6 (Witness excused.)

7 JUDGE PRIDGIN: I believe Mr. Blanc will be  
8 the next witness.

9 MS. CUNNINGHAM: Yes, Your Honor. KCPL would  
10 call Curtis Blanc to the stand, please.

11 JUDGE PRIDGIN: Mr. Blanc, if you'll come  
12 forward, please. Mr. Blanc, if you'll raise your right hand  
13 to be sworn, please.

14 (Witness sworn.)

15 JUDGE PRIDGIN: Thank you very much, sir.  
16 Counsel, when you're ready.

17 MS. CUNNINGHAM: Thank you.

18 CURTIS BLANC testifies as follows:

19 DIRECT EXAMINATION BY MS. CUNNINGHAM:

20 Q. would you please state your name for the  
21 record.

22 A. Curtis Blanc, B-l-a-n-c.

23 Q. By whom are you employed?

24 A. KCP&L.

25 Q. Mr. Blanc, you've already previously

1 testified in this hearing, haven't you?

2 A. Yes. I have.

3 Q. And I believe your KCPL exhibits were  
4 previously offered into evidence as Exhibits 7, 8 and 9. Is  
5 that your understanding?

6 A. That's my recollection. Yes.

7 Q. Okay. You don't have any changes to your  
8 testimony at this point, do you?

9 A. No. I did a couple of updates at that time,  
10 but nothing since then.

11 Q. And with those updates, is your testimony  
12 still true and correct to the best of your knowledge and  
13 belief?

14 A. Yes. It is.

15 MS. CUNNINGHAM: And Your Honor, at this  
16 time, I would tender Mr. Blanc for cross-examination given  
17 that his KCP&L testimony has already been offered into the  
18 record.

19 JUDGE PRIDGIN: Thank you.

20 Cross-examination.

21 Mr. Dearmont.

22 MR. DEARMONT: Thank you, Judge.

23 CROSS-EXAMINATION BY MR. DEARMONT:

24 Q. Good morning, Mr. Blanc. How are you?

25 A. Good morning.

1 Q. Just a few pages of questions for you.

2 MR. DEARMONT: And Judge, I will warn you  
3 that about halfway through, we will need to go into in  
4 camera again.

5 JUDGE PRIDGIN: Thank you.

6 BY MR. DEARMONT:

7 Q. Now, Mr. Blanc, the return on equity  
8 component of the ratemaking formula is generally the  
9 component designed to provide a utility with a return of the  
10 costs required to secure equity financing. Correct?

11 A. Mr. Cline and Dr. Hadaway are the experts in  
12 those areas, but that's my general understanding.

13 Q. But you understand ratemaking in general.  
14 Right? I mean, we generally use a formula that has a number  
15 of components?

16 A. Yes.

17 Q. Okay. One of those components being rate of  
18 return?

19 A. Yes.

20 Q. Okay. And a subcomponent of that component  
21 being return on equity?

22 A. Correct.

23 Q. Okay. And is my definition of the purpose of  
24 that subcomponent consistent with your understanding?

25 A. Yes. It is. That's what I attempted to

1 indicate.

2 Q. And these costs, the costs of common equity,  
3 are driven, at least in part, by investor expectations?

4 A. I believe that is part of it. Again, that's  
5 Dr. Hadaway's analysis, but I believe that is a component of  
6 the analysis.

7 Q. Okay. In your rebuttal testimony filed in  
8 KCPL, you make mention of the fact that Staff's ROE range is  
9 below a recent allowed ROE that the Indiana Commission found  
10 to be, quote, "punitive." Do you remember that discussion?

11 A. Yes. Punitive and temporary, I think was the  
12 term I used.

13 Q. Thank you for that clarification. And in  
14 that case, the Indiana Commission awarded -- was it  
15 NIPSCO -- an allowed ROE of 9.9 percent?

16 A. That is correct.

17 Q. Okay. And you think that ROE was punitive,  
18 too, don't you?

19 A. I do. And you can look at the Commission's  
20 reasoning. And I would agree with the Commission's  
21 reasoning. They identified a zone of reasonableness --

22 Q. Uh-huh.

23 A. -- and then looked at the utility's  
24 performance as a factor as to where along that zone of  
25 reasonableness they should authorize an ROE.

1 Q. Okay.

2 A. And in that case, they went to the bottom of  
3 the --

4 Q. So it's a yes?

5 A. -- zone of reasonableness.

6 Q. Yes. That's punitive? Temporary and  
7 punitive?

8 A. The Commission called it that, and I would  
9 agree with their assessment.

10 Q. Great. Okay. Now, what do you know about  
11 NIPSCO? Do they have an FAC?

12 A. I know the order discussed that they had  
13 riders, but what riders or trackers they have specifically,  
14 I don't know.

15 Q. Okay. Do you know what their dividend payout  
16 ratio is?

17 A. I do not.

18 Q. Okay. Are they in a building cycle?

19 A. I don't know that.

20 Q. Okay. Do you know if they're exiting a  
21 building cycle?

22 A. I don't know that.

23 Q. Okay. Do you know if they have any renewable  
24 energy portfolio standards?

25 A. I don't know if Indiana has that or not.

1 Q. Okay. Do you have your rebuttal in front of  
2 you?

3 A. Yes. I do.

4 Q. Okay. Let's look at -- how about Page 40.  
5 Let's go to Page 40.

6 A. I have that before me.

7 Q. Okay. Now, on Page 40 of your rebuttal  
8 testimony, you state that, The Staff's recommended ROE does  
9 not balance the interests of KCPL and its customers.

10 A. Correct.

11 Q. But would you agree that these interests are  
12 perfectly balanced if the Commission sets an allowed ROE  
13 equal to KCPL's costs of common equity?

14 A. I believe that is the point of the exercise,  
15 to establish what the appropriate cost of equity is. Yes.

16 Q. On Page 41 of your rebuttal testimony, you  
17 state that, Staff's ROE should not be the lowest ROE  
18 recommended in a utility rate case.

19 A. That's correct.

20 Q. But Staff doesn't have any control over the  
21 recommendations of other parties, does it?

22 A. No. It does not.

23 Q. Okay. And you're familiar with how these  
24 cases generally work, from a procedural standpoint. Right?

25 A. Yes. I am.

1 Q. So in these cases, Staff and the other  
2 non-utility parties generally file their cases at the same  
3 time?

4 A. That's correct.

5 Q. Okay. So unless Staff specifically asks  
6 those other non-utility parties, they have no idea what  
7 those parties are going to include in their filings?

8 A. That's my understanding. Yes.

9 Q. So do you think it would be best practice for  
10 Staff to approach those non-utility parties, ask them what  
11 their recommendations will be, and then adjust our own in  
12 the event that it's not in the middle?

13 A. No. And that's not what I was suggesting  
14 here.

15 Q. Okay. Thank you. Also on Page 41 of your  
16 rebuttal, you provide a discussion of Staff's recommendation  
17 in the last three KCPL cases?

18 A. That's correct.

19 Q. Okay. Let's go back two cases ago. This is  
20 Case Number ER-2007-0291.

21 A. And that's --

22 Q. And that's --

23 A. -- bottom of Page 41 of my testimony.

24 Q. Okay. And you have no reason to disagree  
25 with me if I told you that that case was filed on

1 February 1st, 2007?

2 A. I don't recall that date specifically, but I  
3 have no reason to disagree with you.

4 Q. Okay. And in those cases, as discussed in  
5 your testimony -- excuse me -- in that case, as discussed in  
6 your testimony, Staff had an ROE range of 9.14 to 10.3  
7 percent?

8 A. Correct.

9 Q. Okay. And Staff witness Matt Barnes handled  
10 that case?

11 A. Yes. That's my recollection. He was the ROE  
12 witness for Staff.

13 Q. Okay. And the Office of Public Counsel  
14 recommended an ROE of about 10.1?

15 A. Yeah. That's what my testimony indicates,  
16 and that continues to be my understanding.

17 Q. Okay. And what did the company recommend in  
18 that case?

19 A. I believe I have that on the schedule.

20 Q. If I told you 11.25 --

21 A. I'll have to look quickly -- I'm sorry --  
22 just to make sure --

23 Q. Yeah. Sure.

24 A. Yes. That's correct.

25 Q. Okay. So Staff's recommendation was quite a

1 bit lower than the Company's, and quite a bit lower than  
2 OPC's as well; is that fair?

3 A. That's correct.

4 Q. And I don't mean this in a statistical sense,  
5 but Staff was sort of an outlier in that regard?

6 A. Correct.

7 Q. Okay. Let's go to the next case, the case  
8 after that and the case before the one in which we are  
9 sitting today. That was the 2009-0089 case. Right?

10 A. Correct.

11 Q. Now, the company filed that rate case on  
12 September 5th, 2008. Sound about right?

13 A. That does sound about right.

14 Q. And as discussed in your rebuttal testimony,  
15 in that case, Staff recommended an ROE of 9.25 to 10.25?

16 A. That's my understanding. Yes.

17 Q. Okay. And this time Staff witness Dave  
18 Murray was the testifying expert?

19 A. I don't recall who was the witness in that  
20 case --

21 Q. Okay.

22 A. -- if it was Murray or Barnes.

23 Q. Okay. And in that case, one case ago, the  
24 Company recommended an ROE of, I believe, 10.75 percent?

25 A. Sorry. I have to refer back to my table

1 again.

2 Q. Sure.

3 A. Yes. That's correct.

4 Q. And Staff's whole range in that case, as  
5 discussed in your testimony, was below OPC's recommended  
6 ROE?

7 A. That's correct.

8 Q. Okay. And it was also well below the  
9 company's recommended ROE?

10 A. That's correct.

11 Q. Okay. And it was also well below the  
12 national data as published by RRA?

13 A. That's correct.

14 Q. Okay. So as with the case two cases ago,  
15 again, Staff was sort of an outlier?

16 A. Correct.

17 Q. Are you familiar with KCPL's recent case in  
18 the state of Kansas?

19 A. I am.

20 Q. Okay. And Kansas has an independent staff,  
21 much like the state of Missouri, don't they?

22 A. That's correct.

23 Q. And that independent staff recommended an ROE  
24 of 9.7?

25 A. That's correct.

1 Q. And the Kansas version of OPC is called CURB?

2 A. That's correct.

3 Q. The Citizens Utilities Ratepayer Board --

4 A. That's correct.

5 Q. -- I think it is? Okay.

6 And in that recent Kansas case, CURB

7 recommended an ROE of 9.39?

8 A. That's correct.

9 Q. Okay. Now, let's fast-forward to the current  
10 case. We all are familiar with the recommendations of the  
11 parties. As with the case before this, and the case before  
12 that, do you think it's fair to say that Staff is an outlier  
13 here, too?

14 A. Yes.

15 Q. Okay.

16 MR. DEARMONT: At this time, let's go in  
17 camera, Judge.

18 JUDGE PRIDGIN: Just one moment, please.

19 (REPORTER'S NOTE: At this time, an in-camera  
20 session was held, which is contained in volume 30, Pages  
21 2915 to 2926.)

22

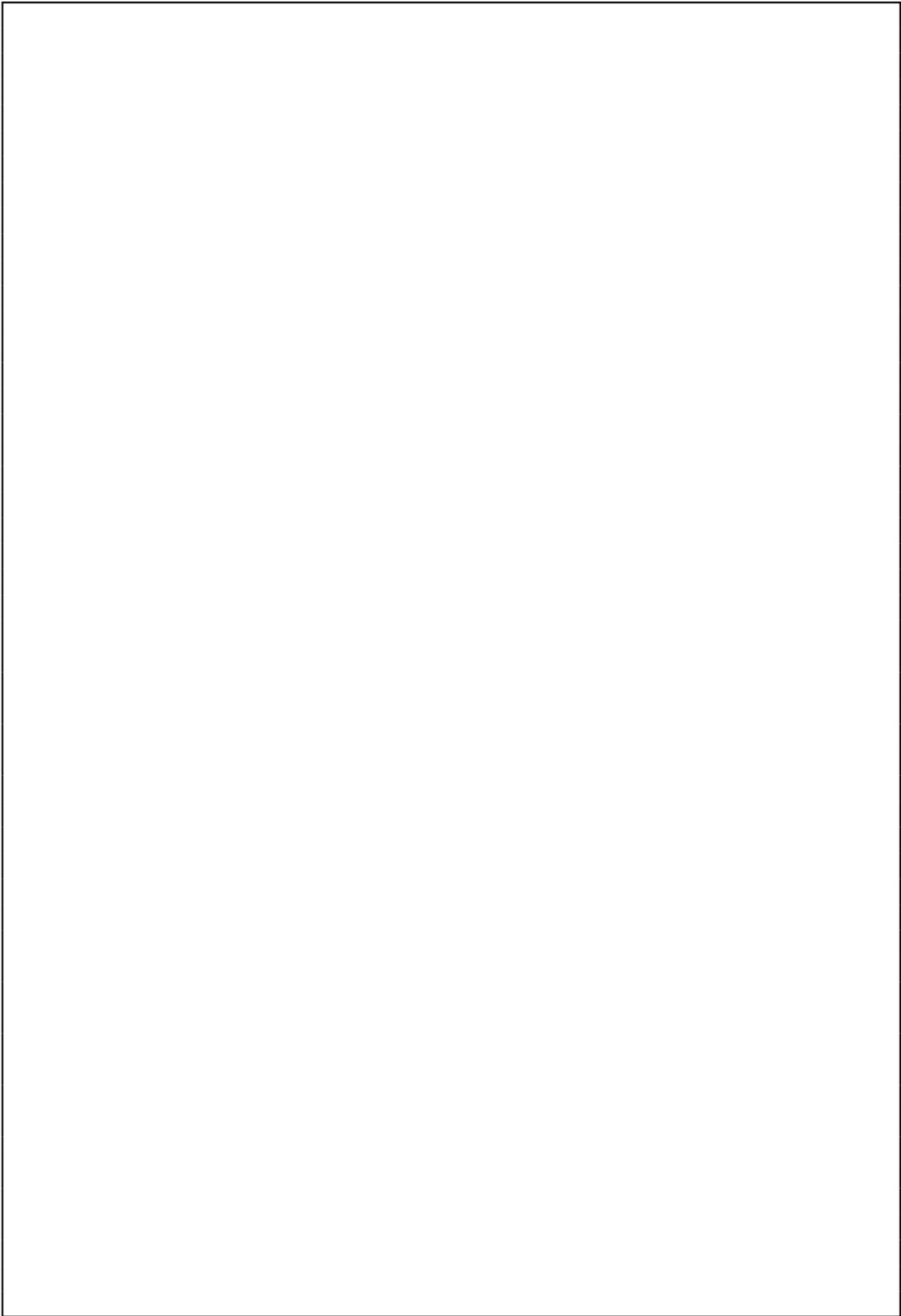
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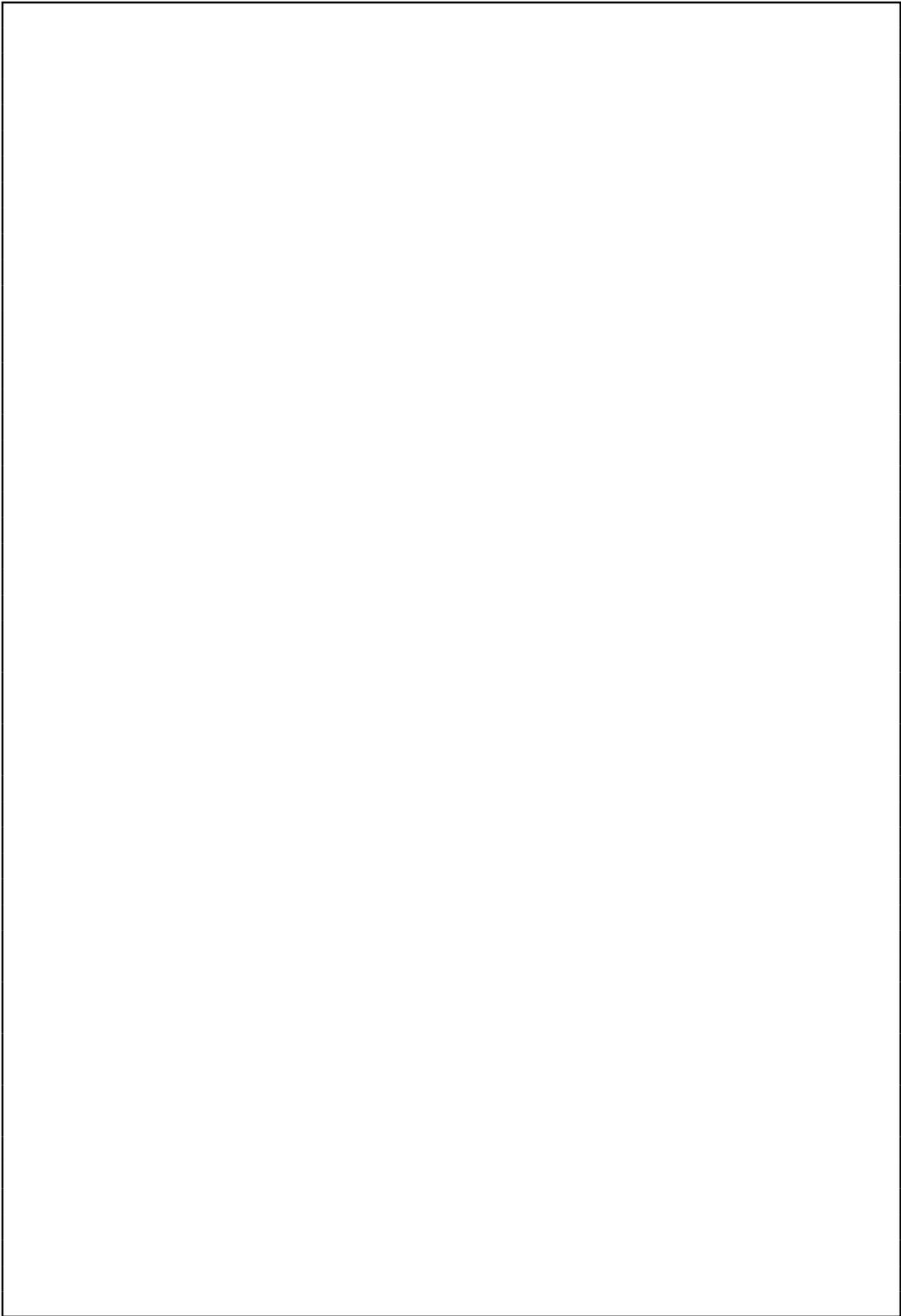


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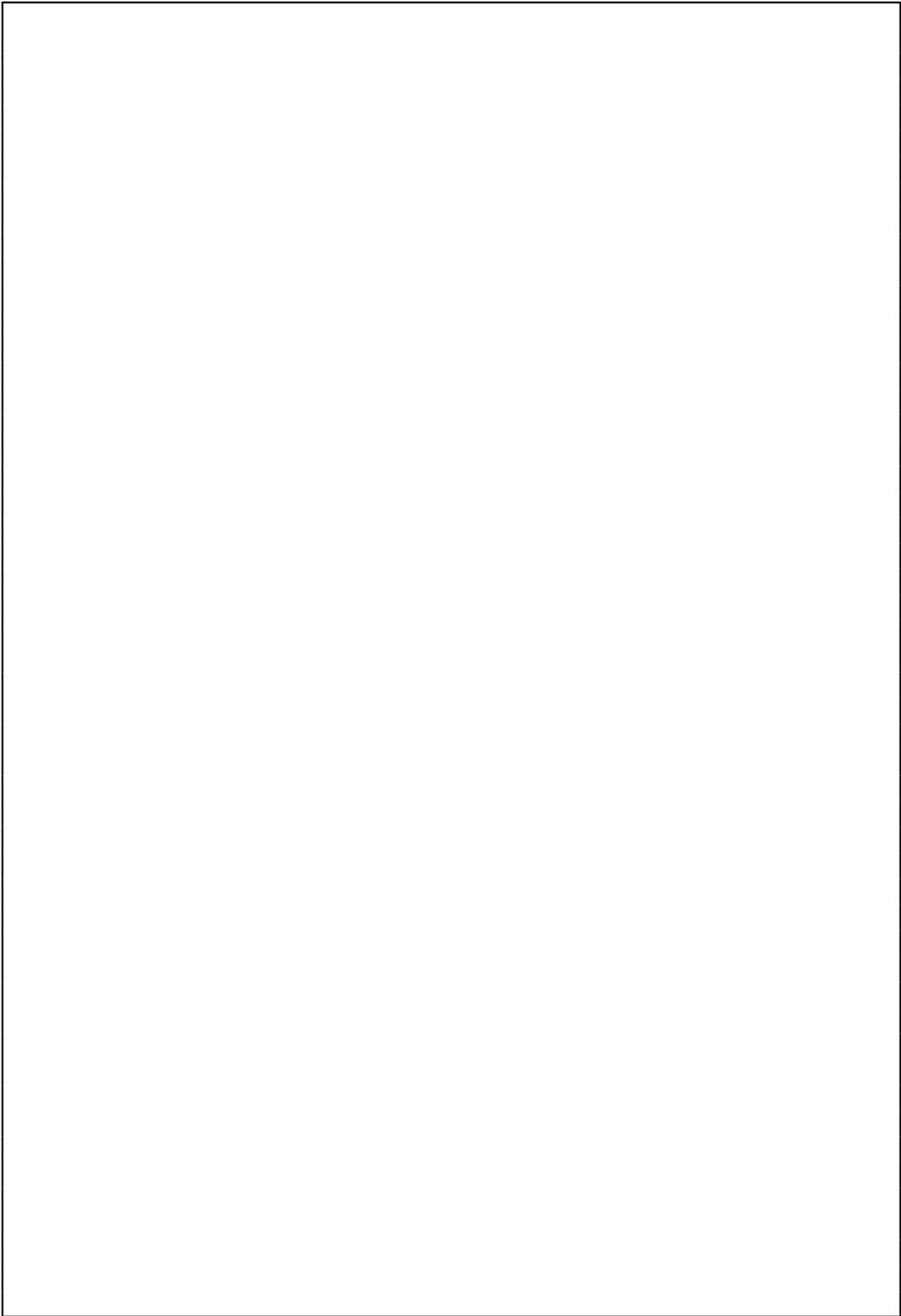
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1 JUDGE PRIDGIN: Mr. Dearmont, thank you.

2 Commissioner Kenney, any questions?

3 COMMISSIONER KENNEY: No, thank you.

4 JUDGE PRIDGIN: All right.

5 Redirect?

6 MS. CUNNINGHAM: Just a few questions. Thank  
7 you.

8 JUDGE PRIDGIN: Yes, ma'am.

9 REDIRECT EXAMINATION BY MS. CUNNINGHAM:

10 Q. Mr. Blanc, do you recall when Staff counsel  
11 asked you about your rebuttal testimony, and in particular  
12 your testimony surrounding what the Indiana Commission did  
13 for NIPSCO?

14 A. I do.

15 Q. Okay. In your testimony, you specifically  
16 suggest that the Commission increase the company's ROE based  
17 on the company's reliability and customer satisfaction  
18 achievements. Is that a fair statement?

19 A. That's correct.

20 Q. So is it your testimony -- was your testimony  
21 tied to an increase based on fuel adjustment clauses?

22 MR. WOODSMALL: Your Honor, I believe this is  
23 far afield of any cross-examination by Staff counsel.

24 MR. DEARMONT: And I must interject that that  
25 is my fault. Staff counsel had some -- does have some

1 additional questions on Mr. -- regarding Mr. Blanc's  
2 testimony on customer service and reliability standards.

3           So it appears that I ceased cross-examination  
4 too early. I apologize. It wasn't my area of the case.

5           MS. CUNNINGHAM: If I could respond, though,  
6 first to the objection. Staff counsel clearly asked  
7 questions about Mr. Blanc's use of the Indiana experience  
8 with regard to NIPSCO.

9           Staff counsel himself asked whether this  
10 recommendation was based on fuel adjustment clauses, other  
11 riders, and that -- and it elicited a similar response from  
12 Mr. Blanc. So I'm not sure why this is beyond the scope of  
13 the cross-examination.

14           MR. WOODSMALL: And I think the response,  
15 then, was Mr. Blanc didn't know anything about any of those.  
16 So --

17           JUDGE PRIDGIN: I'm sorry. I agree. I'll  
18 overrule. But I do remember his answers consumedly being "I  
19 don't know. I don't know." So --

20           MR. DEARMONT: And Judge, with respect to my  
21 concern, I think that we're probably going to run into this  
22 issue in a few questions, anyway. So if there's any way to  
23 attempt to remedy this situation by affording Staff the  
24 opportunity to provide some additional cross-examination on  
25 customer service and reliability, that may be an appropriate

1 avenue, with your leave.

2 MS. CUNNINGHAM: The company has no  
3 objection.

4 JUDGE PRIDGIN: So you're wanting to ask  
5 further cross?

6 MR. DEARMONT: I believe Staff witness [sic]  
7 McClowery will be doing that. And again, I apologize.

8 JUDGE PRIDGIN: That's all right.  
9 I'm hearing no objection.

10 MR. DEARMONT: Thank you.

11 JUDGE PRIDGIN: All right. No problem.

12 Ms. McClowery, when you're ready.

13 RECROSS-EXAMINATION BY MS. MCCLOWERY:

14 Q. Hi, Mr. Blanc. How are you today?

15 A. Fine. Thank you.

16 Q. I wanted to talk to you a little bit about  
17 your direct testimony where you suggest that KCPL -- and you  
18 also state in GMO testimony -- is requesting an ROE  
19 commiserate with the top of Dr. Hadaway's range to reflect  
20 the company's reliability and customer satisfaction  
21 achievements.

22 You just testified that you know basically a  
23 little bit about what goes into ratemaking?

24 A. Yes.

25 Q. would you agree with me that the current

1 operation costs for the company are included in revenue  
2 requirements the company filed in this rate case?

3 A. I'm sorry. Could you repeat the question?

4 Q. Sure.

5 A. I apologize.

6 Q. The day-to-day costs of running the utility  
7 are in the revenue requirement filed?

8 A. In what we've requested?

9 Q. Yes.

10 A. Yes. Sorry.

11 Q. Okay. Would that include office space?

12 A. Yes. It would.

13 Q. Okay. And that would include employee  
14 salaries?

15 A. Yes. It would.

16 Q. And that would include things like utility  
17 bills for your offices?

18 A. Yes. It would.

19 Q. Okay. That would also include office  
20 equipment, like copiers and computers?

21 A. Yes. It would.

22 Q. And that would extend to your customer  
23 service department?

24 A. Yes. It would.

25 Q. Okay. And that goes for their salaries?

1 A. Correct.

2 Q. Okay. Does it go towards the customer  
3 service managerial training?

4 A. Yes. It would.

5 Q. It goes to the staff training?

6 A. Yes.

7 Q. Customer service systems, for example,  
8 virtual hold?

9 A. The systems, yes. Absolutely.

10 Q. Okay. And it goes to the call center staff's  
11 salaries?

12 A. Yes.

13 Q. Okay. And it also goes to give incentives to  
14 employees who have met benchmark standards for safety and  
15 reliability?

16 A. I'm not sure what you mean by incentives.  
17 I'm sorry.

18 Q. Okay. well -- so when you suggest that the  
19 companies be given an ROE at the top of Dr. Hadaway's range  
20 because of the exemplary customer service, that is over  
21 and -- that is over and above the actual costs of providing  
22 customer service?

23 A. I wouldn't agree with that.

24 Q. You wouldn't? Okay. would you agree with me  
25 that companies have a statutory obligation to provide safe

1 and adequate service?

2 A. Yes. I don't recall if the standard is safe  
3 and adequate or safe and reliable. But yes.

4 Q. And KCPL and GMO both provide award-winning  
5 customer service. That's correct?

6 A. I'm sorry. I didn't hear you. The  
7 microphone cut out for a second.

8 Q. Oh, sorry. Both KCP&L and GMO have been  
9 recognized and provide award-winning customer service.

10 You --

11 A. Absolutely.

12 Q. -- would agree with that?

13 Okay. And both KCPL and GMO have customers  
14 who have trouble paying their bills. would you agree with  
15 that?

16 A. Yes.

17 Q. Okay. And there are customers who without  
18 help of charitable organizations or the company's economic  
19 relief pilot program would be unable to pay their bills?

20 A. Yes.

21 Q. Okay. And there are customers who without  
22 the cold weather rule would currently not be having service  
23 from the company; would have been cut off?

24 A. Oh, had been cut off -- they would have been  
25 discontinued because of the cold weather rule; yes.

1 Q. Okay. And most of the customers of KCP&L and  
2 GMO have no choice but to get their service from your  
3 company?

4 A. We are a regulated monopoly. Yes.

5 Q. So Mr. Blanc, is it fair for those customers  
6 who are forced to pay -- is it fair that those customers who  
7 have no choice to have your service are forced to pay for  
8 your award-winning recognized service?

9 A. Is it fair that they pay for the cost of  
10 service they're receiving?

11 Q. That they have to pay for award-winning,  
12 gold-plated customer service?

13 A. I disagree with the word gold-plated. No one  
14 is suggesting that we've invested too much in our  
15 transmission and distribution system for reliability. No  
16 one is suggesting that we're giving better service than we  
17 should be.

18 I think the point is, for rates that just and  
19 reasonable, we are providing better than typical service.  
20 And is it appropriate to provide a performance incentive for  
21 that? Absolutely.

22 MS. MCCLOWERY: I have no further questions.

23 JUDGE PRIDGIN: All right. Thank you.

24 Now, done with cross? Correct.

25 All right.

1 MR. DEARMONT: I think at this time.

2 JUDGE PRIDGIN: All right. Thank you.

3 Commissioner Kenney -- I'm sorry -- any  
4 questions, sir?

5 COMMISSIONER KENNEY: No, thank you.

6 JUDGE PRIDGIN: All right. Thank, Mr. Blanc.

7 COMMISSIONER KENNEY: Thank you, Mr. Blanc.

8 THE WITNESS: No, thank you.

9 JUDGE PRIDGIN: Redirect. I'm sorry.

10 MS. CUNNINGHAM: Yes, please.

11 FURTHER REDIRECT EXAMINATION BY MS. CUNNINGHAM:

12 Q. Let's get back to your rebuttal testimony  
13 where you talk about what the Indiana Commission did with  
14 NIPSCO.

15 A. Okay.

16 Q. What was your purpose of including that  
17 portion of the Commission's order with regard to NIPSCO?

18 A. Sure. It was the simple -- I guess a couple  
19 of simple points.

20 One, as we discussed with Staff counsel, to  
21 illustrate that Staff's entire range -- its entire  
22 recommendation is an outlier.

23 You have another Commission that looked at a  
24 utility here in the Midwest authorize 9.9 percent, which is  
25 in excess of Staff's entire range, and they make it a

1 point -- and I attached that section of their order to my  
2 testimony as Schedule 4. And it's on -- pardon me -- it's  
3 on Pages 32 and 33 of that order.

4           They go to some length at saying 9.9 is  
5 punitive and temporary. And they say it's because the  
6 company had bad JDPower statistics, bad reliability  
7 statistics, and that the Commission wanted to send a, quote,  
8 "direct message to utility management concerning the need to  
9 improve those." And so 9.9 was punitive.

10           And then they told the company, at Page 33 of  
11 the order, that they recognize that this was a low ROE, and  
12 that they wanted to give them the opportunity to come back  
13 and demonstrate that they had improved management. And so  
14 they said -- they directed them to file a rate case within  
15 two years.

16           Q.     Okay. Thank you. Do you recall questions by  
17 staff counsel where he asked you -- pointed you to your  
18 testimony where he indicated that Staff's recommendation  
19 does not properly balance the company's and customers'  
20 interests. Do you recall those questions?

21           A.     I do.

22           Q.     On what did you base that conclusion?

23           A.     Just simply on a comparison. And I  
24 summarized my comparison in a chart that's Schedule 3 of my  
25 testimony, that looks back at the past five years at the

1 ROE -- at the electric rate cases in the state of Missouri,  
2 looking at the ROEs that were requested by the company, and  
3 then Staff's position.

4           And then I describe it as consumers'  
5 position -- it could be the OPC/Industrial, just the  
6 customers' positions -- and then what the Commission  
7 ultimately did. I also included the national averages  
8 there.

9           And that -- the point of that wasn't to  
10 suggest that they should compare notes ahead of time to make  
11 sure it's where the results should be. The point of that  
12 was simply to say that Staff's ROE recommendation -- and  
13 Staff counsel used the word outlier, and I heartily agree  
14 with that -- that Staff's ROE recommendation is consistently  
15 below even what the consumer advocates are representing.

16           And if they're balancing interests, in my  
17 mind, that shouldn't happen. If they're balancing  
18 interests, in a perfect world, they should be somewhere in  
19 between the company's position and the consumer advocates.

20           MS. CUNNINGHAM: Okay. Thank you. I have no  
21 further questions.

22           JUDGE PRIDGIN: All right. Thank you,  
23 Mr. Blanc. You may step down.

24           (Witness excused.)

25           JUDGE PRIDGIN: And I do want to let counsel

1 know -- and I think counsel has mentioned -- that  
2 Mr. Blanc's testimony had been admitted. My notes do not  
3 reflect that. My notes could be wrong. But I want to let  
4 you know that I don't show that the exhibits have been  
5 offered.

6 MR. STEINER: That's right, because he's up  
7 for other issues and it will be admitted in this last issue.

8 JUDGE PRIDGIN: Okay. Is that --

9 MR. STEINER: We will be offering it for  
10 admission in his last issue.

11 JUDGE PRIDGIN: Okay. So you're not offering  
12 them yet; is that correct?

13 MR. STEINER: We will -- we'll offer it right  
14 now.

15 MR. WOODSMALL: On the first day when he  
16 testified on policy, I specifically said, you know, pending  
17 objections. And so, at that point, I think it was agreed  
18 that everybody would offer the last time they take the  
19 stand.

20 JUDGE PRIDGIN: Correct.

21 MR. WOODSMALL: And I know he's testifying on  
22 off-system sales still to come.

23 JUDGE PRIDGIN: Okay. So we're just going to  
24 wait on that. Correct? I just want to make sure.

25 MR. STEINER: That's right.

1 JUDGE PRIDGIN: All right. Mr. Blanc, thank  
2 you. You may step down.

3 THE WITNESS: Thank you.

4 JUDGE PRIDGIN: Before -- you're welcome.  
5 Before witness Alberts takes the stand, let me inquire of  
6 counsel how much cross-examine they would anticipate. I'm  
7 trying to determine a good time to go to -- take a lunch  
8 break.

9 MS. MCCLOWERY: There's very little.

10 MR. DEARMONT: Very little, Judge.

11 JUDGE PRIDGIN: I'm hearing very little.  
12 Okay. Let's go ahead with the next witness, then, and then  
13 we will likely break for lunch.

14 MS. CUNNINGHAM: All right. Thank you, Your  
15 Honor. At this time KCPL would call Jimmy D. Alberts --

16 JUDGE PRIDGIN: Mr. Alberts, if you'll  
17 come --

18 MS. CUNNINGHAM: -- to the stand.

19 JUDGE PRIDGIN: -- forward to be sworn,  
20 please. If you'll raise your right hand to be sworn,  
21 please.

22 (Witness sworn.)

23 JUDGE PRIDGIN: Thank you very much, sir.  
24 Please have a seat.

25 when you're ready.

1 MS. CUNNINGHAM: Thank you.

2 JIMMY D. ALBERTS testifies as follows:

3 DIRECT EXAMINATION BY MS. CUNNINGHAM:

4 Q. would you please state your name for the  
5 record.

6 A. Jimmy D. Alberts.

7 Q. By whom are you employed?

8 A. KCP&L.

9 Q. what is your position with the company?

10 A. Vice president of customer service.

11 Q. Are you the same Jimmy D. Alberts who caused  
12 to be filed in this case certain direct, rebuttal and  
13 surrebuttal testimony?

14 A. Yes.

15 Q. All right. For identification purposes,  
16 Mr. Alberts, your KCPL direct, rebuttal and surrebuttal  
17 testimony has been identified as KCPL Exhibits 1, 2, and 3.  
18 And similarly, your GMO direct, rebuttal and surrebuttal  
19 testimony has been identified as GMO Exhibits 1, 2 and 3.

20 A. Yes.

21 Q. Okay. Do you have any corrections that need  
22 to be made to any of your testimony?

23 A. No.

24 Q. If I were to ask you the same questions today  
25 that appear in your testimony, would your answers be the

1 same?

2 A. Yes.

3 MS. CUNNINGHAM: Your Honor, at this time, I  
4 would offer KCPL Exhibits 1, 2 and 3, and GMO exhibits 1, 2  
5 and 3 into the record. And I would tender Mr. Alberts for  
6 cross-examination.

7 JUDGE PRIDGIN: Any objection?

8 All right. KCPL 1, 2 and 3, and GMO 1, 2  
9 and 3 are admitted.

10 (Wherein; KCP&L Exhibit Nos. KCPL-1, KCPL-2,  
11 KCPL3 and GMO-1, GMO-2 and GMO-3 were marked for  
12 identification.)

13 (wherein; KCP&L Exhibit Nos. KCPL-1, KCPL-2,  
14 KCPL-3 and GMO-1, GMO-2 and GMO-3 were received into  
15 evidence.)

16 JUDGE PRIDGIN: Cross-examination.

17 Staff?

18 Ms. McClowery.

19 CROSS-EXAMINATION BY MS. MCCLOWERY:

20 Q. Good morning, Mr. Alberts.

21 A. Good morning.

22 Q. How are you?

23 A. Doing well. Thank you.

24 Q. Good. The first thing I want to do is talk  
25 to you about a statement you made in your testimony. I have

1 it on Page 11 of your GMO surrebuttal. Can you take a  
2 look -- do you have it with you?

3 A. I don't have that one with me. Sorry.

4 Q. well, can I read you the statement, and see  
5 if --

6 A. Sure.

7 Q. -- you remember? Okay.

8 You state on Lines 6 through 10 that, The ROE  
9 range represented in the Company's testimony would be the  
10 same whether any emphasis was placed on quality or service  
11 or not.

12 It is not the intent of the company to  
13 directly correlate the excellent customer service study  
14 ratings and the reliability success to the requested ROE.

15 Do you recall that testimony?

16 A. I do recall, but I think that's taken out of  
17 context. I think we go on, in several other places, to say  
18 that, you know, if there are situations where a commission  
19 would take into consideration the evaluation of performance,  
20 as they have in other states, as you heard Mr. Blanc  
21 testify, that it has been used -- performance evaluations  
22 have been used in a negative fashion.

23 And all we're asking for is that performance  
24 be used in a positive way, as well, to be considered. Does  
25 that make sense?

1 Q. Okay. So you're not directly contradicting  
2 Mr. Blanc's statement that KCPL and GMO's return on equity  
3 request is commiserate with the top of the range to reflect  
4 the company's reliability and customer service achievements?

5 A. No. I think what that statement is saying is  
6 if we look at a midpoint of an ROE range -- and I'm not an  
7 accountant or -- I don't have expertise in that area -- but  
8 if -- logically, if you look at a midpoint, and performance  
9 is a factor, that KCPL performance is higher than most.

10 So if you use that to influence the outcome,  
11 you would say it wouldn't be any higher than the midpoint --  
12 more toward the top end of the range, because that's where  
13 our performance sits.

14 Q. Okay. Well, we'll just move on.

15 You've been with -- you were prior -- you  
16 started out with Aquila?

17 A. Correct.

18 Q. And then you joined KCPL with the  
19 acquisition?

20 A. Yes.

21 Q. That's correct? And you're in the customer  
22 service area?

23 A. Yes.

24 Q. You're vice president of customer service?

25 A. Yes.

1 Q. Okay. In any of your experience, did anyone  
2 ever suggest before this rate case that a certain level of  
3 customer service was contingent on a certain ROE?

4 A. I'm not sure I understand your question. Are  
5 you saying there are service metrics that are used as  
6 qualifiers?

7 Q. No. I'm just saying, before this rate case,  
8 did you ever think that a certain level of customer  
9 service -- a certain level of award-winning customer service  
10 was dependent on a higher ROE?

11 A. I'm still not sure I'm following you.

12 Q. Okay. Well, we'll just move on.

13 I have one last set of questions. And --  
14 okay. Just one question.

15 The company's request for the top end of  
16 Dr. Hadaway's ROE range would require customers to pay more  
17 for customer service than it costs to provide that customer.  
18 Isn't that true?

19 A. Correct.

20 MS. MCCLOWERY: No further questions.

21 JUDGE PRIDGIN: Ms. McClowery, thank you.  
22 Commissioner Kenney.

23 COMMISSIONER KENNEY: No questions. Thank  
24 you.

25 JUDGE PRIDGIN: All right. Thank you.

1 Redirect?

2 REDIRECT EXAMINATION BY MS. CUNNINGHAM:

3 Q. Mr. Alberts, I believe you just testified  
4 under a question by Staff counsel that by being given the  
5 top range of Dr. Hadaway's ROE recommendation, that  
6 customers would be paying more for customer service than the  
7 costs actually incurred to provide that service. Was that  
8 your testimony?

9 A. No.

10 Q. Okay. Would you please clarify or explain  
11 that statement?

12 A. Yeah. There's a couple of different ways to  
13 look at this. From a customer point of view, customers  
14 think in terms of total cost.

15 So if we have certain attributes of cost in  
16 our business model, and we transfer it to them -- and a good  
17 example of that might be a convenience fee that a customer  
18 would make for a payment -- so if a customer that has to pay  
19 that convenience fee pays \$3.95 to pay with a credit card,  
20 and now all of a sudden the utility decides to help  
21 customers on their behalf, negotiate a better rate on behalf  
22 of the customers, and be able to allow that as part of the  
23 function of rates, instead of putting it on the customer.

24 So at the end of all that, the actual rate  
25 that the customers pay go down, but that actually moves from

1 the customer's pocketbook into the utility portion of the  
2 rates. But it doesn't mean that customers are expected to  
3 pay more. It just means they're expected to pay for the  
4 level of service that we've delivered.

5 Q. Okay. Thank you.

6 MS. CUNNINGHAM: I have nothing further.

7 JUDGE PRIDGIN: All right. Thank you.

8 Mr. Alberts, thank you very much.

9 (Witness excused.)

10 JUDGE PRIDGIN: I would like to clarify with  
11 counsel. We would be -- and I plan on breaking for lunch  
12 here momentarily.

13 But after lunch, we'd be going on to  
14 Mr. Murray and then completing the rest of the staff  
15 capital -- cost of capital witnesses, and that we would not  
16 have further witnesses today. Is that -- am I understanding  
17 that correctly?

18 MR. DEARMONT: That's consistent with my  
19 understanding, Judge.

20 JUDGE PRIDGIN: All right. Thank you.

21 MR. ZOBRIST: That's correct.

22 JUDGE PRIDGIN: All right. I --

23 MR. ZOBRIST: I tell you, Judge, if you want  
24 to break right now, that's fine. I really have a very few  
25 number of questions for Ms. Kremer or Mr. Brossier. And I

1 could probably get those done in -- well, I guess we are  
2 getting close to noon. But it's -- I know on occasion  
3 you've gone to 12:15.

4 JUDGE PRIDGIN: I guess it's my -- I'm  
5 wondering how many questions you have for Mr. Murray.

6 MR. ZOBRIST: well, I have lots for  
7 Mr. Murray. I only want to spoil one person's lunch. But  
8 it's -- I'm just saying that if Ms. Kremer or Mr. Brossier  
9 need to be someplace this afternoon, I could probably get  
10 them done in 15 minutes -- maybe less.

11 JUDGE PRIDGIN: Let me ask the -- it's Staff  
12 pleasure --

13 MR. ZOBRIST: Sure.

14 JUDGE PRIDGIN: -- I understand.

15 MR. DEARMONT: We have no objection.

16 JUDGE PRIDGIN: Okay. We want to go ahead  
17 with those two witnesses, and then take Mr. Murray after  
18 lunch?

19 MR. ZOBRIST: That's fine with me. Yes.

20 JUDGE PRIDGIN: All right.

21 MR. DEARMONT: Ms. McClowery's issues.

22 THE COURT REPORTER: I need Mr. Alberts'  
23 testimony back. He took it with him.

24 JUDGE PRIDGIN: I believe the court reporter  
25 said Mr. Alberts maybe took his testimony, and she needs

1 that back. Okay.

2 THE COURT REPORTER: Thank you. Thank you,  
3 sir.

4 JUDGE PRIDGIN: All right. Counsel, let me  
5 know when we're ready.

6 Are we ready to proceed?

7 MS. MCCLOWERY: Uh-huh.

8 JUDGE PRIDGIN: All right. Ms. Kremer, if  
9 you'll raise your right hand to be sworn, please.

10 (Witness sworn.)

11 JUDGE PRIDGIN: Thank you very much. Please  
12 have a seat.

13 Ms. McClowery, when you're ready.

14 LISA KREMER testifies as follows:

15 DIRECT EXAMINATION BY MS. MCCLOWERY:

16 Q. Ms. Kremer, would you please state your name  
17 for the record.

18 A. Lisa Kremer.

19 Q. And by whom are you employed --

20 A. The Missouri --

21 Q. -- and in -- oh, go ahead.

22 A. The Missouri Public Service Commission.

23 Q. And in what capacity?

24 A. I'm the manager of the engineering and  
25 management services department.

1 Q. Are you the same Lisa Kremer who prepared and  
2 caused to be filed rebuttal testimony in this matter?

3 A. Yes.

4 Q. Okay. Marked as -- do you have any  
5 corrections to your rebuttal --

6 A. Yes.

7 Q. -- rebuttal testimony?

8 A. I do.

9 Q. Okay. And that's HC, is it not?

10 A. Yes. It is. It's just one number. And it's  
11 on Page --

12 JUDGE PRIDGIN: Do we need to in camera for  
13 the correction? All right. One moment, please.

14 (REPORTER'S NOTE: At this point, an  
15 in-camera session was held, which is located in volume 30,  
16 Pages 2949 to 2951)

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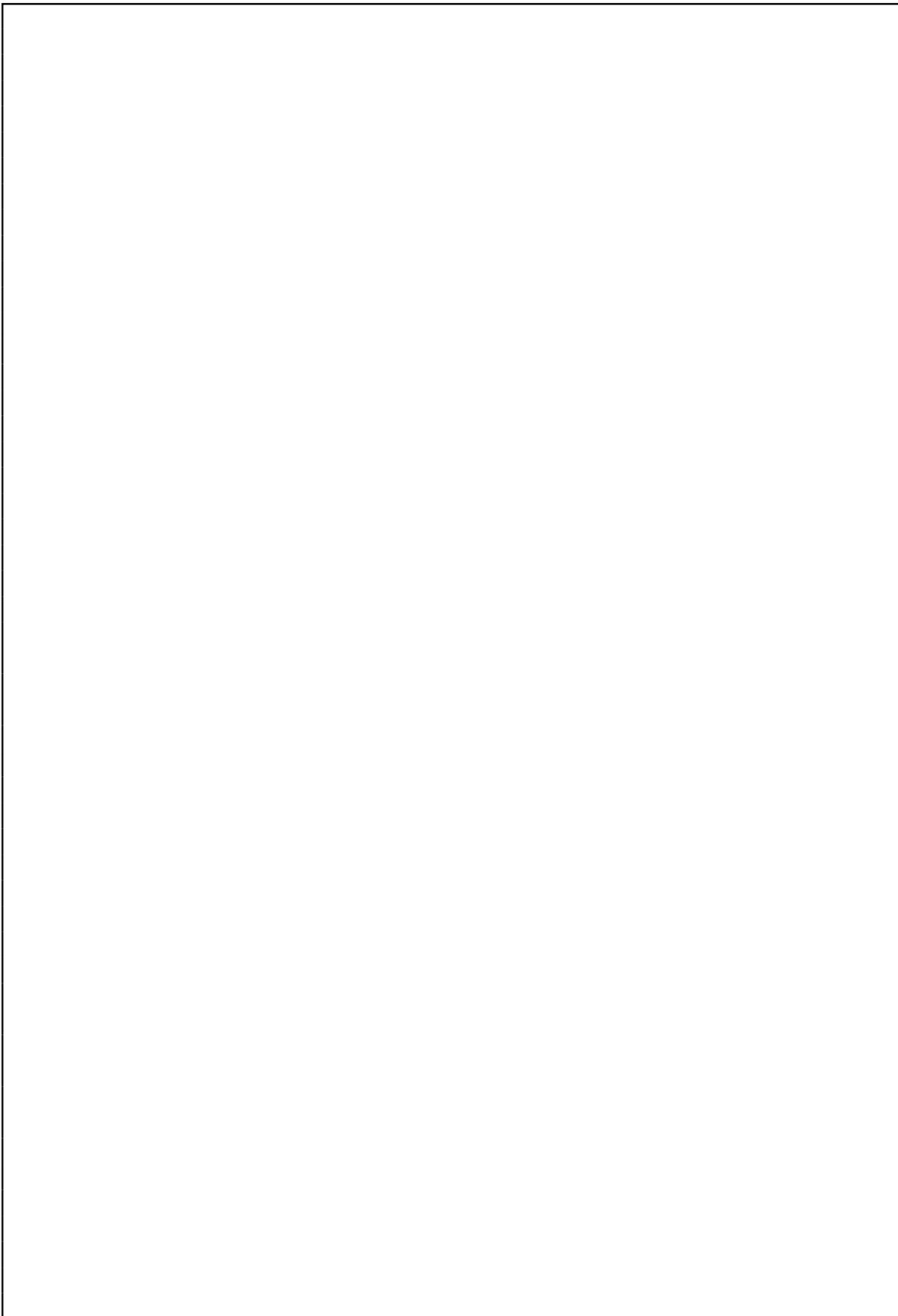
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1 MR. ZOBRIST: I missed the correction because  
2 I was looking at the GMO. Could we just go back into HC,  
3 and I can write it down, and then we'll move on?

4 JUDGE PRIDGIN: One moment. Let's go back in  
5 camera briefly.

6 (REPORTER'S NOTE: At this point an in-camera  
7 session was held, which is located in Volume 30, Page 2953.)

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1 JUDGE PRIDGIN: We're back in public.

2 BY MS. MCCLOWERY:

3 Q. Ms. Kremer, is the testimony that you have  
4 filed in this matter true and accurate to the best of your  
5 knowledge and belief?

6 A. Yeah.

7 Q. If I ask you the same questions today as were  
8 contained in your testimony in this case, would your answers  
9 be the same?

10 A. Yes.

11 Q. Okay.

12 MS. MCCLOWERY: At this time, I would move  
13 for admission of Exhibit 226 in KCPL, I believe, and 227 in  
14 GMO, representing the rebuttal testimony of staff witness  
15 Lisa Kremer. And I tender the witness for  
16 cross-examination.

17 JUDGE PRIDGIN: All right. Thank you.  
18 Any objection to those exhibits?

19 MR. ZOBRIST: No objection, Judge.

20 JUDGE PRIDGIN: All right. KCPL 226 and GMO  
21 227 are both admitted.

22 (Wherein; Staff Exhibit No. KCPL-226 and  
23 KCPL-227 were received into evidence at this time.)

24 MR. WOODSMALL: I hope I'm not the one all  
25 goofed up now. I show her testimony in GMO as 226, and 227

1 as Ms. Lyons'.

2 MS. MCCLOWERY: Then it might be switched  
3 around. Kremer is 227 in KCPL and --

4 JUDGE PRIDGIN: And 226 in GMO?

5 MS. MCCLOWERY: Yeah.

6 MR. WOODSMALL: Okay.

7 JUDGE PRIDGIN: All right. Let me make that  
8 correction.

9 Thank you, Mr. woodsmall.

10 MR. WOODSMALL: You're welcome.

11 JUDGE PRIDGIN: So let's relabel those. 227  
12 KCPL and GMO 226.

13 And I heard no objection?

14 MR. ZOBRIST: Correct.

15 JUDGE PRIDGIN: Thank you.

16 So KCPL 227 and GMO 226 are admitted.

17 (Wherein; Staff Exhibit Nos. KCPL-227 and  
18 GMO-226 were received into evidence.)

19 JUDGE PRIDGIN: Cross-examination.

20 Mr. Zobrist.

21 MR. ZOBRIST: I think it's just me.

22 Mr. Thompson's in my way, as usual, so I'm going to stand  
23 up.

24 MR. THOMPSON: You want me to just leave?

25 MR. ZOBRIST: We can talk about that.

1 CROSS-EXAMINATION BY MR. ZOBRIST:

2 Q. I think it's still morning. Good morning.

3 A. Good morning.

4 Q. You're familiar with the company JDPower.

5 Correct?

6 A. Yes. I am.

7 Q. And am I correct that's a nationally  
8 recognized customer survey firm?

9 A. I believe so, sir. That's what they --  
10 that's what their website says.

11 Q. Okay. And you don't have anything to  
12 contradict that?

13 A. No.

14 Q. Okay. And your testimony doesn't contradict  
15 that?

16 A. No. It does not.

17 Q. And is it correct that JDPower surveys a  
18 variety of segments of U.S. businesses and not just  
19 regulated public utilities?

20 A. That's my understanding.

21 Q. And isn't it true that the results are often  
22 advertised by public companies, like automobile companies,  
23 to try to sell their product on the basis of customer  
24 satisfaction?

25 A. That's my understanding.

1 Q. And Staff has not challenged JDPower's  
2 independence in this case, has it?

3 A. I have not.

4 Q. Okay. Now, if I can just ask you a couple of  
5 questions about the residential consumer satisfaction  
6 scores. And I have this as around Page 13 of your KCP&L  
7 rebuttal.

8 A. Can you direct me to a line, sir?

9 Q. I have Line 9 in KCPL. Now, KCPL and GMO  
10 were part of the large segment group; is that correct?

11 A. That's my understanding, yes.

12 Q. Okay. And the score that KCPL and GMO  
13 received was 655; is that correct?

14 A. That's my understanding.

15 Q. Okay. And the Ameren score, which I think  
16 you refer to in your rebuttal at 14 -- Page 14, was 621; is  
17 that correct?

18 A. That's correct.

19 Q. Okay. So we have KCP&L and GMO at 655, we  
20 have Ameren at 621; is that true?

21 A. That's my understanding. Yes.

22 Q. And the average for Midwestern large segment  
23 utilities in this group was 624. Correct?

24 A. I'm sorry. Can you direct me to a line,  
25 Mr. Zobrist? I don't dispute what you're saying, but I'd

1 like to see where I say that in testimony.

2 Q. I believe that it's from --

3 A. I think I found it. Yes. Midwest large  
4 segment average score of 624.

5 Q. 624.

6 A. Yes, sir. I found it.

7 Q. And now, the other electric utility in  
8 Missouri is Empire District Electric. Correct?

9 A. That's correct.

10 Q. Okay. And that's in the mid-size segment, as  
11 opposed to the large --

12 A. I believe so. Yeah. I don't think there is  
13 a small. I -- yeah, mid-size.

14 Q. Right. Yeah. KCPL and Ameren are in the  
15 large --

16 A. That's right.

17 Q. -- size?

18 And Empire was in the mid-size. Correct?

19 A. That's correct.

20 Q. Now, is it correct that the Empire score  
21 was -- I believe you said in your rebuttal, on Pages 14 and  
22 15, it was the fourth from the bottom?

23 A. Yes. I believe that's right.

24 Q. Okay. So Empire got a score of 587; is that  
25 correct?

1 A. Yes, sir.

2 Q. The bottom was 584?

3 A. Yes, sir.

4 Q. And the average score was 629?

5 A. Yes.

6 Q. Okay. And I believe you stated at Page 16 of  
7 your rebuttal that the -- both companies, GMO and KCPL, were  
8 fortunate not to have experienced any significant major  
9 outages resulting from storms in the past two years?

10 A. Yes, sir.

11 Q. And in the 2009 survey versus the 2010  
12 survey, you did recognize that KCPL slipped from the number  
13 two position to the number three position.

14 A. I believe --

15 Q. Is that true?

16 A. -- I did. For residential, that was the --  
17 is true.

18 Q. Right. That was in the residential survey?

19 A. Right.

20 Q. Okay. Now, when we look at the data -- and I  
21 believe this is your Schedule 3-6, KCPL and GMO were rated  
22 at 655. Correct?

23 A. Just one moment.

24 Q. Sure.

25 A. Let me get to that schedule.

1 Q. Sure.

2 A. I'm there.

3 Q. Okay. KCPL and GMO were rated at 655; is  
4 that correct?

5 A. Yes, sir.

6 Q. Okay. And the second ranking utility was  
7 Xcel, X-C-E-L?

8 A. Yes.

9 Q. And it had a 656. Correct?

10 A. Yes, sir.

11 Q. So it was just one point ahead of KCPL and  
12 GMO?

13 A. That's right.

14 Q. So they were essentially tied for second, but  
15 KCPL was one point lower?

16 A. That's correct.

17 Q. Okay. Now, in the 2009 survey, KCPL's score  
18 was 646; isn't that correct?

19 A. If I can find that.

20 Q. Yeah. I think you --

21 A. I think I have that. 646. Yes.

22 Q. Right. So actually, between 2009 and 2010,  
23 it improved its raw rating from 646 to 655?

24 A. It did, but I think as I mentioned in my  
25 testimony, you look at the 655. 2008 they were 667; 2007,

1 697; and 2006, 679.

2 Q. So even though in 2010 they were in third  
3 place, they had actually improved their rating over the  
4 previous year, 2009?

5 A. But they had declined from the prior three  
6 years. So yes.

7 Q. Okay. And in terms of customer complaints,  
8 would it be fair to say that customer complaints increased  
9 for all utilities from 2009 to 2010?

10 A. I don't know that. But I know that the Staff  
11 is concerned with the complaints that we're seeing from  
12 KCPL --

13 Q. well --

14 A. -- the number of complaints.

15 Q. Isn't it true that the level of complaints as  
16 a result of the recession have increased for all the public  
17 utilities in Missouri?

18 A. I don't -- if you can hang on just a moment,  
19 Mr. Zobrist, I -- I'm not sure that that's true. Just give  
20 me one moment.

21 Q. Okay. And what I'm referring to is the PSC  
22 annual report, which talked about customer contacts.

23 A. Okay. well, we have -- I'm not sure what the  
24 annual reports say. We have inquiries and then we have  
25 complaints. And what I have dealt with are complaints.

1 Give me just a moment here.

2                   Actually -- and I understand from our general  
3 counsel that we can talk about these complaint numbers. And  
4 staff typically does a complaint per thousand customer to  
5 try to give us a level playing field.

6                   And KCPL from 2008, 2009, 2010, if I  
7 calculated this correctly, they are actually 48 percent  
8 higher in residential complaints from 2010 to 2008. Empire  
9 has declined. Ameren has I would say remained relatively  
10 constant. GMO, a little bit of increase. But KCPL dramatic  
11 increase in customer complaints.

12                   MR. ZOBRIST: That's all I have, Judge.

13                   JUDGE PRIDGIN: Mr. Zobrist, thank you.

14                   COMMISSIONER KENNEY: No questions. Thank  
15 you.

16                   JUDGE PRIDGIN: Redirect?

17                   MS. MCCLOWERY: We have no redirect.

18                   JUDGE PRIDGIN: All right. Thank you.

19                   Ms. Kremer, thank you. You may step down.

20                   THE WITNESS: Thank you.

21                   (Witness excused.)

22                   JUDGE PRIDGIN: Staff witness Brossier.

23                   If you'll raise your right hand to be sworn,  
24 please, sir.

25                   (Witness sworn.)

1 JUDGE PRIDGIN: Thank you very much, sir.

2 Please have a seat.

3 And Ms. McClowery, when you are ready.

4 GREGORY C. BROSSIER testifies as follows:

5 DIRECT EXAMINATION BY MS. MCCLOWERY:

6 Q. Good morning. would you please state your  
7 name for the record.

8 A. Gregory C. Brossier.

9 Q. And by whom are you employed?

10 A. The Missouri Public Service Commission.

11 Q. And in what capacity?

12 A. I'm a utility engineering specialist.

13 Q. Are you the same Gregory Brossier who  
14 prepared and caused to be filed testimony in this matter?

15 A. Yes.

16 Q. Was that rebuttal testimony?

17 A. Yes.

18 Q. Do you have any corrections to your rebuttal  
19 testimony that have not have been addressed in subsequent  
20 testimony?

21 A. No. I don't.

22 Q. Mr. Brossier, is the testimony that you have  
23 filed in this matter true and accurate to the best of your  
24 knowledge and belief?

25 A. Yes.

1 Q. If I asked you the same questions today as  
2 were contained in your testimony, would the answers be the  
3 same?

4 A. Yes.

5 MS. MCCLOWERY: At this time, I would move  
6 for admission of Exhibits 213 in the KCPL case and 213 in  
7 the GMO case, representing the rebuttal testimony of Staff  
8 witness Gregory Brossier. And I tender the witness for  
9 cross.

10 JUDGE PRIDGIN: Ms. McClowery, thank you.

11 Any objection to those offers?

12 MR. FISCHER: No objection, Judge.

13 JUDGE PRIDGIN: All right. KCPL 213 and GMO  
14 213 are admitted.

15 (Wherein; Staff Exhibit Nos. KCPL 213 and GMO  
16 213 were received into evidence.)

17 JUDGE PRIDGIN: Cross-examination.

18 CROSS-EXAMINATION BY MR. ZOBRIST:

19 Q. Mr. Brossier, your testimony states that the  
20 Staff believes that the company is operating its system at a  
21 consistent level of reliability; is that correct?

22 A. Yes.

23 Q. And although you have not seen a trend upward  
24 in reliability, you also have not seen a trend downward in  
25 reliability over the past five years?

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A. That's true.

MR. ZOBRIST: No further questions.

JUDGE PRIDGIN: All right. Thank you.

Commissioner Kenney.

COMMISSIONER KENNEY: No, thank you.

JUDGE PRIDGIN: Redirect?

MS. MCCLOWERY: No, thank you.

JUDGE PRIDGIN: All right.

Thank you, sir. You may be excused.

(Witness excused.)

MR. WOODSMALL: Boy, he was intimidated.

MR. MILLS: It's never going to be that easy  
again.

MR. THOMPSON: Thanks for doing the redirect.

JUDGE PRIDGIN: All right.

And we will take up Mr. Murray after lunch.

And he will be our final witness for the day; is that  
correct?

MR. STEINER: That's right.

JUDGE PRIDGIN: All right. I would -- I  
don't necessarily have a preference if it's on or off the  
record. But I wondered about scheduling for the rest of the  
hearing.

Is there any objection or any feeling one way  
or the other whether that needs to be done on or off the

1 record?

2 MR. STEINER: It doesn't matter. We can do  
3 either one.

4 JUDGE PRIDGIN: All right. If nobody  
5 objects, just to give the court reporter a break, we can go  
6 off the record, just to try to get a roadmap of the  
7 remainder of the hearing.

8 okay. If there's nothing further, we will go  
9 off the record, and we will resume at 1:30.

10 Thank you. We're off the record.

11 (A short break was taken.)

12 BY JUDGE PRIDGIN: All right. We are back on  
13 the record.

14 Mr. Murray has taken the stand. I understand  
15 he is the last witness scheduled for today.

16 Is that correct?

17 MR. THOMPSON: That's correct, Judge.

18 JUDGE PRIDGIN: All right.

19 Anything from counsel before I administer the  
20 oath to Mr. Murray?

21 All right.

22 Mr. Murray, if you'll raise your right hand  
23 to be sworn, please, sir.

24 (Witness sworn.)

25 JUDGE PRIDGIN: Thank you very much, sir.

1 Please have a seat.

2 Mr. Dearmont, Mr. Thompson, whenever you're  
3 ready.

4 DAVID MURRAY testifies as follows:

5 DIRECT EXAMINATION BY MR. DEARMONT:

6 Q. Good afternoon. Would you please state your  
7 name for the record.

8 A. My name is David Murray.

9 Q. Okay. And where do you work, and in what  
10 capacity?

11 A. I work for the Missouri Public Service  
12 Commission, and I am the acting financial analysis  
13 department manager.

14 Q. Okay. Did you prepare and cause to be filed  
15 the rate of return sections of Staff's cost of capital  
16 report marked as Prefiled Exhibit 210 in both KCPL and GMO?

17 A. Yes. I did.

18 Q. Okay. Did you prepare and cause to be filed  
19 certain rate of return related accounting schedules filed  
20 contemporaneously with that cost of service report?

21 A. I --

22 Q. I believe those accounting schedules were  
23 marked as Exhibit 202 in both cases.

24 A. The appendices of the cost of service report.  
25 Yes. I assisted with that.

1 Q. Okay. Did you file any rebuttal testimony in  
2 this matter?

3 A. Yes. I did.

4 Q. Okay. Is that rebuttal testimony marked as  
5 Exhibit 234 in KCPL and 235 in GMO?

6 A. I don't know the exact exhibit numbers, but I  
7 did file those rebuttal testimonies.

8 Q. And did you prepare and cause to be filed  
9 surrebuttal testimony in this case?

10 A. Yes. I did.

11 Q. And you'll accept that it's marked 235 in  
12 KCPL and 236 in GMO?

13 A. Yes.

14 Q. Okay. Do you have any corrections to any of  
15 that testimony?

16 A. Yes. I do.

17 In Case ER-2010-0355, the -- in the cost of  
18 service report, under the rate of return section, Page 22,  
19 Line 13, instead of indicating legacy GMO debt, I think it's  
20 more appropriately referred to as legacy Aquila debt.

21 Page 24, Line 15, same correction. Instead  
22 of GMO's legacy debt, I believe it should say Aquila's  
23 legacy debt.

24 Page 25, Line 3, the same correction.  
25 Instead of GMO, Aquila.

1                   And then in rebuttal, in ER-2010-0355, on  
2 Page 8, Line 14, I indicate 1948 through 2000. That should  
3 indicate 1947 through 1999.

4                   Page 21, Line 23, the same correction.  
5 Instead of 1948 through 2000, that should indicate 1947  
6 through 1999.

7                   MR. ZOBRIST: I'm sorry. Could I have that  
8 page and line again, please?

9                   THE WITNESS: Sure. It is Page 21, Line 23.  
10 Instead of 1948 through 2000, it should indicate 1947  
11 through 1999.

12                   That's the extent of them in ER-2010-0355.

13                   I have also have some in 356.

14 BY MR. DEARMONT:

15                   Q. Please discuss those, if you would.

16                   A. A minor error on Page 10, Line 4. Instead of  
17 a range of, it should be range of.

18                   Q. Excuse me. And this is in the cost of  
19 service --

20                   A. Yes. It is.

21                   Q. -- report?

22                   A. I'm sorry. On Page 18, Line 25, it indicates  
23 GMO BBB. It should be GMO is BBB.

24                   On Page 20, Line 20, instead of GMO, it  
25 should indicate Aquila.

1                   Page 23, Line 1, instead of GMO's, it should  
2 indicate Aquila's.

3                   On Page 10 -- excuse me -- Page 23, Line 10,  
4 instead of GMO's, it should indicate Aquila's.

5                   And I believe I have some on the rebuttal,  
6 also, on the same case.

7           Q.       Okay.

8           A.       And I apologize. I didn't have it tabbed on  
9 the 356 case, so I'm just going to thumb through it here.

10          Q.       We are in rebuttal now, though?

11          A.       Yes.

12          Q.       Okay.

13          A.       To the extent there's any indication in the  
14 rebuttal about GMO's legacy debt, it should indicate  
15 Aquila's legacy debt. I don't see it in there, because I  
16 didn't reference it as much in the GMO case.

17          Q.       And that would apply to all of your  
18 testimony?

19          A.       Yes.

20          Q.       Okay.

21          A.       And that's --

22          Q.       Do you have any other corrections?

23          A.       No. Those are the only corrections I have.

24 Thank you.

25          Q.       Okay. Did I miss any testimony? Have you

1 filed any additional testimony?

2 A. No.

3 Q. Okay. Is all of the testimony that you have  
4 filed in these cases true and accurate to the best of your  
5 knowledge, information and belief?

6 A. Yes. It is.

7 Q. Okay. If you were asked the same questions  
8 today, would your answer be the same or substantially the  
9 same?

10 A. Yes.

11 Q. Okay.

12 MR. DEARMONT: At this time, Judge, I would  
13 move for admission of -- excuse me, here -- Exhibits 234 and  
14 235 in the KCPL case, and 235 and 236 in the GMO case,  
15 representing the rebuttal and surrebuttal testimonies of  
16 Staff witness David Murray.

17 JUDGE PRIDGIN: Any objection?

18 MR. FISCHER: No objection.

19 JUDGE PRIDGIN: All right. KCPL 234 and 235  
20 are admitted. GMO 235 and 236 are admitted.

21 (Wherein; Staff Exhibit Nos. KCPL 234, KCPL  
22 235, GMO 235, and GMO 236 were received into evidence.)

23 MR. DEARMONT: I'd tender the witness for  
24 cross.

25 JUDGE PRIDGIN: All right. Mr. Dearmont,

1 thank you.

2 Cross-examination.

3 Mr. Mills.

4 MR. MILLS: Just very quickly.

5 CROSS-EXAMINATION BY MR. MILLS:

6 Q. Mr. Murray, were you here for the  
7 cross-examination this morning of Mr. Blanc?

8 A. Yes. I was.

9 Q. Is the presentation to the board of directors  
10 that Mr. Dearmont questioned Mr. Blanc about attached to  
11 your surrebuttal testimony?

12 A. Yes. It is.

13 Q. It's Schedule 6. Correct?

14 A. That's correct.

15 Q. And you discuss that schedule at Pages 21  
16 through 23 of your surrebuttal testimony; is that not  
17 correct?

18 A. Excuse me. That is correct.

19 Q. So if the Commission wanted to know what that  
20 schedule was about and what it means, they should look to  
21 those pages of your surrebuttal testimony, rather than  
22 Mr. Blanc's cross-examination?

23 A. Yes. I believe I provide an explanation of  
24 my -- of my interpretation and perception of what that  
25 schedule means.

1 MR. MILLS: That's all I have. Thank you.

2 JUDGE PRIDGIN: All right. Mr. Mills, thank  
3 you.

4 Mr. Zobrist, you'll have cross?

5 MR. ZOBRIST: I do.

6 JUDGE PRIDGIN: Any other cross?

7 All right. Mr. Zobrist, when you're ready,  
8 sir.

9 CROSS-EXAMINATION BY MR. ZOBRIST:

10 Q. Mr. Murray, let me outline some issues to see  
11 where we have agreement and where we have disagreement.

12 As I understand it, for KCP&L, the only area  
13 of disagreement with regard to capital structure is on the  
14 equity units; is that correct?

15 A. The capital structure -- I believe that we  
16 have agreement on the capital structure; it's the costs.

17 Q. Right. The cost of the equity units, and  
18 then the cost of common equity?

19 A. Yes.

20 Q. Okay. And then I think the company has  
21 agreed with Staff, and perhaps other parties, that this will  
22 all be trued-up the -- at the end of the year?

23 A. Yes. That's --

24 Q. Okay.

25 A. -- a discussion we had.

1 Q. All right. Then I think there was a minor  
2 issue with regard to the Nuclear Decommissioning Trust Fund,  
3 but I think that was resolved in the testimony back and  
4 forth. Correct?

5 A. Yes.

6 Q. Okay. So let's turn to the equity units.  
7 I've got a few questions on those.

8 Have you ever been employed by either Goldman  
9 Sachs or J.P. Morgan?

10 A. No.

11 Q. Okay. Have you ever been employed by a  
12 company that acted as the manager of an offering of equity  
13 units?

14 A. No.

15 Q. Okay. And have you ever worked for a company  
16 that actually was the issuer of the equity units themselves?

17 A. No.

18 Q. Okay. Now, the dispute in this case which  
19 was raised with Mr. Cline this morning has to do with the  
20 cost of the equity units that Great Plains Energy issued in  
21 May 2009; is that correct?

22 A. Yes.

23 Q. Okay. And Staff is seeking a 245 basis point  
24 adjustment on the theory, as I understand it, that the cost  
25 that the company paid -- that Great Plains Energy paid was

1 attributable to financial stresses caused by the acquisition  
2 of Aquila?

3 A. I believe the exact adjustment was 242 basis  
4 points. I guess we can clear that up, if you want me to  
5 take a look. But generally, yes, that was -- that's the  
6 dispute, that there's strain from the acquisition of GMO on  
7 the risk of GPE.

8 Q. And the adjustment that Staff made in this  
9 case was based on an analysis that I presume you developed  
10 in relation to FP&L, the holding company of Florida Power  
11 and Light, is that correct, in the equity units that FPL  
12 issued?

13 A. Yes.

14 Q. Okay. And it's not based on any other equity  
15 offering. Correct?

16 A. No. That's the only offering I reviewed for  
17 purpose of the adjustment. I also was aware that PPL had  
18 also issued equity units. But I decided the timing of  
19 that -- I -- I was a little concerned that the timing of  
20 that, you know, made it a little more questionable, so I  
21 went with FPL. That's correct.

22 Q. And you did not base your analysis on any  
23 other equity offering that occurred 2009; is that correct?

24 A. That's correct.

25 Q. Okay. Now, based on your theory that the

1 financial stresses that GPE was experiencing related to the  
2 acquisition of Aquila, are you relying upon any document  
3 issued by a rating agency for that conclusion?

4 A. I don't know if the ratios are issued by the  
5 rating agency. If the ratios themselves had been issued by  
6 the rating agency, which shows the GMO, KCPL and GPE FFO to  
7 debt, FFO to interest, then, indirectly, yes, I am. Those  
8 are ratios that I think actually GPE provided to the rating  
9 agencies themselves.

10 Q. Am I correct that there is no statement that  
11 has been issued by Standard & Poor's stating that any credit  
12 downgrade was a result of the acquisition of Aquila?

13 A. There's no specific credit downgrade. That's  
14 correct.

15 Q. Okay. And am I correct that Moody's, the  
16 other major rating agency, has also not issued a statement  
17 that said that any credit downgrade was caused by the  
18 acquisition of Aquila?

19 A. Actually, I had the report up here. I know  
20 Moody's downgraded GPE in 2009. whether or not -- you know,  
21 I think it was more of a general discussion about their  
22 financial metrics and just talking about in a very broad  
23 sense, not necessarily singling out GMO, or obviously the  
24 construction. It was just talking about the financial  
25 metrics in general.

1 Q. Okay. Now, have you had an opportunity to  
2 review Mr. Cline's rebuttal testimony in the KCP&L case?

3 A. Yes.

4 Q. Okay. And did you review his Schedule 4,  
5 which is the Goldman Sachs' document prepared before the  
6 offering? It was prepared on March 17, 2009.

7 A. Yes. I did.

8 Q. Okay. And am I correct that on Page 5 of  
9 that schedule, MWC-2010-4, in the lower right-hand corner  
10 where it says, quote, "Economics: Investors demand higher  
11 yield than common stock - security more expensive than  
12 equity in downside scenario" --

13 A. Yes. I see that. That's what it says.

14 Q. But do you disagree with that statement?

15 A. No. I do not.

16 Q. Okay. And on the next page, Page 6, the  
17 second block there states, Common stock dividends. Do you  
18 see that, sir?

19 A. Yes. I do.

20 Q. And the block to the right of that says,  
21 quote, "Dividend yield on underlying common stock impacts  
22 relative value of the mandatory versus common stock." Do  
23 you see that?

24 A. Yes. I do.

25 Q. And the mandatory is a reference to the

1 equity units, is it not?

2 A. That's correct.

3 Q. Okay. And then it goes on to state, Higher  
4 dividend requires higher coupon to achieve the same spread  
5 between coupon and dividend yield. Did I quote that  
6 correctly?

7 A. Yes. You did.

8 Q. Do you disagree with that statement -- those  
9 statements?

10 A. No. I do not.

11 Q. Okay. Now, let me ask you to turn to  
12 Mr. Cline's schedule 5, which is a Goldman Sachs and Company  
13 report issued November 19, 2010. Do you see that, sir?

14 A. November 19th, 2010? Yes.

15 Q. And on Page 2 of the presentation, which is  
16 actually the third page in, there are two graphs depicted  
17 there. Do you see those, sir?

18 A. Yes. I do.

19 Q. Okay. And am I correct that these graphs  
20 illustrate that there is a more significant relationship of  
21 equity units pricing to common stock dividend yield than  
22 there is to an issuer's credit rating?

23 A. I would say based on that scatter -- there's  
24 no specific statistical test per se. It's just a scattered  
25 graph. And I would say that just basing -- based on looking

1 at that, there's a -- appears to be a tighter correlation,  
2 without calculating the actual statistical test.

3 Q. Okay. Now, if I could ask you, please, to  
4 turn to Schedule MWC-2010-6, which is the J.P. Morgan  
5 discussion materials issued in November 2010.

6 A. Yes.

7 Q. And could you turn to the second page of  
8 that? Well, actually, it's -- I think it's the last page of  
9 that document. It's labeled Number 1 at the bottom, but  
10 it's actually the third page of the schedule.

11 A. Yes.

12 Q. Now, do you see with regard to the FPL units  
13 that the equity units issued by FPL was only 1.5 percent of  
14 its market capitalization?

15 A. Yes. I do.

16 Q. And for Great Plains Energy, it was 16.6  
17 percent; is that correct?

18 A. That is correct.

19 Q. And is it a fair conclusion that because the  
20 equity units were a greater share of GPE's market  
21 capitalization, that it's going to have to pay more for that  
22 version of the equity units?

23 A. I have no reason to come to that conclusion.

24 Q. Now, the document also indicates that FPL's  
25 equity units were senior in the capital structure of FPL.

1 Do you see that, sir?

2 A. Yes. I do.

3 Q. Okay. And GPE's, by contrast, were placed in  
4 a subordinated position, with the ability to defer coupons?  
5 You see that?

6 A. I see the subordinated. I don't see the  
7 deferral of coupons. I'm sorry.

8 Q. If you look at the bottom of Page 1, it says,  
9 versus subordinated, with the ability to defer coupons for  
10 GXP. And GXP is the stock symbol for Great Plains Energy.

11 A. I do see that. It's at the very bottom. I  
12 apologize.

13 Q. And isn't it true that these distinctions are  
14 likely going to require a larger spread over the common  
15 equity dividend for GPE rather than for FPL?

16 A. That on a standalone basis -- it's very  
17 difficult, because there are other aspects to these equity  
18 units that are quite a bit different. So I don't want to  
19 say that in isolation. I can't say.

20 Q. Okay. Now, the third bullet point under  
21 commentary -- it's actually indented after the second bullet  
22 point -- states that GXP's offering price at 6.07 percent  
23 spread over its common dividend yield represented the third  
24 best pricing of any transaction in 2009. Is that your  
25 belief, as well?

1           A.       They did a much -- they have availability of  
2 all these -- all this capital market data. And so I trust  
3 what Goldman Sachs was able to look at and understand is  
4 true.

5           Q.       And am I correct that in this case, KCPL is  
6 simply setting the cost of the equity units at the cost that  
7 it actually paid? Correct?

8           A.       That is correct.

9           Q.       Okay. And I think you --

10          A.       Excuse me. GPE. Let me back up. GPE is  
11 setting the cost at the cost that was actually paid. And  
12 it's flowing through down to KCPL and GMO.

13          Q.       Right. Okay. Thank you. And you and  
14 Mr. Cline have agreed that using the gross value is  
15 appropriate, rather than the net value?

16          A.       For the capital structure, that's correct.

17          Q.       Okay. Okay. All right. Thank you.

18                    Let's move on to return on equity, if we can.  
19 Now, were you in the hearing room when I was examining  
20 Mr. Gorman on behalf of the industrials?

21          A.       Sorry. Yes. I was.

22          Q.       Okay. And we admitted into evidence  
23 Exhibit -- KCPL Exhibit 100 that showed the trends with  
24 regard to the U.S. Treasury five-year note. Do you recall  
25 that? And I think -- I'll -- yeah.

1 A. I do recall.

2 Q. Okay.

3 A. I mean, I don't know if I would agree with  
4 the characterization, but it is the five-year Treasury bond.

5 Q. And without going into whether what, you  
6 know, number is correct at what particular part of a month,  
7 this is the general trend that we've seen generally with  
8 regard to not just the five-year Treasury note but other  
9 Treasury issuances as well. Correct?

10 A. If I may, the problem I have is defining it  
11 as a trend. Two months, it's very difficult to say that's  
12 what a trend makes.

13 So I would agree that, generally, there was a  
14 trend from -- if we're limiting it to this one-year period,  
15 basically, it looks like that's what it is.

16 You know, there was an extreme downward trend  
17 from over an eight-, nine-month period, from April through  
18 November. And then from November -- for the last two  
19 months, it went back up.

20 Q. Okay.

21 A. So it define -- it depends on what period  
22 you're looking at.

23 Q. Okay. Well, I'm looking at the whole year.  
24 And I'm just saying that this is -- whether you call it a  
25 trend or whether you call it just the general results, this

1 is what happened for the five-year note for 2010?

2 A. well, if I look at the whole time period, I  
3 would actually say, through the end of the period, there's  
4 actually a downward trend.

5 Because if you look at the February, March,  
6 April period, that -- those interest rates are higher than  
7 what they were in December and January.

8 So if I trend line that covered this whole  
9 period, you would see a straight trend line that actually  
10 has a slight decline.

11 Q. Okay. Well, the last three months -- or the  
12 last two months of 2010, the trend was going up. Correct?

13 A. The interest rates went up. I will agree,  
14 the interest rates went up for the last two months.

15 Q. Okay. Great. Let's talk about your proxy  
16 group. Your proxy group in both the KCP&L and the GMO cases  
17 consisted of ten companies; is that correct?

18 A. That is correct.

19 Q. Okay. And in last year's rate cases, in  
20 ER-2009 -- I think it was 0090, you used 11 companies; is  
21 that correct?

22 A. That sounds -- I mean, it's not significantly  
23 different. I don't remember the exact number.

24 Q. Okay. Did you change your methodologies in  
25 developing your proxy groups in these cases versus the GMO

1 and KCPL cases that were filed at least in fiscal year 2009?

2 A. Comparable groups, substantially similar. So  
3 I don't think there's any major changes.

4 Q. Okay. Now, this year's group of ten  
5 companies -- and if I could ask you to turn, please, to  
6 schedule 8 of your report -- saw the addition of the Alliant  
7 Energy Company; is that correct?

8 MR. DEARMONT: I apologize. But for the sake  
9 of the record, what report are we --

10 MR. ZOBRIST: Schedule 8.

11 MR. DEARMONT: Schedule 8 in?

12 MR. THOMPSON: The cost of service report.

13 MR. ZOBRIST: I think it's the same in -- I  
14 think it's --

15 MR. DEARMONT: In the 355 case?

16 MR. ZOBRIST: I think it's the same in both.

17 MR. DEARMONT: Okay.

18 MR. ZOBRIST: But I'll --

19 MR. DEARMONT: I apologize. Thank you.

20 MR. ZOBRIST: Yeah. It's in the KCPL report.

21 THE WITNESS: Alliant is included. That's  
22 correct.

23 BY MR. ZOBRIST:

24 Q. Okay. Now, does Alliant own any transmission  
25 assets?

1           A.       They're an integrated utility. That usually  
2 means that they have generation to distribution. But I  
3 don't know specifically about transmission.

4           Q.       Okay. Did you test any of the companies in  
5 your group to see whether they owned any electric  
6 transmission, as opposed to distribution and generation --

7           A.       No. I was focused --

8           Q.       -- assets?

9           A.       -- on generation, without a doubt.

10          Q.       All right. Now, you do not include in your  
11 ten companies the Empire District Electric Company; is that  
12 correct?

13          A.       That is correct.

14          Q.       Okay. And Empire does business in Missouri,  
15 Kansas, Oklahoma and Arkansas?

16          A.       Yes.

17          Q.       But -- and we're going to talk about this  
18 probably in a couple of weeks -- you are requesting that GMO  
19 adopt Empire's debt cost structure; is that correct?

20          A.       That is correct.

21          Q.       But you felt that Empire was not an  
22 appropriate candidate for your return on equity proxy group?

23          A.       Because of a lack of market data. That's  
24 correct.

25          Q.       Okay. And Westar Energy, which is the

1 largest investor-owned utility in Kansas, is not in your  
2 group; is that correct?

3 A. Yes, because it didn't meet the criteria.

4 Q. Okay. And you do not have any other company  
5 operating in any of the states surrounding Missouri in your  
6 analysis; is that correct? Except for Alliant Energy?

7 A. Bordering states, yes, I agree with that.  
8 That's correct.

9 Q. Okay. And Alliant does business in Iowa,  
10 Wisconsin, Minnesota; is that correct?

11 A. I got to get -- I can tell you for -- you  
12 know, I'll just make sure the record is straight.

13 And Illinois. That's correct.

14 Q. Okay. And American Electric Power, the vast  
15 majority of their assets are in Ohio, Indiana and Michigan,  
16 and then in Texas; is that correct?

17 A. I actually -- I'm looking right at Value Line  
18 tariff sheet. And I have Arkansas, Kentucky, Indiana,  
19 Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas,  
20 Virginia, West Virginia.

21 Q. Okay. And Dayton Power and Light, which is  
22 the utility subsidiary of DPL, is entirely in Ohio?

23 A. Yes. They've stayed true to their name.

24 Q. And Xcel, which is X, little c-e-l, their  
25 utilities are located in Minnesota and the Dakotas and then

1 out in Colorado; is that correct?

2 A. I actually have quite a few other -- this is  
3 what Value Line indicates: Minnesota, Wisconsin, North  
4 Dakota, South Dakota, Michigan; gas to Minnesota, Wisconsin,  
5 North Dakota. Anyway, that's the extent of -- and Colorado.

6 Q. Okay. Okay. And the other six companies in  
7 your proxy group do not do business in the Midwest. Is that  
8 fair to say?

9 A. Can you define Midwest, please?

10 Q. Well, let's go through them. Cleco is  
11 Louisiana. Right?

12 A. That is correct.

13 Q. Okay. Louisiana is in the south?

14 A. Yes.

15 Q. Okay.

16 A. That's correct.

17 Q. IDACORP is the holding company of Idaho Power  
18 Company?

19 A. Yes.

20 Q. Okay. So Idaho is in the west?

21 A. Yes. I would generally agree with that.

22 Q. PG&E Corp is the holding company of Pacific  
23 Gas and Electric Corporation, which does business in  
24 northern California?

25 A. That -- in California, that is correct. And

1 central California.

2 Q. And Pinnacle West is the holding company of  
3 Arizona Public Service Company?

4 A. That is correct.

5 Q. And Progress Energy is in the southeast major  
6 holdings in Florida and North Carolina?

7 A. And South Carolina. That's correct.

8 Q. Okay. And then Southern Company is the large  
9 electric utility in the southeast, with assets in Georgia,  
10 Alabama, Mississippi, South Carolina?

11 A. With the exception of South Carolina, I would  
12 say generally that's correct.

13 Q. Okay. Now, Dr. Hadaway had 31 companies in  
14 his proxy group; is that correct?

15 A. I don't recall the number. I know it's quite  
16 a few more.

17 Q. Okay. And Mr. Gorman relied upon his proxy  
18 group; is that true?

19 A. That is correct.

20 Q. Okay. Do you happen to have the Hadaway  
21 proxy group in front of you?

22 A. I have his testimony, so I -- if you could  
23 just direct me to it.

24 Q. Schedule 1.

25 MR. ZOBRIST: Judge, if I could just have

1 marked -- this is actually just both Mr. Murray's Schedule 8  
2 and Hadaway's Schedule 2010-1. They're both in evidence,  
3 but I'd like to have that marked as an exhibit.

4 JUDGE PRIDGIN: Okay. This will be Exhibit  
5 KCPL 101.

6 (Wherein; KCP&L Exhibit No. KCPL-101 was  
7 marked for identification.)

8 BY MR. ZOBRIST:

9 Q. And Mr. Murray, is this a fair comparison of  
10 your ten companies and Dr. Hadaway's ten companies?

11 A. Yes. It is.

12 Q. Okay. And on the Hadaway proxy group are  
13 listed Empire and Westar; is that true?

14 A. That is correct.

15 Q. And Vectren, which is located in Indiana,  
16 with its major utility being Southern Indiana Gas and  
17 Electric Company; is that correct?

18 A. I don't know exactly where Vectren does  
19 business. But I'll accept that.

20 Q. Okay. And then Entergy is listed on his --  
21 in his proxy group, which has assets in Arkansas, Louisiana,  
22 Texas; is that correct?

23 A. They have assets. Do they have regulated  
24 assets, I think is a fair question. But they're sure to  
25 have assets --

1 Q. Okay.

2 A. -- in those --

3 Q. Well, they do have regulated assets in  
4 Arkansas and Louisiana and parts of Texas and Mississippi?

5 A. Yes. But it's a -- like I said, as far as  
6 some of these restructure states, I think that's one of the  
7 concerns of having companies that just have assets in  
8 various states, but --

9 Q. Well, isn't it true that Entergy has  
10 regulated assets in the state of Arkansas?

11 A. I believe that's correct.

12 Q. Okay. And then Black Hills Corporation has  
13 assets in Kansas and in the Dakotas. And that's on Dr. --

14 A. I think --

15 Q. I'm sorry?

16 A. I believe additional, because they made the  
17 acquisition. They have quite a few regulated assets.  
18 That's correct.

19 Q. And they have assets -- regulated assets in  
20 the state of Kansas?

21 A. Yes.

22 Q. Okay. Let me ask you some questions about  
23 your constant growth discounted cash flow model, if I could,  
24 please. What was the dividend yield that you used in your  
25 constant growth DCF model?

1 A. Actually, I think I remember that. That's  
2 4.7.

3 Q. Okay. And am I correct that Mr. Gorman used  
4 4.80 percent?

5 A. I'd have to verify that. I -- that's what  
6 his schedule MG -- MPG-4 indicates, yes.

7 Q. And then Dr. Hadaway used -- and this is in  
8 his Schedule 2010-11, at Pages 2 and 3. Dr. Hadaway, when  
9 he updated his -- I think that's to his rebuttal -- Dr.  
10 Hadaway used 4.73 to 4.83 percent, as far as the dividend  
11 yield.

12 A. Can you direct me to that again? I'm sorry.

13 Q. Yes, sir. Yes, sir. Schedule -- to the  
14 Hadaway rebuttal, Schedule 2010-11, at Pages 2 and 3.

15 A. Yes. His average is 4.73, and his median is  
16 4.83.

17 Q. So you, Dr. Hadaway and Mr. Gorman all used  
18 about the same dividend yields, ranging from your 4.7  
19 percent up to Mr. Gorman's 4.80 percent, and then Hadaway's  
20 range of 4.73 to 4.83 percent. Correct?

21 A. Yes.

22 Q. Okay. And the difference in your analysis,  
23 as far as the constant growth, is the growth rates. True?

24 A. Yes.

25 Q. Okay. Now, you stated at Page 28 of the

1 Staff report that Staff -- and I'm quoting now -- "found the  
2 historical growth rates to be quite volatile"; is that true?

3 A. That is correct.

4 Q. Okay. And based upon Value Line and Reuters,  
5 Staff's initial analysis projected growth rates for the ten  
6 companies in your proxy group over the next five years to  
7 what you believe was a non-sustainable growth rate of 5.97  
8 percent; is that correct?

9 A. Yes. And could I clarify the Reuters?

10 Q. In terms of?

11 A. Just -- I just want to clarify that the  
12 record reflects that Reuters is not -- doesn't have an  
13 independent analyst. It's just a survey of consensus equity  
14 analysts. So I just want to make sure that people  
15 understand that. Value Line has its own independent  
16 analysts.

17 Q. Okay. Now, after you calculated the 5.97  
18 percent, you came to the determination that that was a  
19 non-sustainable growth rate; is that correct?

20 A. Yes.

21 Q. Okay. Now, you say that, "Staff therefore  
22 quotes selected and alternative input," closed quote, and  
23 you reduced it to [sic] 4 to 5 percent; is that true?

24 A. I dismissed the 5.97. And I wouldn't say I  
25 reduced their forecast. Their forecast is for five years.

1 I just looked at what I thought was -- seemed to be  
2 reasonable for a constant growth.

3 Q. Well, you rejected and threw out your 5.97  
4 percent. Correct?

5 A. Well, but I rejected for the constant growth  
6 DCF. I did not say that I reduced their earnings per share  
7 forecast. They are what they are.

8 Q. Well, I'm not talking about earnings per  
9 share. I'm just talking about that number. I mean, you  
10 didn't -- you disagreed with the finding of your analysis  
11 that indicated a growth rate of 5.97 percent. You thought  
12 that was too high?

13 A. For a DCF, that is correct.

14 Q. All right. And you stated that, "Based on  
15 Staff's expertise and understanding of current market  
16 conditions" -- and I'm referring to Page 29 of your  
17 report -- that you determined to use a rate of 4 percent to  
18 5 percent. Correct?

19 A. That's correct.

20 Q. Okay. Okay. And so, essentially, you took  
21 what you had found through the Value Line and the Reuters at  
22 5.97 percent; you rejected that, and we have, essentially, a  
23 reduction of 100 to 200 basis points, to a growth rate of 4  
24 percent to 5 percent?

25 A. Yes, because those are five-year growth

1 rates, and we're talking about constant growth.

2 Q. Okay. And the 5.9 percent growth rate that  
3 you initially arrived at is close to Dr. Hadaway's constant  
4 growth rate -- long-term constant growth rate of 6 percent;  
5 is that true?

6 A. That's what he selected. That's true.

7 Q. Okay. And am I correct that if you had used  
8 the Value Line and the Reuters' projected growth rates for  
9 your ROE estimates, you would have arrived at 9.59 percent  
10 to 10.55 percent?

11 A. That's some simple addition, so yes.

12 Q. Okay. And similarly, if you had used the  
13 Value Line and Reuters' earnings growth estimates, that  
14 would have produced a 10.66 percent return on equity; is  
15 that true?

16 A. The -- you said which growth estimates? I'm  
17 sorry.

18 Q. Earnings growth estimates.

19 A. For both of them, or --

20 Q. Correct.

21 A. And I'm sorry. What was the --

22 Q. Okay. My first question had to do with  
23 projected growth rates. And if you had used the earnings  
24 growth estimates, which I think was 5.97 percent, that would  
25 have produced a return on equity of 10.66?

1           A.       I'm just trying to -- you said 5.97. I said  
2 that was simple arithmetic. I used a 4.7 percent dividend  
3 yield. And I'm just trying to follow along here. If you --  
4 you have, obviously, 9.97, so 10 -- 10.67.

5           Q.       Okay. It's in that area.

6           A.       Okay.

7           Q.       Correct?

8           A.       Yes.

9           Q.       Okay. I know, doing arithmetic under  
10 cross-examination probably is a -- an Olympic sport, but --  
11                   Let's move on a couple things, here. Now,  
12 you stated that based on Staff's expertise and understanding  
13 of current market conditions. Now, that included your  
14 judgment that you applied to this analysis. Correct?

15          A.       Yes.

16          Q.       Was there any other Staff member that you  
17 consulted with regard to evaluating the current market  
18 conditions and coming up on the 4 percent to 5 percent  
19 growth rate?

20          A.       We have internal discussions within the  
21 department just, you know, debating what's going on with the  
22 market, economic growth, growth in utilities on an ongoing  
23 basis. So yes, that's -- you know, that's --

24                   Did we talk about that specific number? Not  
25 necessarily. But yes, we're constantly discussing, you

1 know, what makes sense from a -- you know, from a  
2 sustainable perspective.

3 Q. Now, you didn't cite anything to essentially  
4 validate your reduction, in terms of a third party source.  
5 Did -- was there a third-party source that you relied upon  
6 that said, This 5.9 percent is too high, you ought to reduce  
7 it to 4 percent or 5 percent? I mean --

8 MR. DEARMONT: I'm going to object at this  
9 point. I think that that mischaracterizes Mr. Murray's  
10 testimony. I think he clearly stated that he did not view  
11 it to be a reduction.

12 MR. ZOBRIST: Well, Judge, it's  
13 cross-examination, and I'm entitled to characterize things,  
14 and the witness is intended to -- is permitted to clarify.

15 JUDGE PRIDGIN: I'll overrule.

16 THE WITNESS: I'd say, if you look at  
17 Footnote 16 on Page 29, Dr. Aswath Damodaran, who is the  
18 professor of finance of NYU, he -- you know, in his book,  
19 Investment valuation, there's a discussion as to when the  
20 appropriate time is to use a constant growth DCF.

21 And, you know, that time is only if you can,  
22 you know, determine that the sustainable growth rate is --  
23 you know, is maybe within 1 percent of the near-term growth  
24 rate.

25 So realizing that, based on my analysis that

1 utilities have never grown at the rate of GDP and that GDP  
2 is estimated to grow at 4.5 percent -- you know, maybe I'll  
3 give you a little bit more and say 4.5 to 5 percent, but  
4 there's some in the low 4's as well -- then I realize that 6  
5 percent is clearly getting into that danger zone as to  
6 whether or not you're going to come up with a reliable  
7 estimate using a constant growth DCF based on five-year  
8 earnings-per-share forecast.

9           That's not my -- based on my studies and  
10 analysis of what you're trying to do when calculating a  
11 sustainable growth, that, you know, would be done for  
12 purposes of determining the value of an investment. And I  
13 don't believe investors do so, because I've reviewed  
14 information that says they don't.

15 BY MR. ZOBRIST:

16           Q.       At the top of the Staff report, on Page 29,  
17 where your sentence states, For this reason, Staff selected  
18 an alternative input, and based upon Staff's expertise and  
19 understanding of current market conditions. I must have  
20 misread that myself.

21                    At any rate, you see the sentence I'm talking  
22 about there that says, For this reason?

23           A.       Well, yes. And that includes reading these  
24 types of materials that I have cited at the bottom, and  
25 other materials in the CFA program that I recently

1 completed, and just understanding that utilities -- it's  
2 been since the '60s or '70s since utilities have been able  
3 to grow at the rate of GDP.

4           So 4.5 percent growth, I mean, that -- this  
5 is generous. I mean, I'll just be quite honest with you,  
6 4.5 percent is generous.

7           Q.     Okay. My question is: There is no citation  
8 to authority at the conclusion of that sentence that says,  
9 Staff selected an alternative input based upon its expertise  
10 and understanding; am I correct?

11          A.     No. There's no specific authority cited.

12          Q.     Okay. Now, the growth rates that you used,  
13 Mr. Murray, for constant growth were 4 percent to 5 percent;  
14 is that correct?

15          A.     That's correct.

16          Q.     Okay. And for the multi-stage growth model,  
17 it was 3 percent to 4 percent; is that correct?

18          A.     That is correct.

19          Q.     And you did not do a long-term or sustainable  
20 growth model, like Dr. Hadaway and Mr. Gorman did; is that  
21 correct?

22          A.     I -- if you want to put -- you know,  
23 specifically title the type of growth they did, they did a  
24 fundamental growth model. I looked at long-term growth.

25                   But they did what's called the fundamental

1 growth model, which is BRSV -- you know, retained earnings  
2 retention times expected ROEs. I looked at long-term growth  
3 for utilities.

4 Q. Okay. Now, did you also look at the average  
5 returns issued by state regulatory commissions during the  
6 past year?

7 A. Yes. I've cited the first three quarters in  
8 my testimony; and recently, the fourth quarter was released,  
9 and I don't believe that that's even changed that much since  
10 the third quarter, which, you know, I guess is not  
11 surprising because we'll probably see more changes next  
12 year.

13 MR. ZOBRIST: If you'd give me a second,  
14 Judge.

15 JUDGE PRIDGIN: Yes.

16 MR. ZOBRIST: 103? 102?

17 JUDGE PRIDGIN: I show 102.

18 MR. ZOBRIST: Okay. Thank you, Judge.

19 JUDGE PRIDGIN: Uh-huh.

20 (Wherein; KCP&L Exhibit No. KCPL-102 was  
21 marked for identification.)

22 MR. ZOBRIST: Judge, the court reporter has  
23 marked as Exhibit 102 a one-page document.

24 BY MR. ZOBRIST:

25 Q. Have you seen this recently, Mr. Murray?

1 A. Not in this format, no.

2 Q. Okay. I understand this is a compilation of  
3 the Regulatory Research Associates study that I think  
4 Mr. Mills and maybe Mr. Dearmont referred to earlier. It  
5 may be in a different format.

6 But does this appear to be the information  
7 that you reviewed from Regulatory Research Associates  
8 regarding return on equity cases for the past year, 2010?

9 A. I really just looked at the overall averages.  
10 I didn't -- I mean, obviously, there's much more detail  
11 here.

12 Q. Okay. Do you recall that the vertically  
13 integrated utilities for the third quarter of 2010 had an  
14 average ROE of 10.32 percent?

15 A. I'm sorry. For the third quarter, or for  
16 the --

17 Q. Yes, sir.

18 A. -- fourth quarter? Okay.

19 Q. Third quarter.

20 A. Like I said, I looked at the just overall RRA  
21 data. So, I mean, I'll accept your characterization it was  
22 10.32 percent, or --

23 Q. And I think you said that you recall that it  
24 maintained that level through the fourth quarter. Does this  
25 refresh your recollection that it continued during the

1 fourth quarter of 2010 at the level of 10.32 percent?

2 A. well, like I said, I guess I was looking at  
3 the T&D and the vertically integrated, so -- and they're  
4 both 10 on -- you know, they have the 10 for the T&D for  
5 third quarter, fourth quarter, so the overall average is the  
6 same. I understand. But yes, that reflects my  
7 recollection.

8 Q. Okay. Do you have any reason to dispute --

9 A. No.

10 Q. -- as you --

11 A. No. I --

12 Q. -- sit here? Okay.

13 MR. ZOBRIST: I move admission of Exhibit  
14 102.

15 JUDGE PRIDGIN: KCPL 102 is offered. Any  
16 objection?

17 MR. WOODSMALL: May I voir dire the witness  
18 briefly, Your Honor?

19 JUDGE PRIDGIN: You may.

20 VOIR DIRE EXAMINATION BY MR. WOODSMALL:

21 Q. Mr. Murray, have you seen this information in  
22 this format?

23 A. Not in this format.

24 Q. Can you verify any of the numbers on here --  
25 any of the specific numbers on here?

1           A.       I'd have to look at the RRA data that I cited  
2 in my testimony to see, because, like I said, I looked at it  
3 at a very broad level.

4           Q.       well, let me ask you: Can you verify whether  
5 any of these companies are T&D utilities versus vertically  
6 integrated utilities?

7           A.       It would be just based on my knowledge over  
8 the time as to which companies are vertically integrated and  
9 TD. Not specifically. I could not say 100 percent.

10           MR. WOODSMALL: Your Honor, I don't believe a  
11 proper foundation for the information contained in this has  
12 been laid. Too many questions about specific numbers, about  
13 what companies fall within which category -- I don't think  
14 this witness can verify that data.

15           MR. MILLS: And Judge, I'll join in that, and  
16 note that Mr. Zobrist asked about two numbers out of dozens  
17 here, and the witness wasn't even all that sure about those  
18 two. So there's a lot of numbers here that have no  
19 foundation.

20           JUDGE PRIDGIN: Okay.

21           Mr. Zobrist.

22           MR. ZOBRIST: Yeah. Give me two more minutes  
23 here. Maybe I can get what I need, and we don't even need  
24 this, then.

25           JUDGE PRIDGIN: All right.

1 BY MR. ZOBRIST:

2 Q. I think I covered this, Mr. Murray, but you  
3 did indicate that you believed, based upon your review of  
4 the data, that the vertically integrated utilities' ROE for  
5 the third quarter was 10.32 percent; is that correct?

6 A. Let me back up. And like I said, I'm going  
7 to look at my testimony, because this obviously is what I  
8 have submitted. The third quarter I have as 10.27.  
9 Obviously, that includes all companies reported in RRA, what  
10 the breakout was for T&D and integrated. I am not sure. I  
11 did not evaluate that.

12 Q. Okay. Well, and if we look at all utilities  
13 at the bottom, the document that I handed you says 10.6 --  
14 26 percent versus your 10.27 percent in your testimony.  
15 Correct?

16 A. Yes. It says 10.26 for all, and I have  
17 10.27.

18 Q. Okay. And am I correct that Kansas City  
19 Power and Light Company is a vertically integrated utility?

20 A. Yes.

21 Q. Okay. It's not a T&D utility?

22 A. That's correct.

23 Q. Do you regularly review Regulatory Research  
24 Associates' data?

25 A. I provide it to the Commission in context

1 with cases because it's something that they review to  
2 evaluate reasonableness.

3 Q. Okay. And do you yourself regularly rely  
4 upon these reports as a check of reasonableness?

5 A. Just to evaluate what the authorized returns  
6 are. As far as a check of reasonableness, I'm aware of it  
7 and -- but I'm also aware that we're estimating the cost of  
8 equity.

9 And I think it -- I think it's pretty evident  
10 that I don't necessarily believe that the allowed returns  
11 are necessarily reflecting the cost of equity.

12 Q. Okay. And you realize that this Commission  
13 has regularly looked to other ROE decisions, not only that  
14 it has issued but that other regulatory commissions have  
15 issued, as well. Correct?

16 A. Yes. Since 2004, I believe.

17 Q. Okay. And they've done that in establishing  
18 a zone of reasonableness that they have talked about in a  
19 number of report of -- report and orders?

20 A. Plus or minus 100 basis points since 2004. I  
21 remember very well.

22 Q. Okay. Okay.

23 MR. ZOBRIST: Judge, I don't have any more  
24 questions. Thank you.

25 JUDGE PRIDGIN: Okay. Thank you.

1 Commissioner Kenney.

2 COMMISSIONER KENNEY: No questions. Thank  
3 you.

4 JUDGE PRIDGIN: All right. Thank you.  
5 Redirect?

6 MR. DEARMONT: I have just a few questions.  
7 And with your leave, I'll conduct them right here from the  
8 table.

9 JUDGE PRIDGIN: Certainly.

10 REDIRECT EXAMINATION BY MR. DEARMONT:

11 Q. Mr. Murray, when did FPL issue their equity  
12 units?

13 A. It was within about a month of when GPE  
14 issued theirs.

15 Q. Okay. And you discussed a Goldman Sachs'  
16 document with Mr. Zobrist. Do you remember that discussion?

17 A. Yes. I do.

18 Q. Okay. And I think that you said that you  
19 trust Goldman Sachs. Do you remember that?

20 A. I trust their analysis.

21 Q. Okay. Do you consider Goldman Sachs to be a  
22 reliable source?

23 A. Yes. I do.

24 Q. Okay. Do you have any reason to question  
25 your proxy group selection method?

1           A.       No. I think the fact that we have cost of  
2 equity dividend yields are fairly close shows that it really  
3 hasn't made that much of a difference.

4           Q.       Okay. What do you focus on in selecting  
5 proxy group selection criteria?

6           A.       The focus on -- obviously, Iatan has taken up  
7 a week and a half of this case, so generation is a very  
8 important criteria as to whether or not the utility has  
9 generating assets. And that could even include asset --  
10 generating assets that are non-regulated.

11                   And as we all know, with the decline in the  
12 economy, some of these companies were generating assets that  
13 are not under the regulatory protection of having captive  
14 ratepayers have really had a significant decrease in their  
15 valuation.

16                   And actually, the regulated utilities in the  
17 last year to year and a half have significantly outperformed  
18 the non-regulated -- the diversified integrated utilities  
19 that have generation that is not under the protection of  
20 regulation.

21                   The same thing for independent power  
22 producers; they have had a significant decline in their  
23 stock prices.

24                   And when you consider the fact that regulated  
25 utilities usually don't have much change in their growth, if

1 their stock prices outperformed the diversified utilities,  
2 such as Ameren or others that may have been talked about,  
3 that may be in Mr. Hadaway's comparable group, you know,  
4 that -- you know, that is one of the most important things  
5 to do in selecting your comparable group, is to have  
6 regulated utilities, because that's what we're measuring  
7 here.

8 Q. Do you remember discussing a 5.97 percent  
9 growth rate estimate with counsel for the company?

10 A. Yes.

11 Q. Okay. Is that an EPS estimate?

12 A. Yes. It is.

13 Q. Okay. Are EPS estimates appropriate to use  
14 as a proxy for implied perpetual growth?

15 A. No. Not a five-year.

16 Q. Okay. Is your -- is your recommended range  
17 of returns on equity within 100 basis points of the national  
18 average as reported by RRA?

19 A. The 9 -- anything above 9.2 -- what was it?  
20 9.32? -- 9.32 to 9.5, yes, it is.

21 Q. Okay. The upper end of your range?

22 A. Yes.

23 Q. Okay. If you conducted an ROE analysis, and  
24 the results produced by that analysis were further than 100  
25 basis points away from the national average, would you tweak

1 the results of that so that you fall within it?

2 A. I'm going to report on what I believe the  
3 cost of equity is, as far as what's implied. I'm not going  
4 to say the cost of equity is something that it's not. Will  
5 I try to assist the Commission with reviewing information  
6 that helps them make a decision? Of course I will.

7 MR. DEARMONT: Okay. I have no further  
8 questions. Thank you.

9 JUDGE PRIDGIN: All right. Thank you.

10 MR. ZOBRIST: Judge, I'm -- I'm not sure I  
11 offered Exhibit 101. And I would like to do that at this  
12 time, just for -- it actually is two schedules, but I think  
13 it helps contrast the proxy groups in this case.

14 JUDGE PRIDGIN: 101 has been offered. Any  
15 objection?

16 MR. DEARMONT: I don't have an objection. I  
17 just don't have a copy. So if you would tell me which ones  
18 they were, I --

19 MR. WOODSMALL: It's out --

20 MR. ZOBRIST: It's a -- it's just -- it's a  
21 copy Hadaway's Schedule SCH-2010-1 and Staff Schedule 8.

22 JUDGE PRIDGIN: It's just a side-by-side of  
23 two previous exhibits; is that correct?

24 MR. ZOBRIST: That's correct, Judge.

25 MR. MILLS: I don't think any of us have it,

1 but, Judge, based on Mr. Zobrist's representation that it's  
2 already in the record, I have no objection.

3 JUDGE PRIDGIN: All right.

4 KCPL 101 is admitted.

5 (Wherein; KCP&L Exhibit No. KCPL-101 was  
6 received into evidence.)

7 JUDGE PRIDGIN: Mr. Murray, you can step  
8 down. Thank you.

9 THE WITNESS: Thank you.

10 (Witness excused.)

11 JUDGE PRIDGIN: All right.

12 We have no further evidence today; is that  
13 correct?

14 If I could verify with the parties, I suppose  
15 off the record -- if it would work with them -- just the  
16 schedule for Monday.

17 MR. WOODSMALL: Your Honor, Mr. Steiner  
18 mentioned earlier that we're going to have another meeting  
19 at 2:30. And I think we're going to have some clarification  
20 at that time. What was suggested earlier that we might be  
21 able to provide you an update later. Would that suffice?

22 JUDGE PRIDGIN: Yes, sir. That would be  
23 fine.

24 MR. WOODSMALL: Okay. We will send you an  
25 e-mail, someone come up and talk to you. We'll get you that

1 information.

2 JUDGE PRIDGIN: That will be just great.

3 Is there anything else before we conclude?

4 MR. ZOBRIST: Monday is 8:30 --

5 JUDGE PRIDGIN: Right.

6 MR. ZOBRIST: -- in any event?

7 JUDGE PRIDGIN: Yes, sir.

8 MR. ZOBRIST: Okay. Thank you.

9 JUDGE PRIDGIN: All right. Thank you.

10 we will stand in recess until Monday, 8:30.

11 we are off the record.

12 (WHEREUPON; the hearing was adjourned until

13 8:30 a.m. January 31, 2011.)

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CERTIFICATE OF REPORTER

I, Lisa M. Banks, CCR within and for the State of Missouri, do hereby certify that the witness whose testimony appears in the foregoing deposition was duly sworn by me; testimony of said witness was taken by me to the best of my ability and thereafter reduced to typewriting under my that I am neither counsel for, related to, nor employed by the parties to the action in which this deposition was taken, further, that I am not a relative or employee of any attorney counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

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Lisa M. Banks, CCR

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