THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

January 28, 2011

Jefferson City, Missouri

Volume 29

In The Matter Of The Application Of Kansas City Power And Light Company For Approval To Make Certain Changes In Its Charges For Electric Service To Continue Implementation Of Its Regulatory Plan	)	File No. ER-2010-0355
In The Matter Of The Application Of KCP&L Greater Missouri Operations Company For Approval To Make Certain Changes In Its Changes For Electric Service	)	File No. ER-2010-0356

RONALD D. PRIDGIN, Presiding
SENIOR REGULATORY LAW JUDGE.

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

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

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

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, Swearengen & 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MR. STEINER: Seven, I think.

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

MR. STEINER: That's correct.

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

Anything else?

MR. MILLS: Judge.

JUDGE PRIDGIN: Mr. Mills.

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

JUDGE PRIDGIN: Correct.

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

JUDGE PRIDGIN: Absolutely.

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

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

MR. DEARMONT: Staff did, too.

JUDGE PRIDGIN: No. I'm sorry.

MR. MILLS: I think Mr. Woodsmall did.

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

MR. MILLS: Everybody but me.

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

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

MR. MILLS: Yes.

JUDGE PRIDGIN: All right.

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

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

JUDGE PRIDGIN: Absolutely. All right.

Anything else?

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

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

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

And with respect to the -- to the zone of reasonableness, the way the Commission has implemented it and the way that the parties talked about it in their openings yesterday, it necessarily implies looking at actions that commissions have done in the past.

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

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

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

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

And I understand that there's -- that the pressure is there. And it's not just in Missouri; it's the same pressure in every state. The Missouri Commission has utilities telling the Missouri Commission that you will have trouble attract -- that the Commissions -- the utilities regulated by the Missouri Commission will have trouble attracting capital if the Missouri Commission goes below what other states did last year.

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

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

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

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

Dr. Hadaway has proposed in his DCF calculations a growth rate -- a long-term growth rate of 6 percent. And 6 percent doesn't really seem that high until you really put it in context.

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

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

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

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

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

Gorman for the industrials.

Thank you.

JUDGE PRIDGIN: Mr. Mills, thank you.

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

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

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

Thank you.

JUDGE PRIDGIN: Thank you very much.

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

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

(Witness sworn.)

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

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

MR. WOODSMALL: Thank you, Your Honor.

MICHAEL GORMAN testifies as follows:

DIRECT EXAMINATION BY MR. WOODSMALL:

Q. Good morning, Mr. Gorman.

A. Good morning.

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

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

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

A. Yes.

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

A. No corrections to that testimony, no.

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

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

Since I filed the GMO testimony, the capital market costs have since gone back up, so I would recommend that a 9.65 percent return on equity be awarded for both KCP&L and KCP&L/GMO.

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

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

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

A. Yes.

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

JUDGE PRIDGIN: Mr. Woodsmall, thank you.

Any objection to those exhibits?

MR. ZOBRIST: No objection.

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

(Wherein; Industrials Exhibit Nos. KCPL 1203,

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

JUDGE PRIDGIN: Mr. Gorman is ready for cross.

Mr. Mills.

MR. MILLS: No questions.

JUDGE PRIDGIN: Mr. Dearmont or Mr. Thompson.

MR. DEARMONT: No questions. Thank you.

Mr. Zobrist?

Anyone else with cross?

JUDGE PRIDGIN: All right. Mr. Zobrist.

CROSS-EXAMINATION BY MR. ZOBRIST:

Q.   Good morning, Mr. Gorman.

A.   Good morning.

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

A.   Yes.

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

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

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

A. Yes. Yes.

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

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

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

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

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

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

Q. Okay.

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

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

MR. ZOBRIST: Okay.

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

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

MR. ZOBRIST: Well, I would offer KCPL Exhibit 100 at this time, then.

JUDGE PRIDGIN: Any objections?

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

So to the extent this is being offered for the numbers that are contained here, I would object. If it's being offered just to show generally the shape of the curve over the last year, I wouldn't object.

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

JUDGE PRIDGIN: Okay. Very good.

With that understanding --

MR. MILLS: And Judge --

JUDGE PRIDGIN: Yes.

MR. MILLS: Can I ask a clarifying question?

JUDGE PRIDGIN: Yes.

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

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

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

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

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

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

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

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

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

JUDGE PRIDGIN: All right. Thank you.

BY MR. ZOBRIST:

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

A. Yes.

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

Dr. Hadaway proposed?

A. Yes.

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

A. It is.

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

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

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

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

Q. Correct.

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

Q. All right. All right. And so the consensus of published economists who project growth of no more than 4.8 percent, 4.7 percent, you think that's low?

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

Q. All right.

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

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

A. Briefly, yes.

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

A. For the GDP?

Q. Yes.

A. Yes.

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

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

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

A. They would change, yes.

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

A. I will accept that, subject to check.

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

A. 9.95?

Q. Yes, sir.

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

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

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

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

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

A. Yes.
Q. Now, for the long-term -- I think you called it a sustainable growth model, you used a median percentage of 4.61; is that correct?
A. Yes.
Q. And if you had used the average, it would have been 5.89 percent. Correct?
A. 4.89 percent.
Q. I'm sorry. 4.89.
A. Yes. Right.
Q. And the multi-stage model that you ran for the multi-stage growth analysis, you used a growth rate of 4.75 percent, which was an average of the blue chip, 4.7 percent for years one through five, and then 4.8 percent for years six through ten?
A. Correct.
Q. Okay. And in examining analyst growth rates, your sources were ZACKS, SNL and Reuters; is that correct?
A. Yes.
Q. Okay. Now, if I can turn to your risk premium analysis, the risk premium analysis is done on the premise that investors require a higher rate of return to take on the greater risk of common stock versus debt; is that correct?
A. It is.

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

A. Correct.

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

A. That is.

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

A. Yes.

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

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

Q. Yes, sir.

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

Q. Okay.

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

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

A. Yes.

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

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

Q. Well, did --

A. -- whole number.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Hadaway's position is a simplistic approach?

A. Yes.

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

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

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

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

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

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

A. I'm sorry. I do not.

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

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

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

JUDGE PRIDGIN: Thank you.

BY MR. ZOBRIST:

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

A. Yes.

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

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

A. I do recall this --

Q. Okay.

A. -- this testimony, yes.

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

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

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

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

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

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

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

Schedule SCH-2010-12?

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

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

A. Correct.

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

A. Yes.

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

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

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

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

Q. Okay. Thank you. Now, in your criticism of Dr. Hadaway's risk premium analysis, around Page 11 of your rebuttal, you noted Dr. Hadaway's consideration of projected interest rates, and you were critical of that; is that true?

A. Yes.

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

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

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

A. Yes.

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

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

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

A. No.

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

A. Well, generally, yes, for the reasons outlined in my direct testimony, where I also state concern with the sustainability in the analyst growth rate estimates.

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

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

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

A.   I did not.

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

A.   I think generally, yes.

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

A.   That's correct.

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

A.   I did not.

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

remember that criticism?
A. Generally, yes.
Q. And again, you didn't respond to that criticism in your surrebuttal, did you?
A. No.
Q. Okay. And you have not changed your analysis?
A. I have not.
Q. Okay. Okay.
MR. ZOBRIST: Judge, that's all I have.
JUDGE PRIDGIN: Mr. Zobrist, thank you.
Let's see if we have any bench questions.
Commissioner Jarrett.
COMMISSIONER JARRETT: I don't have any questions. Thank you.
THE WITNESS: You're welcome.
COMMISSIONER JARRETT: Thank you.
JUDGE PRIDGIN: Commissioner Kenney.
COMMISSIONER KENNEY: Mr. Gorman, how are you?
THE WITNESS: Very good, Commissioner. Thank you.
COMMISSIONER KENNEY: Can you see and hear me okay?
THE WITNESS: I can, yes.

QUESTIONS BY COMMISSIONER KENNEY:

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

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

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

A. That's a fair description, yes.

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

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

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

By performing all three of those models, you have a broad assessment of different information to help estimate what the current market cost of capital is, current equity capital is for a utility.

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

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

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

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

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

Consequently, the DCF models, in some cases, are producing numbers that are too high. There are other instances where a DCF model growth rate can be reasonable, but the constant growth rate result is so low that it's below what I've found to be a reasonable return on equity, and it fell below my recommended range in some cases.

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

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

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

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

Q. Very good. Thank you. And then, finally, what, if any, impact does the utility's frequency of coming in for a rate case have on selecting an appropriate growth rate, if it does at all?

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

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

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

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

THE WITNESS: Thank you.

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

Any recross based on bench questions?

MR. ZOBRIST: No questions.

JUDGE PRIDGIN: All right.

Redirect?

MR. WOODSMALL: Thank you, Your Honor.

REDIRECT EXAMINATION BY MR. WOODSMALL:

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

A. Yes.

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

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

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

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

I mean, short-term interest rates in particular, because of that monetary policy, have been moving to, you know, the 2 to 3 percent area, down to less than 1 percent, because the short-term interest rates are so heavily keyed into the Federal Reserve monetary policy changes.

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

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

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

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

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

Q. Okay. And you were asked questions about your consensus growth -- your consensus group growth rates. And it was mentioned that those are only three- to five-year growth rates. Can you tell me, are consensus group growth rates available for a longer period of time to than three to five years?

A. No.

Q. And why is that?

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

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

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

A. Yes.

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

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

Q. And can you tell me how the GDP growth rate contained in that CBO study compares to the GDP growth rate used by Dr. Hadaway?

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

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

A. Yes.

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

A. Yes.

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

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

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

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

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

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

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

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

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

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

KCP&L and GMO?

A. It did, yes.

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

MR. ZOBRIST: Objection, leading.

BY MR. WOODSMALL:

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

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

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

A. Yes.

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

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

But I believe a review of the data included in that regression study provides more meaningful information and suggests that there is more to a relationship between equity risk premiums and interest rates.

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

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

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

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

Q. You were asked some questions regarding some criticisms in Mr. Murray's rebuttal testimony. Do you recall that?

A. Yes.

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

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

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

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

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

Q. Finally, you were asked a few questions by Commissioner Kenney regarding the three different analysis and which one is most appropriate; which one is better perhaps under -- given your expert -- expertise.

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

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

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

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

Q. Okay.

MR. WOODSMALL: I have no further questions. Thank you.

JUDGE PRIDGIN: Mr. Woodsmall, thank you.

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

THE WITNESS: Thank you.

(Witness excused.)

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

MR. ZOBRIST: Judge, we were going to do

Mr. Cline next, and then Mr. Blanc and Mr. Alberts.
JUDGE PRIDGIN: All right.
And then for Staff?
MR. DEARMONT: That's consistent with my understanding. After that time, I believe we're going to do Staff Witness Murray, followed by Staff Witnesses Kremer and Brossier.
JUDGE PRIDGIN: Thank you very much.
All right. Anything further?
MR. DEARMONT: Judge, I know we haven't been on the record that long, but might I request an extremely short recess --
JUDGE PRIDGIN: Certainly.
MR. DEARMONT: -- just a few minutes?
JUDGE PRIDGIN: All right.
We'll go off the record for five minutes.
MR. DEARMONT: Thank you.
JUDGE PRIDGIN: You're welcome.
(A short break was taken.)
JUDGE PRIDGIN: All right. We are back on the record. And I believe Mr. Cline is the next witness.
And anything further before he takes the oath?
All right. If you'll raise your right hand to be sworn, please.

(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 changes to any of these three pieces of testimony?

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

Q. All right.

A. That's the only correction.

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

A. They would.

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

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

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

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

JUDGE PRIDGIN: Thank you.

Any objection?

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

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

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

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

Who wishes cross?

Staff?

MR. DEARMONT: Staff has some questions.

JUDGE PRIDGIN: Mr. Dearmont, thank you.

MR. DEARMONT: Thank you.

CROSS-EXAMINATION BY MR. DEARMONT:

Q. Good morning, Mr. Cline.

A. Good morning, Mr. Dearmont.

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

A. I did.

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

A. Yes. It was.

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

A. That's correct.
Q. Okay. A lot of the questions that I'm going to ask you involve the issuance of some equity units. You understand what I mean by that term?
A. Yes. I do.
Q. Okay. Now, when were those equity units issued?
A. May 2009.
Q. And at that time, you also issued what I'll call normal common equity.
A. Yes. We did.
Q. And you issued both of those at the same time?
A. Yes.
Q. Okay. And in conjunction with those issuances, you hired, I believe it was Goldman Sachs as your joint book-running manager?
A. Yes. We did.
Q. Okay. What's the duty of a joint book-running manager?
A. They're the firm that along with, in this case, J.P. Morgan -- which was the other firm -- that essentially run the transaction on behalf of the Company. So they are the ones that have the direct interface with the investment community and actually sell the investment

security.

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

A. Yes.

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

A. Yes, among other things.

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

A. Yes.

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

A. That's correct.

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

A. That's one financing vehicle. Sure.

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

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

Q. That's yes?

A. Yes.

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

A. Not only GPE's metrics, no.

Q. Some of the focus was on GPE?

A. Of course.

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

JUDGE PRIDGIN: You may.

BY MR. DEARMONT:

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

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

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

THE WITNESS: Yes. I recognize the document.

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

MICHAEL CLINE testifies as follows:
BY MR. DEARMONT:
Q. Okay. Now, in this case -- by "this case," you understand I mean the KCPL and even the GMO case? For the purpose of these questions, that's what I mean, these current Missouri rate cases.
A. Sure.
Q. Understood?
A. Yes.
Q. Now, in these cases, you filed rebuttal testimony addressing cost of capital, specifically the cost of the equity units.
A. Yes. I did.
Q. Correct?
A. (Witness nodded.)
Q. And in KCPL, you filed that rebuttal testimony on December 8th, 2010?
A. Yes.
Q. Staff filed its direct case on November 10th for KCPL. Correct?
A. I believe that's correct.
Q. And November 17th for GMO?
A. Yes.
Q. Now, it's safe to say that the company and Staff do not agree about the cost of the equity units? I'll

leave it there.

A. That's correct. We disagree.

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

A. Yes.

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

A. That's correct.

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

A. Yes. I do.

Q. Okay. Including the attachments?

A. Yes. I do.

Q. Okay. I ask you to turn to Schedule 5 attached to your rebuttal testimony.

A. Yes. I have it.

Q. You there?

A. Uh-huh.

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

A. Yes. I did.

Q. Okay. And this attachment, Schedule 5, is entitled Mandatory Equity Unit Materials for Great Plains Energy?

A. Yes. It is.

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

A. Yes.

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

A. It is.

Q. Okay. Nine days after Staff filed its direct case for KCPL?

A. Yes.

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

A. Yes.

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

A. I did.

MR. DEARMONT: No further questions.

JUDGE PRIDGIN: Commissioner Kenney, any questions?

COMMISSIONER KENNEY: No, thank you.

JUDGE PRIDGIN: Thank you.

Redirect?

MR. ZOBRIST: Just a couple questions, Judge.

REDIRECT EXAMINATION BY MR. ZOBRIST:

Q. Mr. Cline, would you go to Schedule

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

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

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

A. Yes.

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

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

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

A. Yes.

Q. -- of the black dots?

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

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

A. Yes. I did.

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

A. We were looking for some historical

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

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

A. Yes. That's correct.

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

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

Q. Is there any contradiction between these two documents?

A. There is not.

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

A. Yes.

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

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

Q. So there was no downgrade to the credit rating?

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

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

A. Yes.

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

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

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

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

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

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

Q. And that was the only one?

A. Yes.

Q. Okay.
A. That was the only change.
Q. What were the ratings that were sustained?
A. The long-term credit rating and the corporate credit rating.
Q. And what's the relative importance of those two ratings?
A. KCP&L uses commercial paper as a funding mechanism for day-to-day activities. But at any given time, the amount of short-term borrowings might be 200 to 300 million, whereas obviously the long-term debt outstanding at KCP&L would be north of $2.5 billion.
Q. Okay. And then, finally just one other question on your Schedule 5 that Mr. Dearmont asked you about. What do those two graphs on Page 2 of that exhibit mean, the ascending and descending axis?
A. It simply shows that -- using the chart on the left-hand side, that there is a -- an unclear amorphous effect in terms of the pricing of an equity unit with credit rating, whereas the real driver is shown in the chart on the right, where the company's dividend yield is really the primary influence, because investors are looking for a relatively fixed spread to the company's dividend yield.
Q. Okay. And do you believe those costs to have been reasonable and in the best interests of the ratepayers?

A. I do.

MR. ZOBRIST: Nothing further, Judge.

JUDGE PRIDGIN: Mr. Zobrist, thank you.

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

(Witness excused.)

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

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

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

(Witness sworn.)

JUDGE PRIDGIN: Thank you very much, sir.

Counsel, when you're ready.

MS. CUNNINGHAM: Thank you.

CURTIS BLANC testifies as follows:

DIRECT EXAMINATION BY MS. CUNNINGHAM:

Q. Would you please state your name for the record.

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

Q. By whom are you employed?

A. KCP&L.

Q. Mr. Blanc, you've already previously

testified in this hearing, haven't you?

A. Yes. I have.

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

A. That's my recollection. Yes.

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

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

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

A. Yes. It is.

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

JUDGE PRIDGIN: Thank you.

Cross-examination.

Mr. Dearmont.

MR. DEARMONT: Thank you, Judge.

CROSS-EXAMINATION BY MR. DEARMONT:

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

A. Good morning.

Q. Just a few pages of questions for you.

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

JUDGE PRIDGIN: Thank you.

BY MR. DEARMONT:

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

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

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

A. Yes.

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

A. Yes.

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

A. Correct.

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

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

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

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

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

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

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

A. That is correct.

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

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

Q. Uh-huh.

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

Q. Okay.
A. And in that case, they went to the bottom of the --
Q. So it's a yes?
A. -- zone of reasonableness.
Q. Yes. That's punitive? Temporary and punitive?
A. The Commission called it that, and I would agree with their assessment.
Q. Great. Okay. Now, what do you know about NIPSCO? Do they have an FAC?
A. I know the order discussed that they had riders, but what riders or trackers they have specifically, I don't know.
Q. Okay. Do you know what their dividend payout ratio is?
A. I do not.
Q. Okay. Are they in a building cycle?
A. I don't know that.
Q. Okay. Do you know if they're exiting a building cycle?
A. I don't know that.
Q. Okay. Do you know if they have any renewable energy portfolio standards?
A. I don't know if Indiana has that or not.

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

A. Yes. I do.

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

A. I have that before me.

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

A. Correct.

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

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

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

A. That's correct.

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

A. No. It does not.

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

A. Yes. I am.

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

A. That's correct.

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

A. That's my understanding. Yes.

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

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

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

A. That's correct.

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

A. And that's --

Q. And that's --

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

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

February 1st, 2007?

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

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

A. Correct.

Q. Okay. And Staff Witness Matt Barnes handled that case?

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

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

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

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

A. I believe I have that on the schedule.

Q. If I told you 11.25 --

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

Q. Yeah. Sure.

A. Yes. That's correct.

Q. Okay. So Staff's recommendation was quite a bit lower than the Company's, and quite a bit lower than OPC's as well; is that fair?

A. That's correct.

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

A. Correct.

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

A. Correct.

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

A. That does sound about right.

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

A. That's my understanding. Yes.

Q. Okay. And this time Staff Witness Dave Murray was the testifying expert?

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

Q. Okay.

A. -- if it was Murray or Barnes.

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

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

Q. Sure.

A. Yes. That's correct.

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

A. That's correct.

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

A. That's correct.

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

A. That's correct.

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

A. Correct.

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

A. I am.

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

A. That's correct.

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

A. That's correct.

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

A. That's correct.

Q. The Citizens Utilities Ratepayer Board --

A. That's correct.

Q. -- I think it is? Okay.

And in that recent Kansas case, CURB recommended an ROE of 9.39?

A. That's correct.

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

A. Yes.

Q. Okay.

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

JUDGE PRIDGIN: Just one moment, please.

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

JUDGE PRIDGIN: Mr. Dearmont, thank you.
Commissioner Kenney, any questions?
COMMISSIONER KENNEY: No, thank you.
JUDGE PRIDGIN: All right.
Redirect?
MS. CUNNINGHAM: Just a few questions. Thank you.
JUDGE PRIDGIN: Yes, ma'am.

REDIRECT EXAMINATION BY MS. CUNNINGHAM:

Q. Mr. Blanc, do you recall when Staff counsel asked you about your rebuttal testimony, and in particular your testimony surrounding what the Indiana Commission did for NIPSCO?
A. I do.
Q. Okay. In your testimony, you specifically suggest that the Commission increase the company's ROE based on the company's reliability and customer satisfaction achievements. Is that a fair statement?
A. That's correct.
Q. So is it your testimony -- was your testimony tied to an increase based on fuel adjustment clauses?
MR. WOODSMALL: Your Honor, I believe this is far afield of any cross-examination by Staff counsel.
MR. DEARMONT: And I must interject that that is my fault. Staff counsel had some -- does have some

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

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

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

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

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

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

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

MS. CUNNINGHAM: The company has no objection.

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

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

JUDGE PRIDGIN: That's all right.

I'm hearing no objection.

MR. DEARMONT: Thank you.

JUDGE PRIDGIN: All right. No problem.

Ms. McClowery, when you're ready.

RECROSS-EXAMINATION BY MS. MCCLOWERY:

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

A. Fine. Thank you.

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

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

A. Yes.

Q. Would you agree with me that the current

operation costs for the company are included in revenue requirements the company filed in this rate case?
A. I'm sorry. Could you repeat the question?
Q. Sure.
A. I apologize.
Q. The day-to-day costs of running the utility are in the revenue requirement filed?
A. In what we've requested?
Q. Yes.
A. Yes. Sorry.
Q. Okay. Would that include office space?
A. Yes. It would.
Q. Okay. And that would include employee salaries?
A. Yes. It would.
Q. And that would include things like utility bills for your offices?
A. Yes. It would.
Q. Okay. That would also include office equipment, like copiers and computers?
A. Yes. It would.
Q. And that would extend to your customer service department?
A. Yes. It would.
Q. Okay. And that goes for their salaries?

A. Correct.
Q. Okay. Does it go towards the customer service managerial training?
A. Yes. It would.
Q. It goes to the staff training?
A. Yes.
Q. Customer service systems, for example, virtual hold?
A. The systems, yes. Absolutely.
Q. Okay. And it goes to the call center staff's salaries?
A. Yes.
Q. Okay. And it also goes to give incentives to employees who have met benchmark standards for safety and reliability?
A. I'm not sure what you mean by incentives. I'm sorry.
Q. Okay. Well -- so when you suggest that the companies be given an ROE at the top of Dr. Hadaway's range because of the exemplary customer service, that is over and -- that is over and above the actual costs of providing customer service?
A. I wouldn't agree with that.
Q. You wouldn't? Okay. Would you agree with me that companies have a statutory obligation to provide safe

and adequate service?
A. Yes. I don't recall if the standard is safe and adequate or safe and reliable. But yes.
Q. And KCPL and GMO both provide award-winning customer service. That's correct?
A. I'm sorry. I didn't hear you. The microphone cut out for a second.
Q. Oh, sorry. Both KCP&L and GMO have been recognized and provide award-winning customer service. You --
A. Absolutely.
Q. -- would agree with that?
Okay. And both KCPL and GMO have customers who have trouble paying their bills. Would you agree with that?
A. Yes.
Q. Okay. And there are customers who without help of charitable organizations or the company's economic relief pilot program would be unable to pay their bills?
A. Yes.
Q. Okay. And there are customers who without the cold weather rule would currently not be having service from the company; would have been cut off?
A. Oh, had been cut off -- they would have been discontinued because of the cold weather rule; yes.

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

A. We are a regulated monopoly. Yes.

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

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

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

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

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

MS. MCCLOWERY: I have no further questions.

JUDGE PRIDGIN: All right. Thank you.

Now, done with cross? Correct.

All right.

MR. DEARMONT: I think at this time.

JUDGE PRIDGIN: All right. Thank you.

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

COMMISSIONER KENNEY: No, thank you.

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

COMMISSIONER KENNEY: Thank you, Mr. Blanc.

THE WITNESS: No, thank you.

JUDGE PRIDGIN: Redirect. I'm sorry.

MS. CUNNINGHAM: Yes, please.

FURTHER REDIRECT EXAMINATION BY MS. CUNNINGHAM:

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

A. Okay.

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

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

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

You have another Commission that looked at a utility here in the Midwest authorize 9.9 percent, which is in excess of Staff's entire range, and they make it a point -- and I attached that section of their order to my testimony as Schedule 4. And it's on -- pardon me -- it's on Pages 32 and 33 of that order.

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

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

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

A. I do.

Q. On what did you base that conclusion?

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

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

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

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

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

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

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

(Witness excused.)

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

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

JUDGE PRIDGIN: Okay. Is that --

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

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

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

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

JUDGE PRIDGIN: Correct.

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

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

MR. STEINER: That's right.

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

THE WITNESS: Thank you.

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

MS. MCCLOWERY: There's very little.

MR. DEARMONT: Very little, Judge.

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

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

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

MS. CUNNINGHAM: -- to the stand.

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

(Witness sworn.)

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

When you're ready.

MS. CUNNINGHAM: Thank you.

JIMMY D. ALBERTS testifies as follows:

DIRECT EXAMINATION BY MS. CUNNINGHAM:

Q. Would you please state your name for the record.

A. Jimmy D. Alberts.

Q. By whom are you employed?

A. KCP&L.

Q. What is your position with the company?

A. Vice president of customer service.

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

A. Yes.

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

A. Yes.

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

A. No.

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

A.   Yes.

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

JUDGE PRIDGIN: Any objection?

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

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

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

JUDGE PRIDGIN: Cross-examination.

Staff?

Ms. McClowery.

CROSS-EXAMINATION BY MS. MCCLOWERY:

Q.   Good morning, Mr. Alberts.

A.   Good morning.

Q.   How are you?

A.   Doing well. Thank you.

Q.   Good. The first thing I want to do is talk to you about a statement you made in your testimony. I have it on Page 11 of your GMO surrebuttal. Can you take a look -- do you have it with you?

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

Q. Well, can I read you the statement, and see if --

A. Sure.

Q. -- you remember? Okay.

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

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

Do you recall that testimony?

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

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

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

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

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

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

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

A. Correct.

Q. And then you joined KCPL with the acquisition?

A. Yes.

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

A. Yes.

Q. You're vice president of customer service?

A. Yes.

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

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

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

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

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

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

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

A. Correct.

MS. MCCLOWERY: No further questions.

JUDGE PRIDGIN: Ms. McClowery, thank you.

Commissioner Kenney.

COMMISSIONER KENNEY: No questions. Thank you.

JUDGE PRIDGIN: All right. Thank you.

Redirect?

REDIRECT EXAMINATION BY MS. CUNNINGHAM:

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

A. No.

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

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

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

So at the end of all that, the actual rate that the customers pay go down, but that actually moves from the customer's pocketbook into the utility portion of the rates. But it doesn't mean that customers are expected to pay more. It just means they're expected to pay for the level of service that we've delivered.

Q. Okay. Thank you.

MS. CUNNINGHAM: I have nothing further.

JUDGE PRIDGIN: All right. Thank you.

Mr. Alberts, thank you very much.

(Witness excused.)

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

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

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

JUDGE PRIDGIN: All right. Thank you.

MR. ZOBRIST: That's correct.

JUDGE PRIDGIN: All right. I --

MR. ZOBRIST: I tell you, Judge, if you want to break right now, that's fine. I really have a very few number of questions for Ms. Kremer or Mr. Brossier. And I could probably get those done in -- well, I guess we are getting close to noon. But it's -- I know on occasion you've gone to 12:15.

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

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

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

MR. ZOBRIST: Sure.

JUDGE PRIDGIN: -- I understand.

MR. DEARMONT: We have no objection.

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

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

JUDGE PRIDGIN: All right.

MR. DEARMONT: Ms. McClowery's issues.

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

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

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

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

Are we ready to proceed?

MS. MCCLOWERY: Uh-huh.

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

(Witness sworn.)

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

Ms. McClowery, when you're ready.

LISA KREMER testifies as follows:

DIRECT EXAMINATION BY MS. MCCLOWERY:

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

A. Lisa Kremer.

Q. And by whom are you employed --

A. The Missouri --

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

A. The Missouri Public Service Commission.

Q. And in what capacity?

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

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

A. Yes.

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

A. Yes.

Q. -- rebuttal testimony?

A. I do.

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

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

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

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

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

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

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

JUDGE PRIDGIN: We're back in public.

BY MS. MCCLOWERY:

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

A. Yeah.

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

A. Yes.

Q. Okay.

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

JUDGE PRIDGIN: All right. Thank you.

Any objection to those exhibits?

MR. ZOBRIST: No objection, Judge.

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

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

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

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

JUDGE PRIDGIN: And 226 in GMO?

MS. MCCLOWERY: Yeah.

MR. WOODSMALL: Okay.

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

Thank you, Mr. Woodsmall.

MR. WOODSMALL: You're welcome.

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

And I heard no objection?

MR. ZOBRIST: Correct.

JUDGE PRIDGIN: Thank you.

So KCPL 227 and GMO 226 are admitted.

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

JUDGE PRIDGIN: Cross-examination.

Mr. Zobrist.

MR. ZOBRIST: I think it's just me. Mr. Thompson's in my way, as usual, so I'm going to stand up.

MR. THOMPSON: You want me to just leave?

MR. ZOBRIST: We can talk about that.

CROSS-EXAMINATION BY MR. ZOBRIST:

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

A. Good morning.

Q. You're familiar with the company JDPower. Correct?

A. Yes. I am.

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

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

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

A. No.

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

A. No. It does not.

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

A. That's my understanding.

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

A. That's my understanding.

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

A.   I have not.

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

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

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

A.   That's my understanding, yes.

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

A.   That's my understanding.

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

A.   That's correct.

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

A.   That's my understanding. Yes.

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

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

like to see where I say that in testimony.
Q. I believe that it's from --
A. I think I found it. Yes. Midwest large segment average score of 624.
Q. 624.
A. Yes, sir. I found it.
Q. And now, the other electric utility in Missouri is Empire District Electric. Correct?
A. That's correct.
Q. Okay. And that's in the mid-size segment, as opposed to the large --
A. I believe so. Yeah. I don't think there is a small. I -- yeah, mid-size.
Q. Right. Yeah. KCPL and Ameren are in the large --
A. That's right.
Q. -- size?
And Empire was in the mid-size. Correct?
A. That's correct.
Q. Now, is it correct that the Empire score was -- I believe you said in your rebuttal, on Pages 14 and 15, it was the fourth from the bottom?
A. Yes. I believe that's right.
Q. Okay. So Empire got a score of 587; is that correct?

A. Yes, sir.
Q. The bottom was 584?
A. Yes, sir.
Q. And the average score was 629?
A. Yes.
Q. Okay. And I believe you stated at Page 16 of your rebuttal that the -- both companies, GMO and KCPL, were fortunate not to have experienced any significant major outages resulting from storms in the past two years?
A. Yes, sir.
Q. And in the 2009 survey versus the 2010 survey, you did recognize that KCPL slipped from the number two position to the number three position.
A. I believe --
Q. Is that true?
A. -- I did. For residential, that was the -- is true.
Q. Right. That was in the residential survey?
A. Right.
Q. Okay. Now, when we look at the data -- and I believe this is your Schedule 3-6, KCPL and GMO were rated at 655. Correct?
A. Just one moment.
Q. Sure.
A. Let me get to that schedule.

Q. Sure.
A. I'm there.
Q. Okay. KCPL and GMO were rated at 655; is that correct?
A. Yes, sir.
Q. Okay. And the second ranking utility was Xcel, X-C-E-L?
A. Yes.
Q. And it had a 656. Correct?
A. Yes, sir.
Q. So it was just one point ahead of KCPL and GMO?
A. That's right.
Q. So they were essentially tied for second, but KCPL was one point lower?
A. That's correct.
Q. Okay. Now, in the 2009 survey, KCPL's score was 646; isn't that correct?
A. If I can find that.
Q. Yeah. I think you --
A. I think I have that. 646. Yes.
Q. Right. So actually, between 2009 and 2010, it improved its raw rating from 646 to 655?
A. It did, but I think as I mentioned in my testimony, you look at the 655. 2008 they were 667; 2007,

697; and 2006, 679.

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

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

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

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

Q. Well --

A. -- the number of complaints.

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

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

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

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

Give me just a moment here.

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

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

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

JUDGE PRIDGIN: Mr. Zobrist, thank you.

COMMISSIONER KENNEY: No questions. Thank you.

JUDGE PRIDGIN: Redirect?

MS. MCCLOWERY: We have no redirect.

JUDGE PRIDGIN: All right. Thank you.

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

THE WITNESS: Thank you.

(Witness excused.)

JUDGE PRIDGIN: Staff witness Brossier.

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

(Witness sworn.)

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

And Ms. McClowery, when you are ready.

GREGORY C. BROSSIER testifies as follows:

DIRECT EXAMINATION BY MS. MCCLOWERY:

Q. Good morning. Would you please state your name for the record.

A. Gregory C. Brossier.

Q. And by whom are you employed?

A. The Missouri Public Service Commission.

Q. And in what capacity?

A. I'm a utility engineering specialist.

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

A. Yes.

Q. Was that rebuttal testimony?

A. Yes.

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

A. No. I don't.

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

A. Yes.

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

A. Yes.

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

JUDGE PRIDGIN: Ms. McClowery, thank you.

Any objection to those offers?

MR. FISCHER: No objection, Judge.

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

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

JUDGE PRIDGIN: Cross-examination.

CROSS-EXAMINATION BY MR. ZOBRIST:

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

A. Yes.

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

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 record?

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

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

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

Thank you. We're off the record.

(A short break was taken.)

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

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

Is that correct?

MR. THOMPSON: That's correct, Judge.

JUDGE PRIDGIN: All right.

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

All right.

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

(Witness sworn.)

JUDGE PRIDGIN: Thank you very much, sir.

Please have a seat.

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

DAVID MURRAY testifies as follows:

DIRECT EXAMINATION BY MR. DEARMONT:

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

A. My name is David Murray.

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

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

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

A. Yes. I did.

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

A. I --

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

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

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

A. Yes. I did.

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

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

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

A. Yes. I did.

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

A. Yes.

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

A. Yes. I do.

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

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

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

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

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

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

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

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

I have also have some in 356.

BY MR. DEARMONT:

Q. Please discuss those, if you would.

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

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

A. Yes. It is.

Q. -- report?

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

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

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

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

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

Q. Okay.

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

Q. We are in rebuttal now, though?

A. Yes.

Q. Okay.

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

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

A. Yes.

Q. Okay.

A. And that's --

Q. Do you have any other corrections?

A. No. Those are the only corrections I have. Thank you.

Q. Okay. Did I miss any testimony? Have you filed any additional testimony?

A. No.

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

A. Yes. It is.

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

A. Yes.

Q. Okay.

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

JUDGE PRIDGIN: Any objection?

MR. FISCHER: No objection.

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

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

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

JUDGE PRIDGIN: All right. Mr. Dearmont,

thank you.

Cross-examination.

Mr. Mills.

MR. MILLS: Just very quickly.

CROSS-EXAMINATION BY MR. MILLS:

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

A. Yes. I was.

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

A. Yes. It is.

Q. It's Schedule 6. Correct?

A. That's correct.

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

A. Excuse me. That is correct.

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

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

MR. MILLS: That's all I have. Thank you.
JUDGE PRIDGIN: All right. Mr. Mills, thank you.
Mr. Zobrist, you'll have cross?
MR. ZOBRIST: I do.
JUDGE PRIDGIN: Any other cross?
All right. Mr. Zobrist, when you're ready, sir.
CROSS-EXAMINATION BY MR. ZOBRIST:
Q. Mr. Murray, let me outline some issues to see where we have agreement and where we have disagreement.
As I understand it, for KCP&L, the only area of disagreement with regard to capital structure is on the equity units; is that correct?
A. The capital structure -- I believe that we have agreement on the capital structure; it's the costs.
Q. Right. The cost of the equity units, and then the cost of common equity?
A. Yes.
Q. Okay. And then I think the company has agreed with Staff, and perhaps other parties, that this will all be trued-up the -- at the end of the year?
A. Yes. That's --
Q. Okay.
A. -- a discussion we had.

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

A. Yes.

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

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

A. No.

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

A. No.

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

A. No.

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

A. Yes.

Q. Okay. And Staff is seeking a 245 basis point adjustment on the theory, as I understand it, that the cost that the company paid -- that Great Plains Energy paid was attributable to financial stresses caused by the acquisition of Aquila?

A. I believe the exact adjustment was 242 basis points. I guess we can clear that up, if you want me to take a look. But generally, yes, that was -- that's the dispute, that there's strain from the acquisition of GMO on the risk of GPE.

Q. And the adjustment that Staff made in this case was based on an analysis that I presume you developed in relation to FP&L, the holding company of Florida Power and Light, is that correct, in the equity units that FPL issued?

A. Yes.

Q. Okay. And it's not based on any other equity offering. Correct?

A. No. That's the only offering I reviewed for purpose of the adjustment. I also was aware that PPL had also issued equity units. But I decided the timing of that -- I -- I was a little concerned that the timing of that, you know, made it a little more questionable, so I went with FPL. That's correct.

Q. And you did not base your analysis on any other equity offering that occurred 2009; is that correct?

A. That's correct.

Q. Okay. Now, based on your theory that the financial stresses that GPE was experiencing related to the acquisition of Aquila, are you relying upon any document issued by a rating agency for that conclusion?

A. I don't know if the ratios are issued by the rating agency. If the ratios themselves had been issued by the rating agency, which shows the GMO, KCPL and GPE FFO to debt, FFO to interest, then, indirectly, yes, I am. Those are ratios that I think actually GPE provided to the rating agencies themselves.

Q. Am I correct that there is no statement that has been issued by Standard & Poor's stating that any credit downgrade was a result of the acquisition of Aquila?

A. There's no specific credit downgrade. That's correct.

Q. Okay. And am I correct that Moody's, the other major rating agency, has also not issued a statement that said that any credit downgrade was caused by the acquisition of Aquila?

A. Actually, I had the report up here. I know Moody's downgraded GPE in 2009. Whether or not -- you know, I think it was more of a general discussion about their financial metrics and just talking about in a very broad sense, not necessarily singling out GMO, or obviously the construction. It was just talking about the financial metrics in general.

Q. Okay. Now, have you had an opportunity to review Mr. Cline's rebuttal testimony in the KCP&L case?

A. Yes.

Q. Okay. And did you review his Schedule 4, which is the Goldman Sachs' document prepared before the offering? It was prepared on March 17, 2009.

A. Yes. I did.

Q. Okay. And am I correct that on Page 5 of that schedule, MWC-2010-4, in the lower right-hand corner where it says, quote, "Economics: Investors demand higher yield than common stock - security more expensive than equity in downside scenario" --

A. Yes. I see that. That's what it says.

Q. But do you disagree with that statement?

A. No. I do not.

Q. Okay. And on the next page, Page 6, the second block there states, Common stock dividends. Do you see that, sir?

A. Yes. I do.

Q. And the block to the right of that says, quote, "Dividend yield on underlying common stock impacts relative value of the mandatory versus common stock." Do you see that?

A. Yes. I do.

Q. And the mandatory is a reference to the equity units, is it not?

A. That's correct.

Q. Okay. And then it goes on to state, Higher dividend requires higher coupon to achieve the same spread between coupon and dividend yield. Did I quote that correctly?

A. Yes. You did.

Q. Do you disagree with that statement -- those statements?

A. No. I do not.

Q. Okay. Now, let me ask you to turn to Mr. Cline's Schedule 5, which is a Goldman Sachs and Company report issued November 19, 2010. Do you see that, sir?

A. November 19th, 2010? Yes.

Q. And on Page 2 of the presentation, which is actually the third page in, there are two graphs depicted there. Do you see those, sir?

A. Yes. I do.

Q. Okay. And am I correct that these graphs illustrate that there is a more significant relationship of equity units pricing to common stock dividend yield than there is to an issuer's credit rating?

A. I would say based on that scatter -- there's no specific statistical test per se. It's just a scattered graph. And I would say that just basing -- based on looking at that, there's a -- appears to be a tighter correlation, without calculating the actual statistical test.

Q. Okay. Now, if I could ask you, please, to turn to Schedule MWC-2010-6, which is the J.P. Morgan discussion materials issued in November 2010.

A. Yes.

Q. And could you turn to the second page of that? Well, actually, it's -- I think it's the last page of that document. It's labeled Number 1 at the bottom, but it's actually the third page of the schedule.

A. Yes.

Q. Now, do you see with regard to the FPL units that the equity units issued by FPL was only 1.5 percent of its market capitalization?

A. Yes. I do.

Q. And for Great Plains Energy, it was 16.6 percent; is that correct?

A. That is correct.

Q. And is it a fair conclusion that because the equity units were a greater share of GPE's market capitalization, that it's going to have to pay more for that version of the equity units?

A. I have no reason to come to that conclusion.

Q. Now, the document also indicates that FPL's equity units were senior in the capital structure of FPL.

Do you see that, sir?

A. Yes. I do.

Q. Okay. And GPE's, by contrast, were placed in a subordinated position, with the ability to defer coupons? You see that?

A. I see the subordinated. I don't see the deferral of coupons. I'm sorry.

Q. If you look at the bottom of Page 1, it says, Versus subordinated, with the ability to defer coupons for GXP. And GXP is the stock symbol for Great Plains Energy.

A. I do see that. It's at the very bottom. I apologize.

Q. And isn't it true that these distinctions are likely going to require a larger spread over the common equity dividend for GPE rather than for FPL?

A. That on a standalone basis -- it's very difficult, because there are other aspects to these equity units that are quite a bit different. So I don't want to say that in isolation. I can't say.

Q. Okay. Now, the third bullet point under Commentary -- it's actually indented after the second bullet point -- states that GXP's offering price at 6.07 percent spread over its common dividend yield represented the third best pricing of any transaction in 2009. Is that your belief, as well?

A. They did a much -- they have availability of all these -- all this capital market data. And so I trust what Goldman Sachs was able to look at and understand is true.

Q. And am I correct that in this case, KCPL is simply setting the cost of the equity units at the cost that it actually paid? Correct?

A. That is correct.

Q. Okay. And I think you --

A. Excuse me. GPE. Let me back up. GPE is setting the cost at the cost that was actually paid. And it's flowing through down to KCPL and GMO.

Q. Right. Okay. Thank you. And you and Mr. Cline have agreed that using the gross value is appropriate, rather than the net value?

A. For the capital structure, that's correct.

Q. Okay. Okay. All right. Thank you.

Let's move on to return on equity, if we can. Now, were you in the hearing room when I was examining Mr. Gorman on behalf of the industrials?

A. Sorry. Yes. I was.

Q. Okay. And we admitted into evidence Exhibit -- KCPL Exhibit 100 that showed the trends with regard to the U.S. Treasury five-year note. Do you recall that? And I think -- I'll -- yeah.

A. I do recall.
Q. Okay.
A. I mean, I don't know if I would agree with the characterization, but it is the five-year Treasury bond.
Q. And without going into whether what, you know, number is correct at what particular part of a month, this is the general trend that we've seen generally with regard to not just the five-year Treasury note but other Treasury issuances as well. Correct?
A. If I may, the problem I have is defining it as a trend. Two months, it's very difficult to say that's what a trend makes.
So I would agree that, generally, there was a trend from -- if we're limiting it to this one-year period, basically, it looks like that's what it is.
You know, there was an extreme downward trend from over an eight-, nine-month period, from April through November. And then from November -- for the last two months, it went back up.
Q. Okay.
A. So it define -- it depends on what period you're looking at.
Q. Okay. Well, I'm looking at the whole year. And I'm just saying that this is -- whether you call it a trend or whether you call it just the general results, this

is what happened for the five-year note for 2010?

A. Well, if I look at the whole time period, I would actually say, through the end of the period, there's actually a downward trend.

Because if you look at the February, March, April period, that -- those interest rates are higher than what they were in December and January.

So if I trend line that covered this whole period, you would see a straight trend line that actually has a slight decline.

Q. Okay. Well, the last three months -- or the last two months of 2010, the trend was going up. Correct?

A. The interest rates went up. I will agree, the interest rates went up for the last two months.

Q. Okay. Great. Let's talk about your proxy group. Your proxy group in both the KCP&L and the GMO cases consisted of ten companies; is that correct?

A. That is correct.

Q. Okay. And in last year's rate cases, in ER-2009 -- I think it was 0090, you used 11 companies; is that correct?

A. That sounds -- I mean, it's not significantly different. I don't remember the exact number.

Q. Okay. Did you change your methodologies in developing your proxy groups in these cases versus the GMO and KCPL cases that were filed at least in fiscal year 2009?

A. Comparable groups, substantially similar. So I don't think there's any major changes.

Q. Okay. Now, this year's group of ten companies -- and if I could ask you to turn, please, to Schedule 8 of your report -- saw the addition of the Alliant Energy Company; is that correct?

MR. DEARMONT: I apologize. But for the sake of the record, what report are we --

MR. ZOBRIST: Schedule 8.

MR. DEARMONT: Schedule 8 in?

MR. THOMPSON: The cost of service report.

MR. ZOBRIST: I think it's the same in -- I think it's --

MR. DEARMONT: In the 355 case?

MR. ZOBRIST: I think it's the same in both.

MR. DEARMONT: Okay.

MR. ZOBRIST: But I'll --

MR. DEARMONT: I apologize. Thank you.

MR. ZOBRIST: Yeah. It's in the KCPL report.

THE WITNESS: Alliant is included. That's correct.

BY MR. ZOBRIST:

Q. Okay. Now, does Alliant own any transmission assets?

A. They're an integrated utility. That usually means that they have generation to distribution. But I don't know specifically about transmission.

Q. Okay. Did you test any of the companies in your group to see whether they owned any electric transmission, as opposed to distribution and generation --

A. No. I was focused --

Q. -- assets?

A. -- on generation, without a doubt.

Q. All right. Now, you do not include in your ten companies the Empire District Electric Company; is that correct?

A. That is correct.

Q. Okay. And Empire does business in Missouri, Kansas, Oklahoma and Arkansas?

A. Yes.

Q. But -- and we're going to talk about this probably in a couple of weeks -- you are requesting that GMO adopt Empire's debt cost structure; is that correct?

A. That is correct.

Q. But you felt that Empire was not an appropriate candidate for your return on equity proxy group?

A. Because of a lack of market data. That's correct.

Q. Okay. And Westar Energy, which is the largest investor-owned utility in Kansas, is not in your group; is that correct?

A. Yes, because it didn't meet the criteria.

Q. Okay. And you do not have any other company operating in any of the states surrounding Missouri in your analysis; is that correct? Except for Alliant Energy?

A. Bordering states, yes, I agree with that. That's correct.

Q. Okay. And Alliant does business in Iowa, Wisconsin, Minnesota; is that correct?

A. I got to get -- I can tell you for -- you know, I'll just make sure the record is straight.

And Illinois. That's correct.

Q. Okay. And American Electric Power, the vast majority of their assets are in Ohio, Indiana and Michigan, and then in Texas; is that correct?

A. I actually -- I'm looking right at Value Line tariff sheet. And I have Arkansas, Kentucky, Indiana, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, West Virginia.

Q. Okay. And Dayton Power and Light, which is the utility subsidiary of DPL, is entirely in Ohio?

A. Yes. They've stayed true to their name.

Q. And Xcel, which is X, little c-e-l, their utilities are located in Minnesota and the Dakotas and then

out in Colorado; is that correct?
A. I actually have quite a few other -- this is what Value Line indicates: Minnesota, Wisconsin, North Dakota, South Dakota, Michigan; gas to Minnesota, Wisconsin, North Dakota. Anyway, that's the extent of -- and Colorado.
Q. Okay. Okay. And the other six companies in your proxy group do not do business in the Midwest. Is that fair to say?
A. Can you define Midwest, please?
Q. Well, let's go through them. Cleco is Louisiana. Right?
A. That is correct.
Q. Okay. Louisiana is in the south?
A. Yes.
Q. Okay.
A. That's correct.
Q. IDACORP is the holding company of Idaho Power Company?
A. Yes.
Q. Okay. So Idaho is in the west?
A. Yes. I would generally agree with that.
Q. PG&E Corp is the holding company of Pacific Gas and Electric Corporation, which does business in northern California?
A. That -- in California, that is correct. And

central California.

Q. And Pinnacle West is the holding company of Arizona Public Service Company?

A. That is correct.

Q. And Progress Energy is in the southeast major holdings in Florida and North Carolina?

A. And South Carolina. That's correct.

Q. Okay. And then Southern Company is the large electric utility in the southeast, with assets in Georgia, Alabama, Mississippi, South Carolina?

A. With the exception of South Carolina, I would say generally that's correct.

Q. Okay. Now, Dr. Hadaway had 31 companies in his proxy group; is that correct?

A. I don't recall the number. I know it's quite a few more.

Q. Okay. And Mr. Gorman relied upon his proxy group; is that true?

A. That is correct.

Q. Okay. Do you happen to have the Hadaway proxy group in front of you?

A. I have his testimony, so I -- if you could just direct me to it.

Q. Schedule 1.

MR. ZOBRIST: Judge, if I could just have marked -- this is actually just both Mr. Murray's Schedule 8 and Hadaway's Schedule 2010-1. They're both in evidence, but I'd like to have that marked as an exhibit.

JUDGE PRIDGIN: Okay. This will be Exhibit KCPL 101.

(Wherein; KCP&L Exhibit No. KCPL-101 was marked for identification.)

BY MR. ZOBRIST:

Q. And Mr. Murray, is this a fair comparison of your ten companies and Dr. Hadaway's ten companies?

A. Yes. It is.

Q. Okay. And on the Hadaway proxy group are listed Empire and Westar; is that true?

A. That is correct.

Q. And Vectren, which is located in Indiana, with its major utility being Southern Indiana Gas and Electric Company; is that correct?

A. I don't know exactly where Vectren does business. But I'll accept that.

Q. Okay. And then Entergy is listed on his -- in his proxy group, which has assets in Arkansas, Louisiana, Texas; is that correct?

A. They have assets. Do they have regulated assets, I think is a fair question. But they're sure to have assets --

Q. Okay.

A. -- in those --

Q. Well, they do have regulated assets in Arkansas and Louisiana and parts of Texas and Mississippi?

A. Yes. But it's a -- like I said, as far as some of these restructure states, I think that's one of the concerns of having companies that just have assets in various states, but --

Q. Well, isn't it true that Entergy has regulated assets in the state of Arkansas?

A. I believe that's correct.

Q. Okay. And then Black Hills Corporation has assets in Kansas and in the Dakotas. And that's on Dr. --

A. I think --

Q. I'm sorry?

A. I believe additional, because they made the acquisition. They have quite a few regulated assets. That's correct.

Q. And they have assets -- regulated assets in the state of Kansas?

A. Yes.

Q. Okay. Let me ask you some questions about your constant growth discounted cash flow model, if I could, please. What was the dividend yield that you used in your constant growth DCF model?

A. Actually, I think I remember that. That's 4.7.

Q. Okay. And am I correct that Mr. Gorman used 4.80 percent?

A. I'd have to verify that. I -- that's what his schedule MG -- MPG-4 indicates, yes.

Q. And then Dr. Hadaway used -- and this is in his Schedule 2010-11, at Pages 2 and 3. Dr. Hadaway, when he updated his -- I think that's to his rebuttal -- Dr. Hadaway used 4.73 to 4.83 percent, as far as the dividend yield.

A. Can you direct me to that again? I'm sorry.

Q. Yes, sir. Yes, sir. Schedule -- to the Hadaway rebuttal, Schedule 2010-11, at Pages 2 and 3.

A. Yes. His average is 4.73, and his median is 4.83.

Q. So you, Dr. Hadaway and Mr. Gorman all used about the same dividend yields, ranging from your 4.7 percent up to Mr. Gorman's 4.80 percent, and then Hadaway's range of 4.73 to 4.83 percent. Correct?

A. Yes.

Q. Okay. And the difference in your analysis, as far as the constant growth, is the growth rates. True?

A. Yes.

Q. Okay. Now, you stated at Page 28 of the

Staff report that Staff -- and I'm quoting now -- "found the historical growth rates to be quite volatile"; is that true?

A. That is correct.

Q. Okay. And based upon Value Line and Reuters, Staff's initial analysis projected growth rates for the ten companies in your proxy group over the next five years to what you believe was a non-sustainable growth rate of 5.97 percent; is that correct?

A. Yes. And could I clarify the Reuters?

Q. In terms of?

A. Just -- I just want to clarify that the record reflects that Reuters is not -- doesn't have an independent analyst. It's just a survey of consensus equity analysts. So I just want to make sure that people understand that. Value Line has its own independent analysts.

Q. Okay. Now, after you calculated the 5.97 percent, you came to the determination that that was a non-sustainable growth rate; is that correct?

A. Yes.

Q. Okay. Now, you say that, "Staff therefore quotes selected and alternative input," closed quote, and you reduced it to [sic] 4 to 5 percent; is that true?

A. I dismissed the 5.97. And I wouldn't say I reduced their forecast. Their forecast is for five years.

I just looked at what I thought was -- seemed to be reasonable for a constant growth.

Q. Well, you rejected and threw out your 5.97 percent. Correct?

A. Well, but I rejected for the constant growth DCF. I did not say that I reduced their earnings per share forecast. They are what they are.

Q. Well, I'm not talking about earnings per share. I'm just talking about that number. I mean, you didn't -- you disagreed with the finding of your analysis that indicated a growth rate of 5.97 percent. You thought that was too high?

A. For a DCF, that is correct.

Q. All right. And you stated that, "Based on Staff's expertise and understanding of current market conditions" -- and I'm referring to Page 29 of your report -- that you determined to use a rate of 4 percent to 5 percent. Correct?

A. That's correct.

Q. Okay. Okay. And so, essentially, you took what you had found through the Value Line and the Reuters at 5.97 percent; you rejected that, and we have, essentially, a reduction of 100 to 200 basis points, to a growth rate of 4 percent to 5 percent?

A. Yes, because those are five-year growth

rates, and we're talking about constant growth.
Q. Okay. And the 5.9 percent growth rate that you initially arrived at is close to Dr. Hadaway's constant growth rate -- long-term constant growth rate of 6 percent; is that true?
A. That's what he selected. That's true.
Q. Okay. And am I correct that if you had used the Value Line and the Reuters' projected growth rates for your ROE estimates, you would have arrived at 9.59 percent to 10.55 percent?
A. That's some simple addition, so yes.
Q. Okay. And similarly, if you had used the Value Line and Reuters' earnings growth estimates, that would have produced a 10.66 percent return on equity; is that true?
A. The -- you said which growth estimates? I'm sorry.
Q. Earnings growth estimates.
A. For both of them, or --
Q. Correct.
A. And I'm sorry. What was the --
Q. Okay. My first question had to do with projected growth rates. And if you had used the earnings growth estimates, which I think was 5.97 percent, that would have produced a return on equity of 10.66?

A. I'm just trying to -- you said 5.97. I said that was simple arithmetic. I used a 4.7 percent dividend yield. And I'm just trying to follow along here. If you -- you have, obviously, 9.97, so 10 -- 10.67.

Q. Okay. It's in that area.

A. Okay.

Q. Correct?

A. Yes.

Q. Okay. I know, doing arithmetic under cross-examination probably is a -- an Olympic sport, but --

Let's move on a couple things, here. Now, you stated that based on Staff's expertise and understanding of current market conditions. Now, that included your judgment that you applied to this analysis. Correct?

A. Yes.

Q. Was there any other Staff member that you consulted with regard to evaluating the current market conditions and coming up on the 4 percent to 5 percent growth rate?

A. We have internal discussions within the department just, you know, debating what's going on with the market, economic growth, growth in utilities on an ongoing basis. So yes, that's -- you know, that's --

Did we talk about that specific number? Not necessarily. But yes, we're constantly discussing, you know, what makes sense from a -- you know, from a sustainable perspective.

Q. Now, you didn't cite anything to essentially validate your reduction, in terms of a third party source. Did -- was there a third-party source that you relied upon that said, This 5.9 percent is too high, you ought to reduce it to 4 percent or 5 percent? I mean --

MR. DEARMONT: I'm going to object at this point. I think that that mischaracterizes Mr. Murray's testimony. I think he clearly stated that he did not view it to be a reduction.

MR. ZOBRIST: Well, Judge, it's cross-examination, and I'm entitled to characterize things, and the witness is intended to -- is permitted to clarify.

JUDGE PRIDGIN: I'll overrule.

THE WITNESS: I'd say, if you look at Footnote 16 on Page 29, Dr. Aswath Damodaran, who is the professor of finance of NYU, he -- you know, in his book, Investment Valuation, there's a discussion as to when the appropriate time is to use a constant growth DCF.

And, you know, that time is only if you can, you know, determine that the sustainable growth rate is -- you know, is maybe within 1 percent of the near-term growth rate.

So realizing that, based on my analysis that utilities have never grown at the rate of GDP and that GDP is estimated to grow at 4.5 percent -- you know, maybe I'll give you a little bit more and say 4.5 to 5 percent, but there's some in the low 4's as well -- then I realize that 6 percent is clearly getting into that danger zone as to whether or not you're going to come up with a reliable estimate using a constant growth DCF based on five-year earnings-per-share forecast.

That's not my -- based on my studies and analysis of what you're trying to do when calculating a sustainable growth, that, you know, would be done for purposes of determining the value of an investment. And I don't believe investors do so, because I've reviewed information that says they don't.

BY MR. ZOBRIST:

Q. At the top of the Staff report, on Page 29, where your sentence states, For this reason, Staff selected an alternative input, and based upon Staff's expertise and understanding of current market conditions. I must have misread that myself.

At any rate, you see the sentence I'm talking about there that says, For this reason?

A. Well, yes. And that includes reading these types of materials that I have cited at the bottom, and other materials in the CFA program that I recently completed, and just understanding that utilities -- it's been since the '60s or '70s since utilities have been able to grow at the rate of GDP.

So 4.5 percent growth, I mean, that -- this is generous. I mean, I'll just be quite honest with you, 4.5 percent is generous.

Q. Okay. My question is: There is no citation to authority at the conclusion of that sentence that says, Staff selected an alternative input based upon its expertise and understanding; am I correct?

A. No. There's no specific authority cited.

Q. Okay. Now, the growth rates that you used, Mr. Murray, for constant growth were 4 percent to 5 percent; is that correct?

A. That's correct.

Q. Okay. And for the multi-stage growth model, it was 3 percent to 4 percent; is that correct?

A. That is correct.

Q. And you did not do a long-term or sustainable growth model, like Dr. Hadaway and Mr. Gorman did; is that correct?

A. I -- if you want to put -- you know, specifically title the type of growth they did, they did a fundamental growth model. I looked at long-term growth.

But they did what's called the fundamental growth model, which is BRSV -- you know, retained earnings retention times expected ROEs. I looked at long-term growth for utilities.

Q. Okay. Now, did you also look at the average returns issued by state regulatory commissions during the past year?

A. Yes. I've cited the first three quarters in my testimony; and recently, the fourth quarter was released, and I don't believe that that's even changed that much since the third quarter, which, you know, I guess is not surprising because we'll probably see more changes next year.

MR. ZOBRIST: If you'd give me a second, Judge.

JUDGE PRIDGIN: Yes.

MR. ZOBRIST: 103? 102?

JUDGE PRIDGIN: I show 102.

MR. ZOBRIST: Okay. Thank you, Judge.

JUDGE PRIDGIN: Uh-huh.

(Wherein; KCP&L Exhibit No. KCPL-102 was marked for identification.)

MR. ZOBRIST: Judge, the court reporter has marked as Exhibit 102 a one-page document.

BY MR. ZOBRIST:

Q. Have you seen this recently, Mr. Murray?

A. Not in this format, no.

Q. Okay. I understand this is a compilation of the Regulatory Research Associates study that I think Mr. Mills and maybe Mr. Dearmont referred to earlier. It may be in a different format.

But does this appear to be the information that you reviewed from Regulatory Research Associates regarding return on equity cases for the past year, 2010?

A. I really just looked at the overall averages. I didn't -- I mean, obviously, there's much more detail here.

Q. Okay. Do you recall that the vertically integrated utilities for the third quarter of 2010 had an average ROE of 10.32 percent?

A. I'm sorry. For the third quarter, or for the --

Q. Yes, sir.

A. -- fourth quarter? Okay.

Q. Third quarter.

A. Like I said, I looked at the just overall RRA data. So, I mean, I'll accept your characterization it was 10.32 percent, or --

Q. And I think you said that you recall that it maintained that level through the fourth quarter. Does this refresh your recollection that it continued during the

fourth quarter of 2010 at the level of 10.32 percent?
A. Well, like I said, I guess I was looking at the T&D and the vertically integrated, so -- and they're both 10 on -- you know, they have the 10 for the T&D for third quarter, fourth quarter, so the overall average is the same. I understand. But yes, that reflects my recollection.
Q. Okay. Do you have any reason to dispute --
A. No.
Q. -- as you --
A. No. I --
Q. -- sit here? Okay.
MR. ZOBRIST: I move admission of Exhibit 102.
JUDGE PRIDGIN: KCPL 102 is offered. Any objection?
MR. WOODSMALL: May I voir dire the witness briefly, Your Honor?
JUDGE PRIDGIN: You may.
VOIR DIRE EXAMINATION BY MR. WOODSMALL:
Q. Mr. Murray, have you seen this information in this format?
A. Not in this format.
Q. Can you verify any of the numbers on here -- any of the specific numbers on here?

A. I'd have to look at the RRA data that I cited in my testimony to see, because, like I said, I looked at it at a very broad level.

Q. Well, let me ask you: Can you verify whether any of these companies are T&D utilities versus vertically integrated utilities?

A. It would be just based on my knowledge over the time as to which companies are vertically integrated and TD. Not specifically. I could not say 100 percent.

MR. WOODSMALL: Your Honor, I don't believe a proper foundation for the information contained in this has been laid. Too many questions about specific numbers, about what companies fall within which category -- I don't think this witness can verify that data.

MR. MILLS: And Judge, I'll join in that, and note that Mr. Zobrist asked about two numbers out of dozens here, and the witness wasn't even all that sure about those two. So there's a lot of numbers here that have no foundation.

JUDGE PRIDGIN: Okay.

Mr. Zobrist.

MR. ZOBRIST: Yeah. Give me two more minutes here. Maybe I can get what I need, and we don't even need this, then.

JUDGE PRIDGIN: All right.

BY MR. ZOBRIST:

Q. I think I covered this, Mr. Murray, but you did indicate that you believed, based upon your review of the data, that the vertically integrated utilities' ROE for the third quarter was 10.32 percent; is that correct?

A. Let me back up. And like I said, I'm going to look at my testimony, because this obviously is what I have submitted. The third quarter I have as 10.27. Obviously, that includes all companies reported in RRA, what the breakout was for T&D and integrated. I am not sure. I did not evaluate that.

Q. Okay. Well, and if we look at all utilities at the bottom, the document that I handed you says 10.6 -- 26 percent versus your 10.27 percent in your testimony. Correct?

A. Yes. It says 10.26 for all, and I have 10.27.

Q. Okay. And am I correct that Kansas City Power and Light Company is a vertically integrated utility?

A. Yes.

Q. Okay. It's not a T&D utility?

A. That's correct.

Q. Do you regularly review Regulatory Research Associates' data?

A. I provide it to the Commission in context with cases because it's something that they review to evaluate reasonableness.

Q. Okay. And do you yourself regularly rely upon these reports as a check of reasonableness?

A. Just to evaluate what the authorized returns are. As far as a check of reasonableness, I'm aware of it and -- but I'm also aware that we're estimating the cost of equity.

And I think it -- I think it's pretty evident that I don't necessarily believe that the allowed returns are necessarily reflecting the cost of equity.

Q. Okay. And you realize that this Commission has regularly looked to other ROE decisions, not only that it has issued but that other regulatory commissions have issued, as well. Correct?

A. Yes. Since 2004, I believe.

Q. Okay. And they've done that in establishing a zone of reasonableness that they have talked about in a number of report of -- report and orders?

A. Plus or minus 100 basis points since 2004. I remember very well.

Q. Okay. Okay.

MR. ZOBRIST: Judge, I don't have any more questions. Thank you.

JUDGE PRIDGIN: Okay. Thank you.

Commissioner Kenney.

COMMISSIONER KENNEY: No questions. Thank you.

JUDGE PRIDGIN: All right. Thank you.

Redirect?

MR. DEARMONT: I have just a few questions. And with your leave, I'll conduct them right here from the table.

JUDGE PRIDGIN: Certainly.

REDIRECT EXAMINATION BY MR. DEARMONT:

Q. Mr. Murray, when did FPL issue their equity units?

A. It was within about a month of when GPE issued theirs.

Q. Okay. And you discussed a Goldman Sachs' document with Mr. Zobrist. Do you remember that discussion?

A. Yes. I do.

Q. Okay. And I think that you said that you trust Goldman Sachs. Do you remember that?

A. I trust their analysis.

Q. Okay. Do you consider Goldman Sachs to be a reliable source?

A. Yes. I do.

Q. Okay. Do you have any reason to question your proxy group selection method?

A. No. I think the fact that we have cost of equity dividend yields are fairly close shows that it really hasn't made that much of a difference.

Q. Okay. What do you focus on in selecting proxy group selection criteria?

A. The focus on -- obviously, Iatan has taken up a week and a half of this case, so generation is a very important criteria as to whether or not the utility has generating assets. And that could even include asset -- generating assets that are non-regulated.

And as we all know, with the decline in the economy, some of these companies were generating assets that are not under the regulatory protection of having captive ratepayers have really had a significant decrease in their valuation.

And actually, the regulated utilities in the last year to year and a half have significantly outperformed the non-regulated -- the diversified integrated utilities that have generation that is not under the protection of regulation.

The same thing for independent power producers; they have had a significant decline in their stock prices.

And when you consider the fact that regulated utilities usually don't have much change in their growth, if their stock prices outperformed the diversified utilities, such as Ameren or others that may have been talked about, that may be in Mr. Hadaway's comparable group, you know, that -- you know, that is one of the most important things to do in selecting your comparable group, is to have regulated utilities, because that's what we're measuring here.

Q.   Do you remember discussing a 5.97 percent growth rate estimate with counsel for the company?

A.   Yes.

Q.   Okay. Is that an EPS estimate?

A.   Yes. It is.

Q.   Okay. Are EPS estimates appropriate to use as a proxy for implied perpetual growth?

A.   No. Not a five-year.

Q.   Okay. Is your -- is your recommended range of returns on equity within 100 basis points of the national average as reported by RRA?

A.   The 9 -- anything above 9.2 -- what was it? 9.32? -- 9.32 to 9.5, yes, it is.

Q.   Okay. The upper end of your range?

A.   Yes.

Q.   Okay. If you conducted an ROE analysis, and the results produced by that analysis were further than 100 basis points away from the national average, would you tweak the results of that so that you fall within it?

A. I'm going to report on what I believe the cost of equity is, as far as what's implied. I'm not going to say the cost of equity is something that it's not. Will I try to assist the Commission with reviewing information that helps them make a decision? Of course I will.

MR. DEARMONT: Okay. I have no further questions. Thank you.

JUDGE PRIDGIN: All right. Thank you.

MR. ZOBRIST: Judge, I'm -- I'm not sure I offered Exhibit 101. And I would like to do that at this time, just for -- it actually is two schedules, but I think it helps contrast the proxy groups in this case.

JUDGE PRIDGIN: 101 has been offered. Any objection?

MR. DEARMONT: I don't have an objection. I just don't have a copy. So if you would tell me which ones they were, I --

MR. WOODSMALL: It's out --

MR. ZOBRIST: It's a -- it's just -- it's a copy Hadaway's Schedule SCH-2010-1 and Staff Schedule 8.

JUDGE PRIDGIN: It's just a side-by-side of two previous exhibits; is that correct?

MR. ZOBRIST: That's correct, Judge.

MR. MILLS: I don't think any of us have it, but, Judge, based on Mr. Zobrist's representation that it's already in the record, I have no objection.

JUDGE PRIDGIN: All right.

KCPL 101 is admitted.

(Wherein; KCP&L Exhibit No. KCPL-101 was received into evidence.)

JUDGE PRIDGIN: Mr. Murray, you can step down. Thank you.

THE WITNESS: Thank you.

(Witness excused.)

JUDGE PRIDGIN: All right.

We have no further evidence today; is that correct?

If I could verify with the parties, I suppose off the record -- if it would work with them -- just the schedule for Monday.

MR. WOODSMALL: Your Honor, Mr. Steiner mentioned earlier that we're going to have another meeting at 2:30. And I think we're going to have some clarification at that time. What was suggested earlier that we might be able to provide you an update later. Would that suffice?

JUDGE PRIDGIN: Yes, sir. That would be fine.

MR. WOODSMALL: Okay. We will send you an e-mail, someone come up and talk to you. We'll get you that

information.
JUDGE PRIDGIN: That will be just great.
Is there anything else before we conclude?
MR. ZOBRIST: Monday is 8:30 --
JUDGE PRIDGIN: Right.
MR. ZOBRIST: -- in any event?
JUDGE PRIDGIN: Yes, sir.
MR. ZOBRIST: Okay. Thank you.
JUDGE PRIDGIN: All right. Thank you.
We will stand in recess until Monday, 8:30. We are off the record.
(WHEREUPON; the hearing was adjourned until 8:30 a.m. January 31, 2011.)

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.

____

Lisa M. Banks, CCR

I N D E X

E X H I B I T I N D E X

	Marked	Rcv'd
INDUSTRIALS:		
Exhibit No. KCP&L 1203 Direct testimony of Michael Gorman		2853
Exhibit No. KCP&L 1204 Rebuttal testimony of Michael Gorman		2853
Exhibit No. KCP&L 1205 Surrebuttal testimony of Michael Gorman		2853
Exhibit No. GMO 1403 Direct testimony of Michael Gorman		2853
Exhibit No. GMO 1404 Rebuttal testimony of Michael Gorman		2853
Exhibit No. GMO 1405 Surrebuttal testimony of Michael Gorman		2853
Kansas CITY POWER AND LIGHT COMPANY:		
Exhibit No. GMO 9 Rebuttal testimony of Michael Cline	2889	2890
Exhibit No. KCP&L 11 Direct testimony of Michael Cline	2889	2890
Exhibit No. KCP&L 12 Rebuttal testimony of Michael Cline	2889	2890
Exhibit No. KCP&L 1 Direct testimony of Jimmy Alberts	2940	2940
Exhibit No. KCP&L 2 Rebuttal testimony of Jimmy Alberts	2940	2940
Exhibit No. KCP&L 3 Surrebuttal testimony of Jimmy Alberts	2940	2940
Exhibit No. GMO 1 Direct testimony of Jimmy Alberts	2940	2940
Exhibit No. GMO 2 Rebuttal testimony of Jimmy Albers	2940	2940

E X H I B I T I N D E X (continued)

	Marked	Rcv'd
KANSAS CITY POWER AND LIGHT COMPANY (continued)		
Exhibit No. GMO 3 Surrebuttal testimony of Jimmy Albers	2940	2940
Exhibit No. KCP&L 101 Murray Schedule 8/Hadaway Schedule 2010-1	2989	3009
Exhibit No. KCP&L 102 Regulatory Research Associates survey	2999	
Exhibit No. KCP&L 100 U.S. Treasury five-year note during 2011	2856	
Exhibit No. GMO 100 U.S. Treasury five-year note during 2011	2858	
STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:		
Exhibit No. KCP&L 227 Direct testimony of Lisa Kremer		2955
Exhibit No. GMO 226 Direct testimony of Lisa Kremer		2955
Exhibit No. KCP&L 213 Rebuttal testimony of Gregory Brossier		2964
Exhibit No. GMO 213 Rebuttal testimony of Gregory Brossier		2964
Exhibit No. KCP&L 234 Rebuttal testimony of David Murray		2971
Exhibit No. GMO 235 Rebuttal testimony of David Murray		2971
Exhibit No. KCP&L 235 Surrebuttal testimony of David Murray		2971
Exhibit No. GMO 236 Surrebuttal testimony of David Murray		2971

X

Y