Exhibit No.:
Issues: *Overview*
Revenue Requirement
True-up Allowance for Changes
Witness: *Cary G. Featherstone*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
File No.: *ER-2010-0356*
Date Testimony Prepared: *November 17, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

Jefferson City, Missouri
November 2010

**** Denotes Highly Confidential Information ****

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KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

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Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

CREDENTIALS

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work included study in the field of Accounting and Auditing.

Q. What job duties have you had with the Commission?

A. I have assisted, conducted, and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate

increases, earnings investigations, and complaint cases as well as cases relating to mergers and acquisitions and certification cases.

Q. Have you previously testified before this Commission?

A. Yes. The Schedule 1 attached to this testimony contains a list of rate cases in which I have submitted testimony. In addition, I also identify in Schedule 1, other cases where I directly supervised and assisted Commission Staff (Staff) in audits of public utilities, but where I did not testify.

Q. With reference to File No. ER-2010-0356, have you examined and studied the books and records of KCP&L Greater Missouri Operations Company regarding its electric operations?

A. Yes, with the assistance other members of the Commission Staff.

Q. What knowledge, skill, experience, training and education do you have with regard to KCP&L Greater Missouri Operations Company's general rate increase tariff filing that is the subject of File No. ER-2010-0356?

A. I have acquired knowledge of the ratemaking and regulatory process through my employment with the Commission. I have participated in numerous rate cases, complaint cases, merger cases and certificate cases, and filed testimony on a variety of topics. I have also acquired knowledge of these topics through review of Staff work papers from prior rate cases filed before this Commission relating to KCP&L Greater Missouri Operations Company electric operations (which may also be referred to as GMO or as "Company") and its affiliate, Kansas City Power & Light Company (KCPL). I have previously examined generation and generation-related topics; conducted and participated in several construction audits involving plant and construction records, specifically the costs of construction projects

relating to power plants. I have also been involved in the fuel and fuel-related areas for power plant production, purchased power and off-system sales on numerous occasions.

In particular, I have been involved in many GMO electric and natural gas rate cases, both under its current name and when it was named Aquila Inc. (Aquila). I have also been involved in many KCPL electric rate cases—three under its experimental alternative regulatory plan (herein referred to as the "Regulatory Plan") the Commission approved in Case No. EO-2005-0329 and others in the early 1980's, in particular the rate case concerning the in-service of the Wolf Creek Nuclear Generating Station (Wolf Creek). I was also involved in KCPL's steam rate cases in the early 1980's when KCPL had steam operations in downtown Kansas City before they were sold to Trigen Kansas City Energy in 1990.

Previously Aquila was named UtiliCorp United, Inc. (UtiliCorp). Before UtiliCorp merged with St. Joseph Light & Power Company in December 2000, Case No. EM-2000-292, I participated in electric, natural gas and steam rate cases for St. Joseph Light & Power Company. UtiliCorp changed its name to Aquila in early 2002. Aquila created operating divisions named Aquila Networks-MPS and Aquila Networks-L&P for its Kansas City and St. Joseph, Missouri utility operations, respectively. Aquila had different rate designs and rate structures for each division. After Great Plains Energy, Inc. acquired Aquila on July 14, 2008, and renamed it GMO, GMO eliminated the operating divisions, but, because they still have different rate designs and rate structures, for regulatory purposes GMO refers to its Kansas City area operations as MPS and its St. Joseph area operations as L&P. L&P has both electric and steam operations.

Since GMO became an affiliate of KCPL, both entities have engaged in much consolidation of their operations; essentially, operationally, KCPL runs GMO. Therefore,

specifically, for this rate case, I reviewed testimony, work papers and responses to data requests from both KCPL and GMO, along with documents such as data request responses and work papers in prior cases involving rates, electric and steam, for what are now referred to as MPS and L&P. I conducted and participated in interviews of Company personnel relating to this rate case, and I performed extensive discovery concerning aspects of the construction and operation of GMO's electric operations. Over the years I have had many discussions with the Company regarding GMO's rate case & regulatory activities, earnings reviews, and merger, acquisition and sale transactions.

I also participated in the 1996 merger application of KCPL and Aquila, where they applied for Commission authority to consolidate those two operations in Case No. EM-96-248. After that merger did not close, I participated in the two cases where KCPL and Westar Energy (then called Western Resources) sought authority to merge in 1998 and 1999, Cases No. EM-97-515. I participated in the case where St. Joseph Light & Power Company and Aquila sought Commission authority to merge. That merger closed December 2000. The St. Joseph Light & Power Company merger application was designated as Case No. EM-2000-292. I was also involved the case, Case No. EM-2000-0369, where Aquila and The Empire District Electric Company sought Commission authority to merge. That merger did not close.

In addition to the foregoing cases, during my employment at the Commission I have been involved in many other reviews and investigations that were initiated by applications filed by KCPL or GMO.

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. Curt Wells, of the Commission's Utility Operations Division, and I sponsor Staff's Cost of Service Report and Accounting Schedules in this proceeding that are being filed concurrently with this testimony and Mr. Wells' testimony. Staff's Cost of Service Report supports Staff's recommendation of the amount of the rate revenue increase for GMO based on information through the period ending June 30, 2010 using actual historical information and the recommendation that Staff expects it will find after true-up to be appropriate for GMO in this case. Staff prepared its revenue requirement results MPS and L&P based on actual results through the June 30, 2010 update period and included an estimate of the expected results through the December 31, 2010 true-up period. The true-up results will be referred to as the Estimated True-up Case. This rate revenue recommendation is found in Staff's separately filed Accounting Schedules for MPS and L&P for the June 30, 2010 update, which also contain information supporting the estimated true up recommendation.

I present an overview of the results of Staff's review of GMO's revenue requirement started in response to GMO's general rate increase request made on June 4, 2010. Several members of the Commission's Staff participated in Staff's examination of GMO's books and records for all the relevant and material components that make up the revenue requirement calculation. These components can be broadly defined as (1) capital structure and return on investment, (2) rate base investment and (3) income statement results, including revenues, operating and maintenance expenses, depreciation expense, and the taxes related to revenues and these expenses, including income taxes. I provide an overview of the Staff's work on each of these broadly defined components.

Q. Based on its review of the calendar year 2009 updated through June 30, 2010, at this time, what is Staff's recommendation of GMO's revenue requirement increase that should be reflected in a rate increase?

A. Staff's Estimated True-up Case is based on the use of a mid-point rate of return of 7.98% on a return on equity of 9.0%. Because of the significant cost increases relating to the plant additions and substantial fuel cost increases resulting primarily from a new freight contract that goes into effect on January 1, 2011, Staff has included estimates for them in its direct case. Those estimates will change when Staff has actual numbers for the true up through December 31, 2010 which will be presented to the Commission on February 22, 2011—the date of the True-up Direct filing.

Staff is presenting its true-up estimate, based on Staff's Construction Audit and Prudence Review Iatan Construction Project for Costs Reported as of June 30, 2010 Report, of what it believes will be the results of its true-up of GMO's revenue requirement through the period ending December 31, 2010. That true-up will include GMO's share of the newly constructed Iatan Unit 2. Staff will perform the true-up audit and make a recommendation regarding the revenue requirement based on actual results for the December 31, 2010 at that time. Based on its Estimated True-up Case, Staff has calculated an estimate of the increase for the true-up and included an allowance for known and measurable changes (allowance) expected to occur from July 1 through December 31, 2010, that have not been reflected in its direct filing. The Estimated True-up Case along with the allowance for changes is based on Staff's mid-point rate of return of 7.98% on a return on equity of 9.0%.

The true-up estimate of GMO's revenue requirement through the true-up period ending December 31, 2010, reflects rate base additions for Iatan Unit 2 with associated increases in returns, depreciation expense and operating and maintenance costs.

While the Iatan Unit 2 addition are now known, there will be other plant additions added through the time of the true-up in this case causing GMO's revenue requirement to increase. The need for the allowance is to address other costs that will likely change and, therefore, materially affect Staff's current calculation of GMO's revenue requirement. In addition to other plant investment besides Iatan Unit 2, the allowance includes estimates for payroll; payroll-related benefits, such as pensions and medical costs; and fuel costs, including fuel commodity price changes and freight price changes. Staff knows of a contracted freight price that will increase on January 1, 2011. While it has reflected an estimate for the increase in fuel costs, the true-up will include the actual price increases for the supply and freight costs. Although beyond the true-up period cut-off date, Staff will include this material cost change in its calculation of GMO's revenue requirement in its true-up filing. Doing so comports with past Commission practice of recognizing material events that occur very shortly after the end of a true-up period, here, December 31, 2010. Consequently, the allowance covers any reasonable and prudent cost increases through the end of the year that are not specifically included in Staff's direct filing.

Q. What are the major areas of Staff's recommended increase in GMO's revenue requirement in this case?

A. The following represent a non-exhaustive list of areas that make up Staff's filing:

- Rate of Return
- GMO's investments in Iatan Unit 2,
- Remaining costs for the plant upgrades for environmental costs for GMO investment in the Iatan 1 AQCS (Air Quality Control System) not captured in its last rate case
- GMO's investment in Iatan Common Plant not captured in its last rate case
- GMO's fuel costs, including freight rate increase and purchased power costs
- GMO's off-system sales margins from the firm and non-firm bulk power markets
- GMO's pension and other post-employment benefits (OPEBS) costs
- Acquisition savings and transition costs
- The treatment of a capacity addition for MPS

Q. Did you review any specific components of the revenue requirement calculation Staff used for calculating GMO's revenue requirement in this case?

A. Yes. I examined with Staff witness Alan Bax the jurisdictional assignment and allocation of costs, i.e., the assignment and allocation of costs between the retail and the wholesale markets, to identify the rate base investment and income statement expenses to include in developing the revenue requirement for MPS for serving its retail customers—the Missouri retail jurisdiction. L&P does not have any wholesale customers that fall under the jurisdiction of the Federal Regulatory Commission (FERC); therefore, no jurisdictional allocation of its costs is required.

I am also providing support on the capacity requirement issue that Staff has had historically for the MPS system. Staff has consistently advocated the need for MPS to have generation under its control and installed as a regulated asset. Staff has proposed an adjustment to MPS operations to address this capacity requirement issue. Staff witnesses Lena M. Mantle and Charles R. Hyneman are also providing testimony on this subject.

OVERVIEW OF KCP&L GREATER MISSOURI OPERATIONS COMPANY FILING

Q. What is the purpose of your direct testimony?

A. With Mr. Wells, I present an overview of the results of Staff's review of GMO's revenue requirement in response to GMO's general rate increase request made on June 4, 2010. I provide an overview of the Staff's work on each component of the revenue requirement calculation Staff used for determining an appropriate revenue requirement for GMO in this case. Mr. Wells provides an overview of the work of the members of Operations Division who worked on in this case. Several members of Staff had specific assignments relating to different components of the revenue requirement calculation, and were responsible for different calculations used in developing the overall revenue requirement. Results of different components of the Staff's revenue requirement calculation for GMO are contained in Staff's Accounting Schedules that are also being filed with Staff's Cost of Service Report, my testimony and the testimony of Mr. Wells. Staff refers to its revenue requirement model as "Exhibit Model System" or "EMS," and refers to the results of its modeling with inputs as "EMS" runs. In general, and here, Staff derives a utility's revenue requirement from the work product of members of both the Utility Services Division and the Operations Division of the Commission. Staff presents its

results in Accounting Schedules that are separately filed as an exhibit in the case. My direct testimony, Mr. Wells' direct testimony, the Staff's Cost of Service Report and Accounting Schedules together present and support Staff's revenue requirement calculation for GMO.

Q. Why did Staff review GMO's books and records and calculate a revenue requirement for GMO in this case?

A. GMO filed its general rate increase case on June 4, 2010, for its electric operations. GMO has different sets of rates in two different geographic areas – one in and about Kansas City, which it formerly served under the d/b/a Aquila Networks - MPS and one about St. Joseph, Missouri, which it formerly served under the d/b/a Aquila Networks – L&P. For ease, the areas with differing rates are referenced as "MPS" and "L&P" in Staff's direct case. GMO has stated that the new tariff sheets it filed for MPS are designed to increase its revenues from MPS retail customers by $78.8 million per year, a 14.4% increase (excluding the impacts of the fuel clause) and that the new tariff sheets it filed for L&P are designed to increase its revenues from retail electric customers by $22.1 million, a 13.9% increase (excluding the impacts of the fuel clause). Like KCPL's request, the GMO requests for MPS and L&P are based on a proposed rate of return on equity of 11.0% applied to the 46.16% equity capital structure based on the capital structure of its parent holding company Great Plains Energy [page 3 of GMO Minimum Filing Requirements-- Application].

Q. Did GMO's affiliate KCPL file tariff sheets designed to implement a general increase it is electric rates in Missouri?

A. Yes. KCPL also filed tariff sheets designed to increase its electric rates on June 4, 2010. The Commission designated that case as File No. ER-2010-0355. This filing

contains tariff sheets designed to implement an increase in its electric retail rate revenues in Missouri, exclusive of gross receipts, sales, franchise and occupational fees or taxes, of $92.5 million. If implemented on an equal percentage basis, this represents a 14.8% increase in existing KCPL rates. KCPL, in part, based its rate increase request on a proposed rate of return on equity of 11.0% applied to a 46.16% equity capital structure based on the capital structure of its parent holding company Great Plains Energy Incorporated (GPE).

Q. When did Staff file direct testimony in the KCPL rate case?

A. Staff filed its KCPL electric rate increase case (File No ER-2010-0355) direct testimony on November 10, 2010.

BRIEF HISTORY OF GREAT PLAINS ENERGY AND KCP&L GREATER MISSOURI OPERATIONS COMPANY

Q. Please provide a brief history of Great Plains Energy and its affiliates.

A. Great Plains Energy is a holding company incorporated in Missouri in 2001. It has two wholly-owned subsidiaries-- KCPL and GMO (MPS, L&P and L&P steam)—that provide regulated utility services in Missouri. It also owns KLT Inc., which has very small non-regulated operations that presently are not active. Great Plains Energy also wholly owns Great Plains Energy Services Incorporated (GPES). GPES provided corporate services at cost to Great Plains Energy and its subsidiaries, including KCPL and GMO until December 16, 2008, when, in a restructuring, all Great Plains Energy and GPES employees were transferred to KCPL. Following that restructuring, KCPL employees perform all the work for Great Plains Energy and its subsidiaries, including GMO.

Q. What is GMO?

A. GMO is an integrated, regulated electric utility that provides generation, transmission, distribution and sells electricity to retail customers in the state of Missouri. As described earlier, it has two service areas with different rates—MPS and L&P. GMO provides electric service only in Missouri. In addition to serving retail customers, MPS, under the jurisdiction of the Federal Energy Regulatory Commission (FERC), sells electricity at wholesale to several municipalities Missouri. L&P does not. GMO is a Missouri corporation incorporated in 2008. The Company, and its predecessors, began providing electric service to the public in the late 19th century.

STAFF FINDINGS AND RECOMMENDATIONS FOUND IN STAFF'S COST OF SERVICE REPORT AND STAFF'S ACCOUNTING SCHEDULES

Q. How did Staff conduct its audit of GMO?

A. Staff conducted interviews with GMO personnel. Staff reviewed KCPL's and GMO's responses to data requests issued in this and other previous cases. Staff reviewed the minutes of meetings of GPE's and KCPL's Boards of Directors as well as the minutes of the former Aquila Board of Directors. Staff reviewed the books and records of KCPL and GMO, including: the general ledger, plant ledgers and various other documents, including the FERC Form 1, for the last several years. Staff toured most of KCPL's and GMO's plant facilities, including the Iatan Project— Iatan Unit 1 Air Quality Control System and Iatan Unit 2, both of which GMO owns jointly with KCPL and other entities.

Staff toured several of GMO's generating facilities including Sibley Generating Unit (Sibley), Jeffrey Energy Center (Jeffrey) Lake Road Generating Station (Lake Road) and several of its combustion turbines. MPS wholly owns Sibley and 8% of Jeffrey.

Q. Which members of Staff were assigned to this case?

A. Several Staff experts from the Commission's Utility Services Division were assigned to this case. Their names follow with a brief description of their contribution to the Staff's Cost of Service Report:

Financial Analysis Department--

- David Murray -- Rate of Return and Capital Structure.

Engineering and Management Services Department--

- Lisa A. Kremer-- Quality of Service
- Arthur W. Rice-- Depreciation Rates.

Auditing Department--

- Cary G. Featherstone-- Overall Revenue Requirement Results and Jurisdictional Allocations.
- V. William Harris-- Fuel and Purchased Power Costs, Fuel Inventories, Off-system Sales
- Paul R. Harrison-- Income Taxes, Deferred Income Taxes, Deferred Income Tax Reserve; Pensions and Other Post-Retirement Employment Benefits
- Charles R. Hyneman-- Construction Audit
- Karen Lyons-- Plant in Service, Accumulated Depreciation Reserve, Depreciation Expense; Operation and Maintenance Expense-- Non-wage, Cash Working Capital, warranty payments.
- Keith A. Majors— Acquisition Savings and Construction Audit
- Amanda C. McMellen-- Electric Revenues and Uncollectible Revenues (Bad Debts)
- Bret G. Prenger— Payroll, Payroll Related Benefits, Payroll Taxes and Incentive Compensation, material and supplies, prepayments, advertising and lease expenses

Additionally, Commission Staff experts from the Utility Operations Division were assigned to the development of the revenue requirement as follows:

Energy Department--

- Alan J. Bax - Jurisdictional Allocations and Losses
- Daniel I. Beck - Transmission Expenses and Transmission Expense Tracker
- Walt Cecil – Sales- Weather Normalization, Days Adjustment Sales and Net System Input
- Carol Gay Fred - Low-Income Programs
- Randy S. Gross - Smart Grid Application
- Hojong Kang - Demand Side Management
- David Elliott - Fuel and Purchased Power Costs, the Production Cost Model and Engineering Reviews
- Shawn Lange – Engineering Reviews
- Erin L. Maloney – Spot Market Prices of Purchased Power and Fuel and Purchased Power Allocations
- Lena M. Mantle – Iatan 2 Cost Allocations and Capacity Requirement
- John A. Rogers - Demand Side Management and Fuel Adjustment Clause
- Henry E. Warren - Low-Income Programs
- Curt Wells – Revenue, Large Customer Annualization/ Rate Switching, Revenue Days Adjustment, Revenue Annualization for Rate Change, Special Contracts and Other Customer Discounts and Project Coordinator for Operations Division
- Seoung Joun Won - Weather Normalization.

Each of these Staff experts' work product was used as a direct input to the various adjustments contained in Staff's Accounting Schedules and revenue requirement recommendations.

Q. Would you provide an overview of how the Staff assigned to this case worked together to arrive at Staff's revenue requirement recommendations for MPS and L&P?

A. All of the Staff members assigned to this case are, by education and experience, experts at performing their regulatory responsibilities as members of the Commission Staff. These regulatory experts rely on the work of each other to develop Staff revenue requirement recommendations regarding filings made by public utilities made before the Commission. The work of each Staff member is an integral part of the Staff's Cost of Service Report and Accounting Schedules which contain the results of their collective efforts in Staff's findings and recommendations. Mr. Wells and I relied on these findings and recommendations to develop Staff's ultimate recommendations in this direct filing. Many of the individual sections presented include references indicating reliance on the work of other contributing experts. Additionally, for developing its true-up estimate, I, with other members of Staff, relied on the Staff's Report of its Construction Audit and Prudence Review of the Iatan Project and the work of the members of Staff who worked on and prepared that report.

As sponsoring witnesses, Mr. Wells and I relied on the work product of every Staff expert assigned to this case. Each Staff expert provided the results of their review and analysis as inputs to the revenue requirement calculation, and is identified in the sections of the report submitted by that expert. An affidavit, credentials, and the qualifications of each Staff expert are attached to the Report. Each Staff expert assigned to the KCPL and GMO rate cases are providing their work papers supporting the findings and recommendations to the Company and to other parties, as the Commission has ordered in setting the procedural schedule in this case. Finally, each Staff expert assigned to this rate case will be available to

answer Commissioner questions and to be cross-examined by any party who wishes to conduct cross-examination regarding information on how Staff's findings and recommendations were developed and presented in the Cost of Service Report and Accounting Schedules.

Q. What was your overall responsibility in this case?

A. I was one of two project coordinators assigned to identify the work scope for the case, make Staff assignments, and supervise and oversee all work product development. With the exception of the Construction Audit and Prudence Review of the Iatan Project, I specifically supervised all areas of the audit work assigned to and the responsibility of the Auditing Department. I worked closely with other Staff experts assigned to this rate case. I worked with the depreciation and rate of return experts as well as the Utility Operations experts assigned to revenues and fuel costs.

I have overall responsibility to ensure the revenue requirement calculations using the Staff's computer model are timely completed. This involves all aspects of the elements making up the revenue requirement recommendations. To this end, I, along with those under my direct supervision, either developed directly, or was provided with, the information used to support the Staff's revenue requirement recommendations for MPS and L&P.

Q. What information did other Staff experts provide to Staff experts in the Auditing Department to develop Staff's revenue requirement recommendations?

A. Staff expert David Murray's recommendations from his capital structure and rate of return analyses were provided as inputs to the revenue requirement calculations and appear as part of Accounting Schedule 12. His findings are also in Staff's Cost of Service Report, along with his schedules.

Staff expert Arthur W. Rice provided the results of his depreciation analysis, which also are reflected in Staff's Cost of Service Report, and in a schedule.

Staff experts Curt Wells, Seoung Joun Won, Amanda C. McMellen and Walt Cecil worked closely together and are sponsoring the revenue adjustment results.

Staff experts David Elliott, Erin L. Maloney and V. William Harris worked together in developing the Staff's fuel costs for GMO in this case.

Staff expert Alan J. Bax developed the energy and demand jurisdictional allocators used to allocate the appropriate portion of MPS costs of MPS operations to the MPS retail jurisdiction.

Q. Did Staff develop its revenue requirement recommendations for MPS and L&P in this rate case consistently with how Staff has developed its revenue requirements for other utilities when they have made requests to increase their rates?

A. Yes. Based on my experience as a regulatory auditor, my many years of experience as a project coordinator in numerous rate cases, the effect of the inputs provided by the various Staff experts assigned to the GMO rate case on Staff's overall revenue requirements for GMO as presented in the Accounting Schedules and the results discussed in the Staff Cost of Service Report, Staff has developed its revenue requirements for GMO consistently with how Staff has developed its revenue requirements for other utilities, and the inputs provided by the various Staff experts assigned to the GMO rate case are reasonable.

Q. Does this November 17, 2010 filing by Staff present all of Staff's direct case?

A. No. Staff is scheduled to file its rate design recommendation on December 1, 2010.

Test Year and Known & Measurable Period

Q. What is a test year?

A. A test year is an historical year used as the starting point for determining the basis for adjustments which are necessary to reflect annual revenues and operating costs in calculating any shortfall or excess of earnings by a rate-regulated utility. It is important to identify the utility's ongoing costs to provide utility service in the future and what its rates need to be set at to collect sufficient revenues to pay for those ongoing costs, plus a reasonable profit, in the future. In determining ongoing revenues and costs to develop the utility's revenue requirement, the first step is to identify the test year costs levels, which serve as the starting point for making all the adjustments to arrive at the revenue requirement recommendation.

Q. What is the test year in this case?

A. The ordered test year for this case, File No. ER-2010-0356, is the year ended December 31, 2009. The December 31, 2009 test year was chosen by the Company, agreed to by Staff, and approved by the Commission in its August 18, 2010 *Order Approving Nonunanimous Stipulation and Agreement, Setting Procedural Schedule, and Clarifying Order Regarding Construction and Prudence Audit*. Staff made annualization and normalization adjustments to the test year results when the unadjusted results did not fairly represent the utility's most current annual level of existing revenue and operating costs.

Selecting a "known and measurable date" or "known and measurable period" is important to synchronize and capture—"match"—all revenues and expenses. A proper determination of revenue requirement is dependent upon a consideration of all material components of the rate base, return on investment, current level of revenues, along with

operating costs, ***at the same point in time***. This ratemaking principle is commonly referred to as the "matching" principle. The known and measurable dates established for this case, ER-2010-0356, are December 31, 2009 (test year), June 30, 2010 (update period end) and December 31, 2010 (true-up period end). The Staff's direct case filing represents a determination of GMO's revenue requirements for MPS and L&P based upon known and measurable results as of June 30, 2010. The June 30, 2010 date for the known and measurable period was chosen to enable the parties and Staff an update period that provides sufficient time to obtain actual information from GMO upon which to perform analyses and make calculations regarding various components to the revenue requirements and still base their revenue requirement recommendations used for proposing new prospective rates on very recent information. This date represents the latest time frame to reflect known changes that can be measured or quantified and still be included in this filing.

Q. What is the purpose of the test year?

A. The purpose of a test year, and more importantly the update period, is to develop a relationship between the various components of the ratemaking process and keep those relationships in synchronization. In order to determine the appropriate level of utility rates, Staff examines the major elements of the utility's operations. These include rate base items such as plant in service, accumulated depreciation, deferred income tax reserves, fuel stocks, material and supplies, and other investment items. Also essential in this process is a review of the utility's revenues and expenses, making adjustments through the annualization and normalization processes. These items include: payroll, payroll-related benefits, payroll taxes, fuel and purchased power costs including the updating of current fuel prices, operation and maintenance costs for non-payroll related costs such as material

and equipment costs, small tool costs, and outside vendor costs for equipment repairs. Depreciation expense and taxes, including federal, state, local and property taxes, are all considered in setting rates.

It is important to maintain a representative relationship between rate base, revenues and expenses at a point in time near to when new prospective rates become effective in order for a public utility to have an opportunity to earn a fair and reasonable return. An attempt is made in the regulatory process to set rates to properly reflect the levels of investment and expenses necessary to serve the retail customer base which provides revenues to the utility. The Commission concisely stated the purpose of using a test year in its Order in KCPL's 1983 general rate case, Case No. ER-83-49:

> The purpose of using a test year is to create or construct a reasonable expected level of earnings, expenses and investments during the future period in which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items, or include unusual items, by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's operations. The Commission has generally attempted to establish those levels at a time as close as possible to the period when the rates in question will be in effect.

In Case No. ER-83-49, regarding the need for a true-up, the Commission stated that it would not "consider a true-up of isolated adjustments, but will examine only a package of adjustments designed to maintain the proper revenue-expense-rate base match at a proper point in time." [26 Mo P.S.C. (N.S.) 104, 110 (1983)] This concept of developing a revenue requirement calculation based on a consideration of all relevant factors has been a long-standing approach to ratemaking in this state, and is the approach Staff is following in this case.

Estimated True-up Case

Because of the significant plant additions of Iatan 2 anticipated by the end of 2010, at GMO's request the Commission established a true-up through the end of December 31, 2010. While no party disputed using a 2009 test year, not all parties agreed to the update and true-up periods. In its August 18, 2010 Order where it set the procedural schedule in this case, the Commission said the following regarding the true-up:

> A true-up period of the 12 months ending December 31, 2010, and Iatan 2 and Iatan Common Plant cutoff period of October 31, 2010, is ordered, assuming that the actual in-service date of Iatan 2 is projected to occur no later than December 31, 2010. However, in the event that the in-service date of Iatan 2 is projected to be delayed beyond December 31, 2010, the true-up period would be moved to the last day of the same calendar month as the actual in-service date of Iatan 2 and the Iatan Common Plant cutoff period would be moved to two months prior the revised true-up date…
>
> If the true-up period is adjusted, KCP&L Greater Missouri Operations Company shall extend the effective date of its tariffs four months past the end of the true-up period; however, such adjustment shall not extend beyond an in-service date for Iatan 2 of March 31, 2011.
>
> KCP&L Greater Missouri Operations Company shall indicate by filing a pleading no later than October 6, 2010 if it seeks to adjust the true-up period.
>
> [Commission Order issued August 18, 2010, pages 2-3]

Thus, the Commission authorized that the true-up in this case be through December 31, 2010, unless an extension became necessary as a result of the Iatan 2 construction project currently undertaken by GPE and its subsidiaries. GMO and KCPL notified the Commission on October 6, 2010 that "the Companies hereby notify the Commission that they do not seek to extend the true-up period in these cases beyond the December 31, 2010 date established in the

Procedural Order." Therefore, the true-up in this case, as well as the KCPL rate case, will be through December 31, 2010.

Revenue Requirement Ratemaking Adjustments

Q. Does Staff make any adjustments to the raw company test year, update and true-up data?

A. Yes. The ratemaking process includes making adjustments to reflect normal, on-going operations of a utility. This process generally uses four approaches to reflect changes determined to be reasonable and appropriate. These are commonly referred to as annualization adjustments, normalization adjustments, disallowances, and *pro forma* adjustments.

Q. What is an annualization adjustment?

A. An annualization adjustment is made when costs or revenues change during the audit period that will be ongoing at a level different than they existed during the audit period. Typical examples are payroll increases granted to employees or employees starting employment mid-year which would require an annualization adjustment to reflect a full annual period of payroll costs. Without such an adjustment payroll would be understated since that increased payroll will continue into the future. Reflecting new customers that start taking service at the end of the test year or update period would also require an annualization to properly reflect a full 12-month of revenues associated with them. If a customer takes service the last month of the update period, no revenues from that customer will be included in the test year. Consequently, if that customer's only month of revenues is not reflected for a full twelve-month period, then revenues will be substantially understated, to the benefit of the utility.

Staff annualized many aspects of the current GMO rate case, such as payroll and revenues.

Q. What is a normalization adjustment?

A. A normalization adjustment is an adjustment made to reflect normal, on-going operations of the utility. Revenues or costs that were incurred in the test year that are determined not to be typical or abnormal will get specific rate treatment. These abnormal events will generally require some type of adjustment to reflect normal or typical operations. The ratemaking process removes the costs or revenues of abnormal or unusual events from the cost of service calculation and replaces them with normal levels of revenues or costs. An example of an abnormal event is the impact of unusually hot or cold weather on revenues for those customers that are weather sensitive. Extreme temperatures can have significant impacts on revenues, resulting in a distortion to test-year revenue requirement results. Since utility rates are set using normalized inputs, adjustments to test-year input levels must be made when it is determined that unusual or abnormal events cause unusually high or low results. In the case of weather impacts on utility results, detailed information is examined to determine if revenues, and related fuel costs must be adjusted for the effects that warmer or colder than normal temperatures have on the utility's operations. Weather during in the test year is compared to normal annual daily temperatures based on actual temperature measurements taken over a substantial period of time, many times a 30-year time horizon. An adjustment is made to weather sensitive revenues in the test year to reflect normal weather conditions. The resulting weather-normalized sales volumes are also used as basis for the utility's fuel and purchased power costs, so that abnormal weather impacts are isolated and removed from those costs.

Another example of application of the normalization process is the examination of maintenance and operation costs relating to production equipment, such as coal-fired generating units. Costs are examined to determine if unusual events like major maintenance on turbines have occurred during the test year. It is common in the ratemaking process to reflect normalization adjustments. If these types of adjustments are not made, the utility revenues and costs, which both directly impact earnings, would be either over- or understated. For example, cooler than normal weather in the summer will negatively impact an electric utility's revenues since the demand for electricity for air conditioning will be decreased. Staff proposes adjustments to normalize the costs and revenues of events that are expected to vary from the "average" year.

In this case, Staff, based on an examination of actual historical events, has made both a weather adjustment for revenues and normalized non-payroll operation and maintenance expenses.

Q. What is a disallowance adjustment?

A. This type of adjustment removes cost elements from the cost of service for test-year results because the items are either non-recurring, not necessary to the provision of utility service, or were imprudently incurred. A disallowance adjustment results when the cost recovery in rates is considered inappropriate. Disallowances are made to eliminate costs from test year results—and thus the recommended revenue requirement—either entirely or partially. One example is the removal from test results of certain advertising costs. While some advertising costs should be included in rates, others should be eliminated because they are not necessary to the provision of utility service.

In this case, Staff disallowed the costs for certain advertisements GMO incurred during the test year.

Q. What is a *pro forma* adjustment?

A. This type of adjustment is made to reflect increases and decreases to revenue requirement because of a rate increase or decrease. *Pro forma* adjustments are made because of the need to reflect the impact of items and events occurring subsequent to the test year. These items or events significantly impact revenue, expense and the rate base relationship, and should be recognized to address the forward-looking objective of the test year. Caution must be taken when recognizing *pro forma* adjustments to ensure that all items and events subsequent to the test year are examined to avoid not recognizing offsetting adjustments. In addition, some post-test year items and events may not have occurred yet—be known—and / or may not have been sufficiently measured—be measurable. As a result, quantification of some *pro forma* adjustments may be more difficult than the quantification of other adjustments. A true-up audit that considers a full range of items and events that occur subsequent to the test year and update period attempts to address the maintenance of a proper relationship between revenues, expenses and investment, as well as address the difficulty in quantification associated with making *pro forma* adjustments.

The most common example of a *pro forma* adjustment is the grossing up of net income deficiency for income tax purposes. This involves calculating the revenue requirement before income taxes. If rates need to be adjusted to increase utility revenues, then those revenues need to be factored up for income taxes. This is necessary because every additional revenue dollar collected in rates requires income taxes to be paid.

As an illustration, if the utility needs to increase rates by $1 million, then it must increase rates by a significantly greater amount to receive the full $1 million increase because of the associated income taxes that must be paid to the taxing authorities. As an example, the revenue requirement model (Accounting Schedule 1) used by Staff to determine the findings of the cost of service review calculates the revenue requirement as follows using illustrative dollar amounts only:

Net Income Required	$1,000,000
Net Income Available	600,000
Additional Net Income Required	$400,000
Income Tax Gross Up Factor (using a 38.39% effective tax rate)	x 1.6231
Recommended Revenue Requirement Increase	$649,240

For the utility to recover the full $400,000 of additional revenues on an after-tax basis as required based on the cost of service results found in Staff's analysis, rates would have to increase an additional amount of $249,240, for payment of income taxes. This results in the total revenue requirement of $649,240 that rates would have to be increased so the company would be left with $400,000 needed to earn an appropriate return and recover allowed costs.

Another way of considering the effects of income taxes in the ratemaking process is:

Additional Revenue Collected in Rates from Rate Increase	$649,240
Less: Income Tax Based on 38.39% Effective Tax Rate	(249,240)
Additional Net Income from Rate Increase	$400,000

Revenue Requirement Calculation

Q. What does "revenue requirement" mean as it is used in the context of determining rates for public utilities?

A. Generally, the term "revenue requirement" is used to identify the results of an examination of the utility's cost of service - rate of return and capital structure on the investment together with the costs to provide a particular utility service. This difference between the revenue requirement from a cost of service calculation and revenues based on existing rates identifies any revenue shortfall (need to increase rates) or excess (need to decrease rates).

Q. Did Staff examine GMO's cost of service for both its MPS and L&P areas?

A. Yes. Staff reviewed all the material and relevant components making up the Company's revenue requirements for both MPS and L&P, which are: rate of return and capital structure, rate base investment, and revenues and expenses, maintaining the relationship between each of these components through the update period through June 30, 2010.

Q. How do each of these elements relate to one another?

A. The ratemaking process for regulated utilities is a process whereby the Commission makes rate decisions regarding how utilities charge customers for utility services using a prescribed formula. The revenue requirement calculation can be identified by a formula as follows:

Revenue Requirement = Cost of Providing Utility Service

Or

RR = O + (V-D)R; where,

RR = Revenue Requirement

O = Operating Costs (Payroll, Maintenance, etc.) Depreciation and Taxes

V	=	Gross Valuation of Property Required for Providing Service (including plant and additions or subtractions of other rate base items)
D	=	Accumulated Depreciation Representing Recovery of Gross Depreciable Plant Investment.
V-D	=	Rate Base (Gross Property Investment less Accumulated Depreciation = Net Property Investment)
R	=	Rate of Return Percentage
(V-D)R	=	Return Allowed on Rate Base (Net Property Investment)

This formula provides the traditional rate of return calculation this Commission uses to set just and reasonable rates. The result provides a total revenue requirement amount. That amount represents the incremental change in revenues over existing rates for the test year necessary to allow the utility the opportunity to earn the return the Commission authorizes for it. That return is collected on the appropriate level of rate base investment. The revenue requirement calculation also allows for the recovery of the proper level of utility costs, including income taxes.

ORGANIZATION OF STAFF'S COST OF SERVICE REPORT

Q. How is Staff's Cost of Service Report organized?

A. Staff has organized its Cost of Service Report by each major revenue requirement category as follows:

I. Background of Great Plains Energy and KCP&L Greater Missouri Operations Company

II. Executive Summary

III. Construction Audit

IV. KCP&L Greater Missouri Operations Company's Rate Case Filing

V. Rate of Return and Capital Structure

VI. Rate Base

VII. Income Statement- Revenues

VIII. Income Statement- Expenses

IX. Depreciation

X. Current and Deferred Income Tax

XI. Jurisdictional Allocations

XII. Transition Cost Recovery Mechanism

These categories have several subsections which identify in detail the specific elements of Staff's revenue requirement recommendations for MPS and L&P.

OVERVIEW OF STAFF'S FILING, FINDINGS AND RECOMMENDATIONS

Q. Please identify the findings of Staff's review of GMO's rate increase request.

A. Staff conducted a review of GMO June 4, 2010 rate increase filing and has identified the following areas in its findings and recommendations:

Overall Revenue Requirement

Q. How did Staff determine its revenue requirements for MPS and L&P?

A. The initial revenue requirements were determined using a test year of calendar year 2009 updated through June 30, 2010. However, because of the significant cost increases relating to the plant additions and substantial fuel cost increases resulting primarily from a new freight contract, the June 30, 2010 update case will change significantly.

The true-up in this case will include GMO's share of the newly constructed Iatan Unit 2. Staff will perform the true-up audit and make a new recommendation regarding

the revenue requirement at that time based on actual costs. Staff has projected the impact of the true-up and identified this as the Estimated True-up Case for both MPS ands L&P. However, other cost increases are expected to occur besides those included in the Estimated True-up Case. These types of costs are not as easily identified and quantified, so Staff included an allowance to reflect those costs.

This true-up estimate reflects rate base additions for GMO's share of Iatan Unit 2, with associated increases in rate of returns, depreciation expense and operating and maintenance costs.

There are other costs that will likely change and, therefore, materially affect Staff's current calculation of GMO's revenue requirement. Those other costs include payroll; payroll-related benefits, such as pensions and medical costs; and fuel costs, including fuel commodity price changes and freight price changes.

Rate of Return

The rate of return Staff used to calculate its revenue requirement recommendations for GMO in this case is based on Great Plains Energy's capital structure and corporate results. David Murray, of the Commission's Financial Analysis Department, determined that the appropriate rate of return on equity is in a range of 8.50% to 9.50% with a mid-point of 9.00% which results in an overall rate of return on investment of 7.74% to 8.22% with a mid-point of 7.98%. Mr. Murray examined the Company's capital structure and cost of money and provided the Staff's proposed rate of return which it used to calculate its revenue requirement recommendations for GMO in this case.

Rate Base

Plant in Service and Accumulated Depreciation Reserve are reflected in the rate base as of June 30, 2010. All plant additions and retirements were included in the revenue requirement calculations as of June 30, 2010. Staff will add plant additions and retirements through the end of the true-up period, currently December 31, 2010. Several plant construction projects are being completed which will be addressed in the true-up.

Cash Working Capital has been included in rate base using a lead-lag study developed by GMO and Staff over the last three rate cases.

Fuel Stock (Coal) Inventories, Material & Supplies and Prepayments were included as of the June 30, 2010. These items will be re-examined in the true-up.

Prepaid Pension Asset relates to previous Stipulations and Agreements from previous rate cases approved in Case No. ER-2007-0004 and GMO's 2009 rate case, Case No. ER-2009-0090.

Accumulated Deferred Income Taxes Reserves were included as an offset to rate base as of June 30, 2010. Deferred tax reserves will be updated for the true-up.

Other rate base components for customer deposits, customer advances for construction, deferred SO_2, coal premiums, and other regulatory liability for emission allowance sales are included through end of the update period of June 30, 2010.

INCOME STATEMENT

Revenues

Staff annualized and normalized revenues through June 30, 2010 to reflect an annual level of weather normalized revenues. Revenues will be trued-up through December 31, 2010.

Off-system sales for firm and non-firm customers have been included in the case. Staff has reflected an amount in this direct filing based on an appropriate level. Staff will continue to examine the off-system sales for firm and non-firm as the case progresses.

Expenses

Fuel costs in this case are based on using coal and natural gas prices through June 30, 2010. Purchased power costs were also included through June 30, 2010. Other inputs such as fuel mix, and station outages and distribution losses were determined using historical information. Fuel and purchased power costs will be trued-up through December 31, 2010.

Payroll, payroll related benefits, and payroll taxes were annualized through June 30, 2010. Payroll will be updated in the true-up to as of December 31, 2010.

Operations and maintenance costs, other than payroll costs, were included in the case at test year 2009 levels or at averages for various years.

Outside Services Expenses were analyzed, and amounts that were verified and supported related to on-going company operations were included in the case.

Depreciation Expense was annualized based on depreciation rates developed by Staff witness Arthur W. Rice of the Commission's Depreciation Engineering and Management Services Department. The depreciation rates were applied to Staff's recommended plant values as adjusted plant-in-service jurisdictional amounts, resulting in total annualized jurisdictional depreciation expense. Depreciation will be updated for plant additions included in the true-up.

Staff calculated Income Taxes based on the results of the revenue requirement calculation as of June 30, 2010. The income tax expense amount will be trued-up as of

December 31, 2010. Deferred income tax reserve will also be trued-up as of December 31, 2010 from the level reflected as of June 30, 2010.

ALLOWANCE TO THE REVENUE REQUIREMENT

Q. What is the True-up Case Staff is submitting in its direct filing?

A. Staff is filing its revenue requirements for GMO in its direct filing to reflect the 2009 test year results updated for known and measurable changes through June 30, 2010 and to include an estimate for the revenue requirement impacts of anticipated true-up results through December 31, 2010. The MPS and L&P revenue requirements in this case are being referred to as the Estimated True-up Case.

In the Estimated True-up Case, Staff has made an estimate designed to cover an expected or anticipated increase to the overall revenue requirements being recommended for MPS and L&P in this case due to events in the true-up period. This estimate is being used to consider the additional revenue requirement in this case for plant additions that are expected to be complete by the true-up ending period of December 31, 2010. The higher costs for these plant additions along with other cost increases are expected beyond the update period, in this case June 30, 2010, so that the True-up Case approximates the impact of these higher costs. For purposes of this case, the Commission has authorized the use of updating the revenue requirement through the end of December 31, 2010, primarily to address GMO's significant increases for plant additions and also an expected increase in fuel costs.

Q. What higher costs does Staff believe may exist when the true-up period of December 31, 2010 is completed?

A. GMO completed its construction of the plant addition for Iatan 2, which involved very substantial costs to GMO, and to KCPL. An estimate for this plant addition is

included in the Estimated True-up Case for both MPS and L&P. There will be other typical plant additions that will occur during the six months between the update period of June 30, and the true-up period of December 31, 2010 that will be included in the true-up.

Staff will examine fuel and purchased power costs. Staff anticipates additional costs for payroll, payroll- related benefits such as pensions, and other costs through the end of the December 31, 2010, true-up period.

COST REVIEW OF CONSTRUCTION PROJECTS

Q. Is Staff currently looking at the construction costs for major plant additions for GMO?

A. Yes. A very important part of this case is the Staff's review of several construction projects that were completed by, or are being completed by KCPL and GMO. Staff has reviewed costs for the plant additions for environmental equipment being installed at the Iatan 1, referred to as AQCS (air quality control systems) and the completion of Iatan 2 generating unit along with the common plant constructed for the support of both Iatan units. These plant additions involve two GPE entities-- KCPL has a 70% ownership share of Iatan Unit 1, and is its operating partner. In addition, through its acquisition of St. Joseph Light and Power Company, GMO has an 18% ownership share of Iatan 1. These plant additions at the Iatan Station, referred to in Staff's Construction Audit and Prudence Review of the Iatan Project as the "Iatan Project," have ramifications for the MPS and L&P rates of GMO. KCPL has a 55% ownership share of Iatan 2 and a 61% ownership share of the Iatan Common Plant. KCPL operates both units and the Iatan site. GMO has an 18%ownership share of Iatan 2 and the Iatan Common Plant.

Q. What construction projects is Staff reviewing?

A. The construction of Iatan 2 is the largest of the construction activities whose in service timeframe will be included in the true-up ending December 31, 2010. Iatan 1 had a selective catalytic reduction (SCR) system and other environmental projects installed in late 2008 and 2009, with construction completion in February 2009 and in-service April 2009.

Staff is also looking at plant additions for Sibley which is wholly owned by GMO, attributed to MPS, and the three coal-fired generating units at the Jeffrey Energy Center which is operated by Westar Energy with MPS having an 8% ownership share. A SCR system was installed at Sibley, with the completion and in-service first quarter 2009. Westar completed the Jeffrey Energy Center 1 and 3 SCR systems in 2008 and completed the SCR system for Unit 2 in the second quarter of 2009.

Q. Has Staff completed a review of the costs of construction of the Iatan Unit 1 AQCS, Iatan Unit 2 and Iatan Common Plant?

A. Yes, using an audit cut-off date of June 30, 2010. However, Staff will continue its audit to capture additional construction costs through the cost information cut-off date of October 31, 2010 established for the true-up. Staff filed its Construction Audit Report on November 3, 2010. Staff witness Charles R. Hyneman is addressing the construction audits in his direct testimony.

KCP&L GREATER MISSOURI OPERATIONS COMPANY ELECTRIC RATES

Q. Please provide a summary of GMO's rate cases.

A. GMO has filed for the following rate increases for MPS and L&P, respectively:

MPS

Case No.	Date Filed	Amount Requested	Amount Authorized	Effective Date of Rates
ER-2007-0004	July 3, 2006	$94.5 million (22% increase)	$ 45.3 million (11.64%increase)	June 3, 2007
ER-2009-0090	September 5, 2008	$ 66 million (14.4 % increase excluding any impact of the fuel clause)	$48 million (10.46% increase)	September 1, 2009
ER-2010-0356	June 4, 2010	$78.8 million (14.4% increase excluding impact of the fuel clause)	Yet to be determined	May 4, 2011 (expected)

L&P

Case No.	Date Filed	Amount Requested	Amount Authorized	Effective Date of Rates
ER-2007-0004	July 3, 2006	$22.4 million (22.1% increase)	$13.6 million (12.79% increase)	June 3, 2007
ER-2009-0090	September 5, 2008	$ 17.1 million (14.4 % increase excluding any impact of the fuel clause)	$15 million (11.85% increase)	September 1, 2009
ER-2010-0356	June 4, 2010	$22.1 million (13.9% increase excluding impact of the fuel clause)	Yet to be determined	May 4, 2011 (expected)

Q. How do GMO's rates in Missouri compare with those of other electric utilities?

A. Based on reports from EEI which KCPL and GMO provided in response to a Staff data request, the rates GMO charges its MPS customers in relation to those of other Missouri and mid-western utilities are highest in the state. MPS' rates are generally below the national average, but above the Missouri average. The rates GMO charges its L&P customers are the second lowest rates in the state, and well below both the national average and the Missouri average.

The following table shows such a comparison of GMO residential customer rates:

Missouri and Kansas Residential- in cents per kilowatthour	**2009**	**2008**	**2007**	**2006**	**2005**
KCPL- Kansas	9.07 cents/kwh	8.43	7.43	6.92	6.88
KCPL-Missouri	8.51	8.14	7.61	6.90	6.88
MPS	**9.67**	**9.10**	**8.64**	**8.08**	**7.45**
L&P	**7.43**	**7.03**	**6.78**	**6.31**	**5.97**
Ameren Missouri	7.03	6.53	6.60	6.60	6.52
Empire	9.75	9.19	9.10	8.35	7.98
Missouri Average	7.77	7.27	5.93	6.96	6.77
USA Average	11.72	11.52	10.95	10.62	9.60

Source: EEI Winter 2010 Report, page 180 provided Data Request 380

As shown in the table, GMO's residential rates for its MPS customers are now, and for several years have been, higher than those for its L&P customers and for KCPL's residential customers. While MPS rates are above the Missouri average, its L&P rates are below the Missouri average. Both are below the United States national average.

SOUTH HARPER COMBUSTION TURBINE VALUES

Q. What value is Staff using for the three combustion turbines built and installed at South Harper in 2005?

A. In Case No. EO-2005-0156, GMO (Aquila), Office of Public Counsel and Staff agreed to a value of $66.76 million for the combustion turbines, or $22.25 million per turbine. The cost for these turbines is $211.9 per kilowatt ($66.76 million divided by 315,000 kilowatts—each turbine is rated at 105 megawatts so the three combustion turbines total at 315 megawatts). GMO (Aquila) wrote down the turbines to the agreed upon amount and has reflected that amount on its books and records. Both GMO (Aquila) and Staff have included the written down value of $66.76 million for the three turbines in this case.

Q. Was the value for the turbines the parties agreed to in Case No. EO-2005-0156 the value Staff proposed?

A. Yes. Staff filed extensive testimony in that case supporting the value to which GMO (Aquila), the Office of Public Counsel and Staff finally agreed.

Q. Would you quantify each of the write-downs?

A. GMO (Aquila) made a write-down of over $10 million in November 2004 to reflect, what it believed was a fair value for the three turbines installed at South Harper. Additionally, GMO (Aquila) agreed to an almost $4 million additional write-down when it agreed to value the turbines at the $66.76 million.

Q. Does Staff have market value information for valuing the South Harper combustion turbines?

A. Staff filed testimony in Case No. EO-2005-0156 to support a valuation of $66.76 million for the three South Harper turbines, including related equipment. At one time

GMO (Aquila) offered to sell the turbines for $69 million including a warranty, to KCPL. That offer formed the basis for the Staff's valuation. Attached as Highly Confidential Schedule 3 are documents relating to GMO's (Aquila's) offer to KCPL provided in Data Request No. 38 in Case No. EO-2005-0156. Also, Schedule 2 is a table identifying the various values Staff considered for these units (Data Request No. 5 in Case No. EO-2005-0156).

Q. How did Staff arrive at a valuation of $66.76 million?

A. Because the warranty for the combustion turbines expired while they were in storage, the $69 million was adjusted downward by $2.240 million to reflect the estimated value of the warranty. This estimate of $2.240 million originated from GMO (Aquila) and was the result of discussions it had with the turbine manufacturer and a consultant (R.W. Beck) hired to assist in developing a fair value of the units.

Q. Who manufactured the three combustion turbines?

A. These combustion turbines were manufactured by Siemens and are identified as 501D5A with a capacity rating of 105 megawatts each, resulting in 315 megawatts of total South Harper station capacity.

Q. Did GMO (Aquila) purchase these units for its MPS system?

A. No. The units were originally purchased by a GMO (Aquila) subsidiary, Aquila Merchant in 2002 under an agreement signed in September 2001. Originally, the units were to be installed at the Aries Generating Facility and were called "Aries II." Those plans were cancelled in July 2002 during the period of the collapse of the merchant business that affected Aquila Merchant especially hard. GMO started taking delivery of the units in

August 2002 and stored them at GMO's (Aquila's) regulated plant, Ralph Green Generating Facility until they were moved in March 2005 to South Harper.

Q. How did GMO (Aquila) originally intend to use these three combustion turbines for MPS?

A. No. GMO (Aquila) intended to install them at its Aries site and sell power from them to MPS. It was expected that once Aries II went into service, MPS would enter into a purchased power agreement with Aquila Merchant, a wholly owned non-regulated affiliate.. The term for the agreement was to be for 15 years starting June 1, 2005, to coincide with the expiration of the Aries agreement May 31, 2005. [source: Data Request No. 58 in Case No.EO-2005-0156, Highly Confidential Schedule 3-12].

Q. When did GMO (Aquila) decide to use the combustion turbines for its regulated operations, and to include their costs in rate base?

A. Staff was informed of this decision on January 27, 2004, in a meeting with GMO (Aquila's) then Chief Executive Officer, Richard Green. At this meeting, Mr. Green committed that the three turbines in storage would be deployed for the regulated electric operations in Missouri.

These units were installed at South Harper and were declared commercial by GMO (Aquila) on June 30, July 1, and July 14, 2005.

Q. Why do you believe GMO (Aquila) built South Harper?

A. GMO (Aquila) had the three combustion turbines in storage. While GMO (Aquila's) MPS regulated operations needed the capacity, GMO (Aquila) attempted unsuccessfully to sell these combustion turbines to unaffiliated entities. GMO (Aquila) finally committed to installing these units for MPS in January 2004.

Absent having the three combustion turbines left over from its merchant business, Staff believes GMO (Aquila) would not have built any peaking capacity. Staff has seen no indication that GMO (Aquila) had any intention of using the combustion three turbines for MPS's operations. To the contrary, the documentation indicates just the opposite-- that GMO (Aquila) made every attempt to sell the combustion turbines.

Q. When did GMO's regulated operations personnel for MPSlearn of the three combustion turbines GMO later installed at South Harper?

A. At the summer 2002 IRP meeting, MPS identified the need for capacity to replace the Aries agreement that was expiring May 31, 2005. Staff indicated to MPS's Resource Planning Group that three combustion turbines existed within GMO (Aquila's) organization; and inquired if they would be considered for replacing the Aries capacity. The GMO (Aquila) personnel attending the meeting stated they were unaware of the existence of these combustion turbines. At the summer of 2003 IRP meeting MPS's Resource Planning Group personnel indicated that they were still unaware of the existence of these combustion turbines and, therefore, could not model them. At that time, GMO (Aquila) was considering only purchased power agreements for replacing the Aries capacity. At this 2003 meeting, Staff made it clear that it knew GMO (Aquila) had the combustion turbines in storage, and inquired why GMO (Aquila's) Resource Planning Group was not considering those combustion turbines to meet MPS' s capacity requirements in lieu of purchased power agreements. MPS responded that it could only consider what it knew was available, and those combustion turbines were not available for MPS's capacity requirements.

Q. Did GMO (Aquila) ever consider the three combustion turbines for meeting MPS's capacity requirements?

A. Yes. When Aquila Merchant planned on installing these combustion turbines at the Aries facility as a non-regulated merchant plant, GMO (Aquila) was negotiating with its affiliate Aquila Merchant for a 15-year purchased power agreement for MPS. In a presentation made by GMO (Aquila's) Capital Deployment Group entitled "Aries II - Peaking Power Facility" dated March 5, 2002, GMO identifies that these combustion turbines were to provide capacity to MPS through 2020.

After the merchant business collapsed in mid-2002, GMO's subsidiary Aquila Merchant Services decided in July 2002 not to deploy the three combustion turbines at the Aries site. At this point, these three combustion turbines were no longer considered for meeting MPS' capacity needs. GMO (Aquila) finally decided in January 2004 to use this capacity for MPS, after no other home was found for the three combustion turbines.

SOUTH HARPER PRUDENT TURBINES 4 AND 5 COMBUSTION TURBINES VALUES

Q. What turbine values did Staff rely on for South Harper Prudent Turbines 4 and 5?

A. The total value for each of the two turbines is $18.7 million, or a total of $37.4 million. This amount was determined based on several different options GMO (Aquila) had during the time it would have been in planning stages of adding needed capacity for MPS with an in-service date of June 2005, consistent with the time of the termination of the Aries I purchased power agreement which was May 31, 2005.

Q. What were the several different option available to GMO that relied on for valuing South Harper Prudent Turbines 4 and 5?

A. Staff reviewed the combustion turbine market in the 2004 and 2005 time frame which is the time GMO (Aquila) would have placed an order for turbines to be installed in summer 2005, and found the Company had several options available to it to acquire the needed equipment to meet this installation date. An affiliate of GMO (Aquila)—Aquila Merchant-- had several combustion turbines available for installation in its load center area. These combustion turbines could have been installed at South Harper, a site which was sized for 6 combustion turbines the size of South Harper Turbines 1, 2 and 3. Aquila Merchant either sold these combustion turbines at distressed prices on the grey market or paid the manufacturer termination fees to not accept delivery.

Staff also reviewed non-GMO (Aquila) purchases of combustion turbines to evaluate its value for South Harper Prudent Turbines 4 and 5 and a publication known as *Gas Turbine World* where information on actual purchases made by the electric industry regarding the pricing of combustion turbines can be found.

As with many things, the combustion turbine market varies over time with manufacturing supply and utility demand considerations. The economy affects pricing as the utility industry compresses during times of economic decline.

Q What was the turbine market like when GMO (Aquila) would have been deciding to purchase capacity to be installed in 2005?

A. During the 2004 / 2005 time period the turbine market had collapsed from the "sellers" market of 2001 when Aquila Merchant purchased South Harper combustion turbines 1, 2 and 3. Subsequent to the "buyers" market of 2004 and 2005, turbine prices

increased. Thus, any combustion turbines purchased for installation after 2005 and 2006 would be more costly.

COMBUSTION TURBINE COSTS

Q. What is your basis for asserting combustion turbine prices went up after the time when GMO should have decided in 2004 to replace the capacity it was obtaining from the 2005 Aries capacity agreement?

A. In every case since GMO's 2005 rate case Staff has reviewed the pricing of combustion turbines. As in previous GMO rate cases, Staff reviewed the industry publication *Gas Turbine World* for years 2007, 2008 and 2009. In the 2007-2008 GTW Handbook, *Gas Turbine World* reports that turbine prices increased 20 to 30 % over 2006 levels. At page 29 of this industry publication the following appears:

> **Seeing dramatic increase in prices**
>
> During the past 18 months we have seen power plant equipment prices increase by as much as 20-30 percent over pre-2006 levels. Meanwhile delivery schedules have stretched out to 16-18 months from 12 months or less, as growing demand puts strain on available manufacturing capacity. Special orders that require additional engineering can add seven months of lead time.
>
> The rise in equipment price levels since 2006 has been driven by a worldwide increase in cost of materials, higher manufacturing costs, and growing market demand. Over the last few years, copper has more than tripled to $3.40 per pound from around $1, molybdenum six-fold to $31 per pound from around $5, aluminum almost doubled to $2,800 per ton from $1,500, and nickel almost quadrupled to $31,000 per ton form $8,000.

Staff's review of *Gas Turbine World* identified that General Electric's new model that replaced the 7 EA model that is installed at Crossroads is valued at $19.5 million in the 2007-2008 GTW Handbook and $25.9 million in the 2009 GTW Handbook. This indicates

that prices in the 2007 and 2008 time period show substantial increases over the prices when GMO (Aquila) should have installed additional combustion turbines to meet the capacity needs of its MPS customers back in 2005.

The General Electric 7 EA models are rated at 75 megawatts of capacity rather than the Siemens Westinghouse model 501 D5A combustion turbines which have 105 megawatts of capacity. South Harper combustion turbines 1, 2 and 3 are Siemens Westinghouse model 501 D5A combustion turbines.

Q. Were the General Electric 7 EA model combustion turbines valued less in the 2004 time period?

A. Yes. At a time GMO (Aquila) should have added capacity in 2005, the General Electric 7EA models were significantly less costly than the General Electric 7 EA models Aquila Merchant Services purchased in 2001 that it installed at Crossroads in Mississippi. *Gas Turbine World* reported in its 2004-2005 Handbook that these units were selling for $14.8 million. The 2003 price was $16.6 million and the 2000-2001price was $21 million. This compares to the actual Crossroads book value of ** __ ** million each. The volatility of the natural gas market contributed to the decline in sales of gas-fired generation on top of a market decline caused by the implosion of the merchant energy market during the 2002 to 2005 time period. This would have been an ideal time to purchase capacity, if a utility needed capacity, which GMO (Aquila) did.

In 2006, the price for the General Electric 7 EA (new model PG7121(EA)) had gone up to $19.2 million according to the 2006 *Gas Turbine World* Handbook.

The South Harper Siemens 501D5A units saw prices follow the same pattern going from high at the start of the decade to significant price reductions during 2003 and 2004 time

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frame. In the "2004-05 GTW Handout, published by *Gas Turbine World*, the price of Siemens 501D5A was quoted at $18.7 million. In the 2003 *Gas Turbine World* Handbook, the value was $19.9 million and the 2000-2001 *Gas Turbine World* Handbook has model 5015DAs priced out at $25.5 million. Based on this information, the market cost of these units has been trending downward during the time GMO (Aquila) would have been needed the five turbines to replace the Aries PPA capacity.

However, recently the 2006 *Gas Turbine World* Handbook identified a significant price increase for the Siemens 501D5A (new model SGT6-3000E) to $22.8 million per unit.

Q. Is Staff's $18.7 million for South Harper Prudent CTs 4 and 5—both Siemens Westinghouse model 501 D5A combustion turbines—solely the turbine cost, or does it include related costs?

A. *Gas Turbine World* does surveys of the industry and contacts turbine manufactures to determine the pricing information it publishes. Some of its data is for actual purchases made by companies - regulated utilities and merchant companies alike. While these combustion turbines prices may include added costs for specific features based on individual needs such as duel fuel source burning capability and fast-start capability, typically these are prices what the industry relies on to trend costs of turbine equipment.

Q. What information, other than Aquila Merchant's $69 million offer to sell them to KCPL, is Staff aware of bearing on the valuation of the three combustion turbines GMO (Aquila) installed at the South Harper Facility?

A. has Aquila Merchant made offers to sell turbines to third parties and has sold or given up rights to several turbines over the past several years. Staff has reviewed

documents relating to these offers and sale transactions which identified the pricing of turbines from 2002 to present.

1) Aquila Merchant Services had four General Electric model 7EA natural gas-fired 75 megawatt turbines that it sold in 2003.

2) Aquila Merchant Services sold to AmerenUE its Goose Creek and Raccoon Creek Generating Facilities in 2006.

3) Aquila Merchant Services had an offer from Rolls-Royce Power Company to sell two Siemens 501 D5A natural gas-fired combustion turbines.

4) Staff has seen offers made by turbine manufacturers to another Missouri utility in the range identified in the *Gas Turbine World*.

GENERAL ELECTRIC MODEL 7 EAS

Q. At what price did GMO's subsidiary Aquila Merchant sell its General Electric combustion turbines?

A. Aquila Merchant Services sold three General Electric 7 EA turbines with rated capacity of 75 megawatts each to two non-affiliates after the 2002 collapse of Aquila and the decline of the turbine market. Two of these units sold for ** ____ ** million or ** ____ ** million each and a third turbine was sold for ** ** million. All three turbines were sold substantially below the original purchase price of ** ____ ** million each [Data Request No. 77 in Case No. EO-2005-0156]. The average price that Aquila Merchant sold these units in 2003 was ** _____ ** million-- [** ____ ** million plus ** ____ ** million divided by three]. Using this average price, GMO (Aquila) would have had a far better price at which to deploy these three General Electric turbines to meet its regulated system requirements and greater megawatt capacity. These prices compare with

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the Crossroads turbine values of ** _____ ** million per unit price for the same GE 7 EA model.

The total costs for the three General Electric turbines Aquila Merchant sold to third parties was ** _____ ** million with a total capacity of 225 megawatts, or ** _____ ** per kilowatt. This per kilowatt cost is far below the per kilowatt cost of the three Siemens turbine costs GMO installed at South Harper. Two 501D5A turbines are 210 megawatts of capacity. Three General Electric 7EA turbines is 225 megawatts of capacity. It would have been more cost effective for GMO to install the three General Electric 7EAs having greater capacity than the two Siemens units. Staff, in pricing the South Harper Prudent CTs 4 and 5, chose to include the higher costs of the Siemens turbines to be conservative in its costing of these units.

Q. Where were the purchasers of these three 75 megawatt combustion turbines located?

A. Two turbines were sold to a utility in Beatrice, Nebraska, and the third turbine was sold to a utility in Colorado (Data Request No. 43 in Case No. EO-2005-0156).

Q. Did Aquila Merchant have any other General Electric combustion turbines?

A. Yes. Aquila Merchant originally purchased 18 General Electric 7 EAs, taking delivery and deploying 10 turbines at two different site locations in Illinois (these turbines will be discussed later). Four others were deployed at the Crossroads Energy Center located in Mississippi.

As noted above, three of the General Electric turbines were sold to Colorado and Nebraska entities and a fourth turbine was release back to the manufacturer, with Aquila Merchant losing the reservation (option) payments it had made to General Electric.

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Q. Did Aquila Merchant make any offers regarding the four General Electric combustion turbines before executing the contracts under which they were sold?

A. Yes. Like the Siemens turbines installed at South Harper, Aquila Merchant offered the General Electric turbines to other entities, including KCPL.

Q. Did GMO (Aquila's) MPS or L&P divisions have an opportunity to acquire any of these four General Electric 7 EAs combustion turbines?

A. No. GMO (Aquila) never considered using these turbines for its regulated operations, even though MPS needed to replace the Aries purchased power agreement by June 2005. GMO (Aquila) indicated that these turbines were sold in 2003, in advance of its decision to install turbines at South Harper. (Data Request No. 43, Case No. EO-2005-0156).

SALE OF NATURAL GAS-FIRED COMBUSTION TURBINES AT RACCOON CREEK AND GOOSE CREEK

Q. Did Aquila Merchant have generating facilities located outside of GMO's service territories?

A. Yes. Aquila Merchant built two generating facilities in Illinois, Raccoon Creek and Goose Creek.

Q. Would you describe these facilities?

A. Aquila Merchant installed ten General Electric 7EAs, 75 megawatt combustion turbines, at two locations in Illinois. Six 7EAs were installed at Goose Creek Energy Center having a combined capacity of 510 megawatts. Four 7EAs were installed at Raccoon Creek Energy Center having a combined capacity of 340 megawatts. GMO (Aquila) responded to an RFP to supply turbine capacity issued by AmerenUE in the

summer of 2005. GMO (Aquila) disclosed to the Staff it had offered in August 2005 to sell them to AmerenUE in response to Data Request No. 464 (Case ER-2005-0436).

Q. What were the terms of GMO (Aquila's) original offer?

A. GMO (Aquila) offered to sell both facilities (ten installed turbines) to AmerenUE on the following terms.

** _____
_____
_____
_____
_____
_____
_____
_____ **

[Data Request No. 464 in ER-2005-0436; Highly Confidential Schedule 13-4]

Q. Has the sale been completed?

A. Yes. On December 16, 2005, GMO (Aquila) entered into an asset purchase and sale agreement with the final sale transaction completed in early 2006.

Q. Do you know if negotiations between the two parties changed the initial terms of the offer?

A. Yes, it did. The final sale price for both Raccoon Creek and Goose Creek was $175 million for all the generating equipment, substation and transmission costs. The total capacity of these two generating stations is 850 megawatts resulting in an installed capacity

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of $205.88 per kilowatt ($175 million divided by 850,000 kilowatts) [source: Aquila's SEC Form 8-K filed December 16, 2006].

Q. Based on the original offer, what would the price be on an installed kilowatt basis?

A. The installed kilowatt for Aquila's initial offer would be between ** _____ _____ **. The final price paid for both facilities of $175 million resulted in the installed kilowatt of $205 per kilowatt [$175 million dividend by 850,000 kilowatts of installed capacity].

Q. Did GMO (Aquila) lose money on the sale of these units?

A. Yes. Because of the distressed nature of the merchant business at the time, GMO (Aquila) incurred a pre-tax non-cash impairment charge of approximately $93.6 million for Goose Creek and $65.9 million for Raccoon Creek, or a total after-tax loss of $99.7 million ($58.5 million and $41.2 million) [source: Aquila's SEC Form 8-K filed December 16, 2006].

Q. Are the Raccoon Creek and Goose Creek facilities both fully operational generating plants?

A. Yes. Both of these facilities are fully operating generating stations. They were installed in 2003 and are currently operating as part of the AmerenUE fleet providing electric service to its Missouri customers.

Q. Did GMO (Aquila's) MPS or L&P divisions have an opportunity to acquire these facilities?

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A. No. GMO (Aquila's) position was that the units were located in Illinois and there was not sufficient transmission path to get the power from those units to the MPS and L&P systems.

Q. Could the combustion turbines at these facilities be moved?

A. Yes. The combustion turbines presently at South Harper were moved from the Ralph Green Generating Facility where they were in storage. While these units were not installed at Ralph Green, the units, with considerable effort, were moved to the South Harper facility. Turbines, generators and related equipment are heavy pieces of machinery requiring special transportation and hauling, but they are moved from the manufacturer and from different locations. Moving such equipment in the electric utility industry is not particularly unique. Indeed the Greenwood Generating Facility, which has four combustion turbines, initially had a lease agreement that required GMO (Aquila) to move, at its expense, the generating units at the end of the lease to a destination designated by the Greenwood owners. Since the Greenwood Units were reacquired by GMO (Aquila) in 2000, the units were not moved.

Q. Did the sale of the Raccoon Creek or Goose Creek facilities have any impact on the Staff's estimate of the cost to GMO (Aquila) of additional combustion turbines capable of generating about 210 megawatts?

A. No. Staff's estimate did not change as result of this sale transaction. But the sale price on a cost per kilowatt identified above supports the conservative nature of Staff's installed kilowatt costs identified in Mr. Hyneman's section of the cost of service report. The installed cost for South Harper Prudent Turbines 4 and 5 of $304 per kilowatt is significantly

higher than the final selling price of $205 per kilowatt costs for the Raccoon Creek and Goose Creek facilities.

Initially, in a previous case, Staff relied on the Aquila offer made to AmerenUE for Raccoon Creek and Goose Creek facilities as a conservative estimate for South Harper Prudent Turbines 4 and 5 costs. Since the final price for these units were not finalized at the time of the direct filing in the 2005 case, Staff used a $275 kilowatt amount for 210,000 kilowatts compared to the ** _____ ** per kilowatt offer price. In GMO's last rate case, Staff made an additional conservative approach to the nature to the costs for South Harper Prudent Turbines 4 and 5 by identifying the costs of the turbines and construction costs which resulted in even higher costs of $304 per kilowatt. At the same time the final costs for the Raccoon Creek and Goose Creek facilities decreased to $205 per kilowatt, resulting in almost a $100 per kilowatt higher amount for the two additional combustion turbines referred to as South Harper Prudent Turbines 4 and 5.

Q. Are the Raccoon Creek and Goose Creek installed costs paid by AmerenUE lower than the installed costs of Crossroads?

A. The installed costs of Crossroads is ** _____ ** per kilowatt while the Raccoon Creek and Goose Creek installed cost is $205 per kilowatt.

Q. Have there been other generating facilities sold recently?

A. Yes. On January 10, 2007, it was announced that Public Service Enterprise Group sold to American Electric Power, a relatively new natural gas-fired 1,096 megawatt combined cycle power plant located in Lawrenceburg, Indiana. The selling price was $325 million resulting in a $296.53 per kilowatt value, lower than the South Harper installed

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costs of $454.17 per kilowatt and the South Harper Prudent Turbines 4 and 5 installed costs of $304.12 per kilowatt.

On January 16, 2007, it was announced by independent generator Mirant Corporation that it was selling to LS Power six natural gas-fired plants, with total capacity of 3,619 megawatts for $1.407 billion resulting in a cost of $388.78 per kilowatt. These plants, the 903 megawatt Zeeland plant in Michigan, the 613 megawatt West Georgia plant in Georgia, the 469 megawatt Shady Hills plant in Florida, the 561 megawatt Sugar Creek and the 546 megawatt Bosque plants in Indiana and the 527 megawatt Apex plant in Nevada, all were included in the $1.407 price paid to Mirant.

ROLLS-ROYCE POWER VENTURES OFFER

Q. Is the Staff aware of any other offers for sale of combustion turbines involving GMO (Aquila)?

A. Yes. During the audit in Case No. EO-2005-0156, GMO (Aquila) provided supporting information on the appraisals per the South Harper valuation issue (Data Request No. 5 in Case No. EO-2005-0156). In material supplied by GMO (Aquila), the Staff learned that on September 23, 2004, Rolls-Royce Power Ventures (Rolls-Royce) offered to sell GMO (Aquila) two new Siemens 501D5A natural gas-fired turbines that were manufactured in 2001 and placed in storage in Houston and Germany. Both units were offered for $43 million, or $21.5 million each. This initial price was less than the South Harper turbines 1, 2, and 4 but, for comparison purposes, several adjustments to the price needed to be added, such as transportation costs and Siemens Technical Field Assistance. Also, the warranty had expired similar to the South Harper turbines 1, 2, and 3 and it was estimated that would increase both unit costs by total of $2.240 million, the same as the warranty

estimate for the South Harper turbines—GMO (Aquila) ultimately opted not to re-purchase the warranty from Siemens for the South Harper turbines. Another major expense would be converting the combustion system for approximating $5 million. Adding all the costs to the initial offer of $43 million did not make these units attractive to GMO (Aquila).

But it is noteworthy that while the Rolls-Royce offer was high in relation to the other turbine information Staff reviewed, it does represent the only tangible evidence that GMO (Aquila) had regarding its review of the actual turbine market for its regulated operations. No other information has been brought to Staff's attention that would indicate that (Aquila) actually pursued the acquisition of turbines for either of its MPS or L&P divisions with the exception of South Harper during the 2003 and 2005 time frame.

OTHER UTILITY OFFERS

Q. Does Staff have experience with equipment supply agreements in the course of performing its duties for the Commission?

A. Yes. Over the course of many years Staff has seen numerous contracts for actual purchases of equipment. Staff has seen numerous bids or quotes for proposed purchases of equipment. Without detailing the specifics, turbine costs have generally declined during the period from early in the decade to the period of 2004 and 2005, at time when GMO (Aquila) should have made the decision to install additional capacity over the levels it did at South Harper. Now the turbine prices have gone back up. GMO is using the higher priced turbines to justify its decision to rely on Crossroads-- a plant that has overstated turbine costs, has high transmission costs and is located in Mississippi that has higher natural gas costs. Turbine prices started to increase as the turbine market stabilizes from the fallout of the collapse of the merchant market.

Q. Has Staff reviewed bids and offers for generating equipment?

A. Yes. At various times, in rate cases, construction audits, development of regulatory plans or as part of the Commission's Chapter 22 resource planning process, Staff has had opportunities to review request for proposals, offers and bids for generating equipment, including turbine offers.

While this information on other utilities is confidential, the offers we have seen over the past several years substantiate the general decline in the turbine market during the time GMO (Aquila) needed to make decision to replace the Aries purchased power agreement . Specifically, during the time frame of 2003 and 2004, there was very attractive pricing for turbine equipment. Other companies benefited from this "buyers'" market, but GMO (Aquila) chose not to make the proper decisions to meet its capacity needs. Consequently, GMO was faced with need for capacity in 2008 and made decision to use a generating station located in Mississippi that is poorly situated to meet system load requirements in its service territory—Crossroads is the wrong plant, located at the wrong place and was placed into service for MPS at the wrong time.

COMBUSTION TURBINES HAVE EXPERIENCED A SIGNIFICANT DECLINE IN VALUES

Q. When did Aquila Merchant and Siemens negotiate for the three combustion turbines that Aquila installed at South Harper?

A. In late 2000 throughout summer 2001. The turbine contract between Siemens and Aquila Merchant was signed September 2001 for an in service date of June 2003. Aquila Merchant planned to have a purchased power agreement with MPS for 15 years starting in June 2005.

Q. Was the combustion turbine market different in 2000 and 2001 than in 2003 and 2004 when (GMO) Aquila should have been planning for replacement of the power it was taking under the Aries purchased power agreement for capacity?

A. Yes. In 2000 and 2001, when Aquila Merchant negotiated to buy South Harper turbines 1, 2, and 3, the power equipment industry was experiencing a sellers' market. Purchasers were paying premiums to reserve manufacturer's slots to place orders and negotiate contract terms. During an interview David Kreimer, GMO's (Aquila) former Director of Engineering, indicated "that during the time Aquila Merchant was negotiating with Siemens for the three combustion turbines it was a brutal sellers market for all forms of generation." He stated "that it was the most brutal sellers' [market] that he experienced in the 30 years that he had been working in the industry at the time of the negotiations and when Aquila Merchant entered into the agreement to purchase these combustion turbines." Mr. Kreimer stated that "the sellers' market peaked around August 2002 and pricing for the large F frame machines began to decline quickly….the sellers' market for the larger [Siemens] F model combustion turbines started losing value first before the values for the smaller Siemens 501D5a's and General Electric 7EA combustion turbine[s] started to decline—the smaller combustion turbine's market value lasted longer" [Source: Data Request No. 56.1 in Case No. EO-2005-0156, April 29, 2005 Kreimer interview].

Q. What is the size of the l F frame combustion turbines that Mr. Kreimer referred to in his interview?

A. The F frame units are Siemens 501FD combustion turbines and are the range of 150 to 160 megawatts in size. The Aries Combined Cycle Unit has two F frame combustion turbines. The Siemens 501D5A combustion turbines GMO (Aquila) installed at

the South Harper Facility are 105 megawatts and the smaller General Electric 7EA combustion turbines are the units installed at Crossroads, Raccoon Creek and Goose Creek. These are nominally rated at 75 to 80 megawatts. [Source: Data Request No. 56.1, April 29, 2005 Kreimer interview]

Q. Was Mr. Kreimer involved in Aquila Merchant's purchase of the three Siemens turbines from Siemens Westinghouse?

A. Yes. When GMO (Aquila) negotiated for and bought these units, Mr. Kreimer was employed by Aquila Merchant. He was directly involved in the discussions between Siemens Westinghouse and GMO (Aquila) regarding these combustion turbines. Mr. Kreimer also was involved in the negotiations of a 1999 contract to purchase two Siemens 501F EconoPacs installed at the Aries facility near Mount Pleasant, Missouri to create the combined-cycle unit.

Q. Why is the nature of the combustion turbine market that was occurring in 2000 and 2001, described as a brutal sellers' market, important now?

A. Combustion turbine prices declined after the 2001-2002 timeframe ending the sellers' market in this country. The power equipment market was substantially impacted as result of the collapse of the merchant power market and the utility industry's building of natural gas-fired generation.

During this sellers' market is when the Crossroads units were originally purchased by Aquila Merchant. The values that GMO is requesting to be included in rate base in this case are the book values of the original purchased price made in the very high sellers' turbine market. Therefore, the GMO recommended rate base amount in this case is higher than it

should be if GMO (Aquila) would have purchased the Aries replacement power at the time when the turbine market collapsed during the 2003 and 2004 time period.

TRANSMISSION COSTS FOR SOUTH HARPER PRUDENT TURBINES 4 AND 5

Q. What are the costs for transmission plant for South Harper Prudent Turbines 4 and 5?

A. GMO (Aquila) estimated $2.1 million for transmission upgrades for South Harper Prudent Turbines 4 and 5. This estimate was made in a March 5, 2002 presentation for the original Aries II project. This presentation was made by the Capital Deployment Group of Aquila Merchant—the operating company of the former Aquila who had responsibility for the merchant plants (see Schedule 3-13—Data Request 58 in Case No. EO-2005-0156). This group was looking at the installation costs for the addition of three combustion turbines at the Aries site—now called Dogwood. The combustion turbines were planned as an expansion to this site which already had Aries combined cycle unit in operation.

Q. How many turbines were planned for Aries II?

A. Originally the Aries site was to have three combustion turbines added with combined 310 megawatts of capacity. These units were not installed at Aries but instead installed at South Harper in 2005. Staff used the Aries II projected costs for the upgrades to transmission facilities for the planned expansion at Aries as an estimate of the transmission upgrades needed for South Harper Prudent Turbines 4 and 5. While the $2.1 million transmission cost upgrades were for three combustion turbines, Staff is using this estimate for only two combustion turbines.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service	)))))	File No. ER-2010-0356

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 60 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Cary G. Featherstone

Subscribed and sworn to before me this 17th day of November, 2010.

Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1980	ER-80-53	St. Joseph Light & Power Company (electric rate increase)	Direct	Stipulated
1980	OR-80-54	St. Joseph Light & Power Company (transit rate increase)	Direct	Stipulated
1980	HR-80-55	St. Joseph Light & Power Company (industrial steam rate increase)	Direct	Stipulated
1980	GR-80-173	The Gas Service Company (natural gas rate increase)	Direct	Stipulated
1980	GR-80-249 Coordinated	Rich Hill-Hume Gas Company (natural gas rate increase)	No Testimony filed-revenues & rate base	Stipulated
1980	TR-80-235	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress Rebuttal	Contested
1981	ER-81-42	Kansas City Power & Light Company (electric rate increase)	Direct-payroll & payroll related benefits; cash working capital Rebuttal	Contested
1981	TR-81-208	Southwestern Bell Telephone Company (telephone rate increase)	Direct-cash working capital; construction work in progress; income taxes-flow-through Rebuttal Surrebuttal	Contested
1981	TR-81-302	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress	Stipulated
1981	TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct- construction work in progress	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1982	ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating rate increase)	Direct- fuel & purchased power; fuel inventories Rebuttal Surrebuttal	Contested
1982	TR-82-199	Southwestern Bell Telephone Company (telephone rate increase)	Direct- revenues & directory advertising	Contested
1983	EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	ER-83-49	Kansas City Power & Light Company (electric rate increase)	Direct- fuel & fuel inventories Rebuttal Surrebuttal	Contested
1983	TR-83-253	Southwestern Bell Telephone Company (telephone rate increase - ATT Divesture Case)	Direct- revenues & directory advertising	Contested
1984	EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1985	ER-85-128 and EO-85-185 Coordinated	Kansas City Power & Light Company (electric rate increase- Wolf Creek Nuclear Generating Unit Case)	Direct- fuel inventories; coordinated construction audit	Contested
1987	HO-86-139 Coordinated	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility and rate increase)	Direct- policy testimony on abandonment of steam service Rebuttal Surrebuttal	Contested
1988	TC-89-14 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Surrebuttal	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1989	TR-89-182 and TC-90-75	GTE North, Incorporated (telephone rate increase)	Direct- directory advertising Rebuttal Surrebuttal	Contested Decided Feb 9, 1990
1990	GR-90-50 Coordinated	Kansas Power & Light - Gas Service Division (natural gas rate increase)	Direct- prudency review of natural gas explosions	Stipulated
1990	ER-90-101 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric rate increase- Sibley Generating Station Life Extension Case)	Direct- Corporate Costs and Merger & Acquisition Costs Surrebuttal	Contested
1990	GR-90-198 Coordinated	UtiliCorp United, Inc., Missouri Public Service Division (natural gas rate increase)	Direct- Corporate Costs and Merger & Acquisition Costs	Stipulated
1990	GR-90-152	Associated Natural Gas Company (natural gas rate increase)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1991	EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested
1991	EO-91-358 and EO-91-360 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal- plant construction cost deferral recovery; purchased power cost recovery deferral	Contested
1991	GO-91-359 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (natural gas-- accounting authority order)	Memorandum Recommendation- Service Line Replacement Program cost recovery deferral	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1993	TC-93-224 and TO-93-192 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Rebuttal Surrebuttal	Contested
1993	TR-93-181	United Telephone Company of Missouri (telephone rate increase)	Direct- directory advertising Surrebuttal	Contested
1993	GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated
1994	GM-94-252 Coordinated	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal- acquisition of assets case	Contested
1994	GA-94-325 Coordinated	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1995	GR-95-160 Coordinated	United Cities Gas Company (natural gas rate increase)	Direct- affiliated transactions; plant	Contested
1995	ER-95-279 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel & purchased power; fuel inventories	Stipulated
1996	GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1996	EM-96-149 Coordinated	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1996	GR-96-285 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Direct- merger savings recovery; property taxes Rebuttal Surrebuttal	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1996	ER-97-82	Empire District Electric Company (electric-- interim rate increase case)	Rebuttal- fuel & purchased power	Contested
1997	GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric rate complaint case)	Direct- - fuel & purchased power; fuel inventories Verified Statement	Contested Commissio n Denied Motion
1997	ER-97-394 and EC-98-126 Coordinated	UtiliCorp United Inc./Missouri Public Service (electric rate increase and rate complaint case)	Direct- fuel & purchased power; fuel inventories; re-organizational costs Rebuttal Surrebuttal	Contested
1997	EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal- plant assets & purchased power agreements	Withdrawn
1998	GR-98-140 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Testimony in Support of Stipulation And Agreement	Contested
1999	EM-97-515 Coordinated	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated (Merger eventually terminated)
2000	EM-2000-292 Coordinated	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger closed)

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2000	EM-2000-369 Coordinated	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger eventually terminated)
2001	ER-2001-299 Coordinated	Empire District Electric Company (electric rate increase)	Direct- income taxes; cost of removal; plant construction costs; fuel- interim energy charge Surrebuttal True-Up Direct	Contested
2001	ER-2001-672 and EC-2002-265 Coordinated	UtiliCorp United Inc./Missouri Public Service Company (electric rate increase)	Verified Statement Direct- capacity purchased power agreement; plant recovery Rebuttal Surrebuttal	Stipulated
2002	ER-2002-424 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel-interim energy charge Surrebuttal	Stipulated
2003	ER-2004-0034 and HR-2004-0024 (Consolidated) Coordinated	Aquila, Inc., (formerly UtiliCorp United Inc) d/b/a Aquila Networks-MPS and Aquila Networks-L&P (electric & industrial steam rate increases)	Direct- acquisition adjustment; merger savings tracking Rebuttal Surrebuttal	Stipulated
2004	GR-2004-0072 Coordinated	Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P (natural gas rate increase)	Direct- acquisition adjustment; merger savings tracking Rebuttal	Stipulated
2005	HC-2005-0331 Coordinated	Trigen Kansas City Energy [Jackson County Complaint relocation of plant for Sprint Arena] (steam complaint case)	Cross examination- relocation of plant assets	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2005	EO-2005-0156 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS (electric- South Harper Generating Station asset valuation case)	Rebuttal- plant valuation Surrebuttal	Stipulated
2005	ER-2005-0436 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct- interim energy charge; fuel; plant construction; capacity planning Rebuttal Surrebuttal	Stipulated
2005	HR-2005-0450 Coordinated	Aquila, Inc., d/b/a Aquila Networks- L&P (industrial steam rate increase)	Direct	Stipulated
2006	ER-2006-0314 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct-construction audits Rebuttal- allocations Surrebuttal- allocations	Contested
2006	WR-2006-0425 Coordinated	Algonquin Water Resources (water & sewer rate increases)	Rebuttal- unrecorded plant; contributions in aid of construction Surrebuttal unrecorded plant; contributions in aid of construction	Contested
2007	ER-2007-0004 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct-fuel clause, fuel, capacity planning Rebuttal Surrebuttal	Contested
2007	HO-2007-0419 Coordinated	Trigen Kansas City Energy [sale of coal purchase contract] (steam)	Recommendation Memorandum	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2007	HR-2007-0028, HR-2007-0399 and HR-2008-0340 HC-2010-0235	Aquila, Inc., d/b/a Aquila Networks- L&P [Industrial Steam Fuel Clause Review] (industrial steam fuel clause review)		Pending
2008	HR-2008-0300 Coordinated	Trigen Kansas City Energy (steam rate increase)	Direct - sponsor Utility Services portion of the Cost of Service Report, overview of rate case, plant review and plant additions, fuel and income taxes	Stipulated
2009	ER-2009-0089 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report, Additional Amortizations and Iatan 1 construction Rebuttal- allocations Surrebuttal- allocations	Stipulated
2009	ER-2009-0090 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal- capacity planning	Stipulated
2009	HR-2009-0092 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (industrial steam rate increase)	Direct- sponsor Utility Services Cost of Service Report	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2010	SR-2010-0110 and WR-2010-0111 Coordinated	Lake Region Water and Sewer Company (water & sewer rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal True-up Direct Reports to Commission	Contested
2010	ER-2010-0355 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report	Pending

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

CASES SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
1986	TR-86-14 Coordinated	ALLTEL Missouri, Inc. (telephone rate increase)		Stipulated
1986	TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	TR-86-63 Coordinated	Webster County Telephone Company (telephone rate increase)		Stipulated
1986	GR-86-76 Coordinated	KPL-Gas Service Company (natural gas rate increase)		Withdrawn
1986	TR-86-117 Coordinated	United Telephone Company of Missouri (telephone rate increase)	Withdrawn prior to filing	Withdrawn
1988	GR-88-115 Coordinated	St. Joseph Light & Power Company (natural gas rate increase)	Deposition	Stipulated
1988	HR-88-116	St. Joseph Light & Power Company (industrial steam rate increase)	Deposition	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

CASES SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
1994	ER-94-194	Empire District Electric Company (electric rate increase)		
2003	QW-2003-016 QS-2003-015	Tandy County (water & sewer informal rate increase)	Recommendation Memorandum	Stipulated
2004	HM-2004-0618 Coordinated	Trigen- Kansas City Energy purchase by Thermal North America (steam - sale of assets)		Stipulated
2005	GM-2005-0136 Coordinated	Partnership interest of DTE Enterprises, Inc. and DTE Ozark, Inc in Southern Gas Company purchase by Sendero SMGC LP (natural gas -- sale of assets)	Recommendation Memorandum	Stipulated
2005	Case No. WO-2005-0206 Coordinated	Silverleaf sale to Algonquin (water & sewer- sale of assets)		Stipulated
2006	WR-2006-0250	Hickory Hills (water & sewer- informal rate increase)	Recommendation Memorandum	Contested
2006	HA-2006-0294 Coordinated	Trigen Kansas City Energy (steam- expansion of service area)	Recommendation Memorandum & Testimony	Contested
2007	SR-2008-0080 QS-2007-0008	Timber Creek (sewer- informal rate increase)	Recommendation Memorandum	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

CASES SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
2008	QW-2008-0003	Spokane Highlands Water Company (water- informal rate increase)	Recommendation Memorandum	Stipulated
2009	WR-2010-0139 SR-2010-0140	Valley Woods Water Company	Recommendation Memorandum	Stipulated
2009	EO-2010-0060	KCPL Greater Missouri Operations— Blue Springs service center sale	Recommendation Memorandum	withdrawn
2010	EO-2010-0211	KCPL Greater Missouri Operations— Liberty service center sale	Recommendation Memorandum	Stipulated
2010	WR-2010-0202	Stockton Water Company	Recommendation Memorandum	Stipulated
2010	SA-2010-0219	Canyon Treatment Company Certificate	Recommendation Case Memorandum	Pending
2010	SR-2010-0320	Timber Creek Sewer Company	Testimony	Pending

AQUILA, INC.
AQUILA NETWORKS-MPS-INVESTOR (ELECTRIC)
CASE NO. EO-2005-0156
MISSOURI PUBLIC SERVICE COMMISSION
DATA REQUEST NO. MPSC-5

DATE OF REQUEST:	December 10, 2004
DATE RECEIVED:	December 10, 2004
DATE DUE:	December 29, 2004
REQUESTOR:	Phil Williams
BRIEF DISCRIPTION:	Please provide all appraisals of the plant site and the value of the combustion turbines.

QUESTION:

Please provide all workpapers that support the appraisals of the plant site and the value of the combustion turbines to be sold and then be leased back for the proposed plant at Peculiar, Missouri.

RESPONSE: See files on attached CD

ATTACHMENT: CD with 17 files

ANSWERED BY: Robert Brune

_____
SIGNATURE OF RESPONDENT

DATE: _____

SCHEDULE 4-1

SCHEDULE 2-1

Aquila CT Appraisal - Pricing Summary

Client No. 010144
W/O No. 02-01362-01000
Date 11/19/2004

	Original Cost	Replacement Cost	Aquila offer to sell to KCPL	Rolls Royce offer to sell to Aquila	SWPC offer to sell grey unit to Aquila	Penn Energy Internet offer 1	Penn Energy Internet offer 2	Utility Warehouse Internet offer
CT								
qty	3	1	3	2	1	1	1	1
Cost	$76,137,869	$24,500,000	$69,000,000	$43,000,000	$19,000,000	$26,000,000	$33,000,000	$15,000,000
Adjustments								
Option Payment	($3,712,500)							
CO No. 1 (Exhaust Stacks)		($1,849,200)		($1,849,200)	($1,849,200)	($1,849,200)	($1,849,200)	
CO No. 1 (Other)								
Warranty	($2,240,000)	($2,240,000)	($2,240,000)		($2,240,000)			
Guarantees								
Prod Mods	($300,000)							
Rehabilitation	($600,000)							
TFA				$2,350,000	$2,350,000			$2,350,000
Mult Unit Purchase		($1,000,000)						
Change to DLN				$5,000,000	$5,000,000			$5,000,000
Transportation				$1,200,000	$1,200,000	$1,200,000	$1,200,000	$1,200,000
Internal Labor	($39,399)							
Total Adjustments	($6,891,899)	($5,089,200)	($2,240,000)	$6,700,800	$4,460,800	($649,200)	($649,200)	$8,550,000
CT Subtotal*	$69,245,970	$68,410,800	$66,760,000	$71,200,800	$61,460,800	$77,350,800	$98,350,800	$53,550,000
* adjusted for three units								
Transformers & Breakers								
Transformers								
qty	6	6		6	6	6	6	6
Cost	$1,686,150	$1,686,150		$1,686,150	$1,686,150	$1,686,150	$1,686,150	$1,686,150
Adjustments								
Storage	($15,500)	($15,500)		($15,500)	($15,500)	($15,500)	($15,500)	($15,500)
Retesting	($28,305)	($28,305)		($28,305)	($28,305)	($28,305)	($28,305)	($28,305)
Additional Retainage	($1,045)	($1,045)		($1,045)	($1,045)	($1,045)	($1,045)	($1,045)
Transformer Subtotal	$1,641,300	$1,641,300		$1,641,300	$1,641,300	$1,641,300	$1,641,300	$1,641,300
Breakers								
qty	3	3		3	3	3	3	3
Cost	$765,570	$765,570		$765,570	$765,570	$765,570	$765,570	$765,570
Adjustments								
Bond	($7,500)	($7,500)		($7,500)	($7,500)	($7,500)	($7,500)	($7,500)
Storage	($13,320)	($13,320)		($13,320)	($13,320)	($13,320)	($13,320)	($13,320)
Breakers Subtotal	$744,750	$744,750		$744,750	$744,750	$744,750	$744,750	$744,750
Procurement								
Cost	$126,644	$126,644		$126,644	$126,644	$126,644	$126,644	$126,644
Adjustment								
B&M Services	($126,644)	($126,644)		($126,644)	($126,644)	($126,644)	($126,644)	($126,644)
Procurement Subtotal	$0	$0		$0	$0	$0	$0	$0
$2,576,364								
Transformers & Breakers Subtotal	$2,386,050	$2,386,050		$2,386,050	$2,386,050	$2,386,050	$2,386,050	$2,386,050
Total	$71,632,020	$70,796,850	$66,760,000	$73,586,850	$63,846,850	$79,736,850	$100,736,850	$55,936,050

SCHEDULE 2-2

SCHEDULE 4-2

SCHEDULE 4-2

SCHEDULE 2-2

SCHEDULE 3

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY