

Exhibit No.:
Issue: Revenue Requirement
Witness: Michael P. Gorman
Type of Exhibit: Surrebuttal Testimony
Sponsoring Parties: Missouri Industrial Energy Consumers and
Midwest Energy Consumers' Group
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

Filed
June 30, 2015
Data Center
Missouri Public
Service Commission

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

_____)
In the Matter of Kansas City Power &)
Light Company's Request for Authority to)
Implement A General Rate Increase for) Case No. ER-2014-0370
Electric Service)
_____)

Surrebuttal Testimony and Schedule of

Michael P. Gorman

On behalf of

**Missouri Industrial Energy Consumers
and
Midwest Energy Consumers' Group**

June 5, 2015



Project 10005

MIEC
MECG Exhibit No. 552
Date 6.15.15 Reporter AT
File No. ER.2014.0370

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

**In the Matter of Kansas City Power &
Light Company's Request for Authority to
Implement A General Rate Increase for
Electric Service**

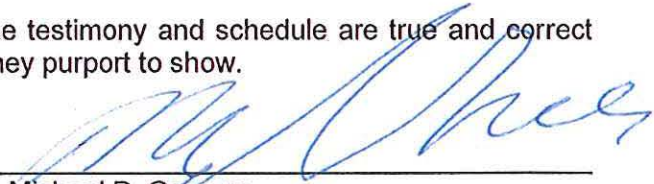
Case No. ER-2014-0370

STATE OF MISSOURI)
) **SS**
COUNTY OF ST. LOUIS)

Affidavit of Michael P. Gorman

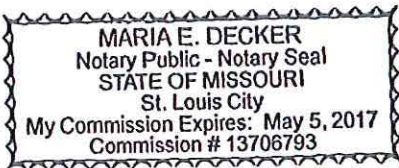
Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers and Midwest Energy Consumers' Group in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes are my surrebuttal testimony and schedule which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0370.
3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.



Michael P. Gorman

Subscribed and sworn to before me this 4th day of June, 2015.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power &
Light Company's Request for Authority to
Implement A General Rate Increase for
Electric Service

)
)
) **Case No. ER-2014-0370**
)
)
)

Surrebuttal Testimony of Michael P. Gorman

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 Q WHAT IS YOUR OCCUPATION?

5 A I am a consultant in the field of public utility regulation and a Managing Principal of
6 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

7 Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED
8 TESTIMONY IN THIS PROCEEDING?

9 A Yes. On April 2, 2015, I filed direct testimony and on May 7, 2015 I filed rebuttal
10 testimony on behalf of Missouri Industrial Energy Consumers ("MIEC") and Midwest
11 Energy Consumers' Group ("MECG").

12 Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A My surrebuttal testimony will respond to the rebuttal testimony of Kansas City Power
14 & Light Company ("KCPL" or "Company) witness Robert Hevert.

Michael P. Gorman
Page 1

1 Q DID KCPL WITNESS MR. HEVERT SUMMARIZE THE RECOMMENDATIONS OF
2 THE OTHER RATE OF RETURN WITNESSES?

3 A Yes. At pages 3, 4 and 5 of his rebuttal testimony, he concludes that taken as a
4 group the opposing witnesses' return on equity recommendations are far below any
5 objective measure of the Company's cost of equity. He states the recommendations
6 cannot be supported by reasonable application of financial models, nor can they be
7 justified by current or expected market conditions. He concludes that the opposing
8 witnesses' return on equity recommendations are outliers, that would only serve to
9 increase the Company's regulatory and financial risks, and diminish its ability to
10 compete for capital and have a counterproductive effect of increasing KCPL's overall
11 cost of capital to the detriment of customers.

12 Q PLEASE RESPOND TO MR. HEVERT'S COMMENTS REGARDING THE
13 RECOMMENDED RETURNS ON EQUITY OFFERED BY OPPOSING RETURN ON
14 EQUITY WITNESSES.

15 A Mr. Hevert's assertions concerning the opposing witnesses' returns on equity are
16 based on erroneous factual findings and are meritless. The opposing witnesses'
17 recommendations are reasonable and an accurate estimate of the current market
18 cost of capital for KCPL. The opposing witnesses rely on verifiable and independent
19 market data and accepted market-based rate of return models, to produce a fair
20 return for KCPL. Mr. Hevert's assertions are a desperate attempt to support his
21 proposal to unjustly award KCPL an above market return on equity.

22 Indeed, all return on equity witnesses' methodologies in this case, including
23 Mr. Hevert's when corrected, prove that KCPL's current market cost of equity is 9.5%
24 or less. Mr. Hevert's analyses and recommendations are simply based on inflated

Michael P. Gorman
Page 2

1 data and artificially adjusted models – his results are not reliable. Mr. Hevert's
2 recommendation of a return on equity of 10.00% to 10.60%, with a point estimate of
3 10.30%¹ is substantially higher than KCPL's current market cost of equity, and is not
4 just and reasonable.

5 **Q DID MR. HEVERT SUGGEST THAT THE OPPOSING WITNESSES' RETURN ON**
6 **EQUITY RECOMMENDATIONS WERE UNREASONABLE BECAUSE OF A**
7 **COMPARISON TO INDUSTRY AUTHORIZED RETURNS ON EQUITY?**

8 **A** Yes. However, Mr. Hevert's comparison to industry authorized returns on equity does
9 not support his conclusions that the opposing witnesses' return on equity findings are
10 outliers or are not based on reasonable application of financial models. This is true
11 for several reasons. First, as shown on my Schedule MPG-11 (filed with my direct
12 testimony), the industry authorized return on equity has been steadily declining over
13 the last several years. Second, as shown on my attached Schedule MPG-SR-1,
14 comparing the industry authorized returns on equity shows a continuing decline of the
15 authorized returns on equity. This information also shows that in calendar year 2014,
16 the industry authorized return on equity for fully litigated cases was 9.63%. In the first
17 quarter in 2015, the industry authorized return on equity for fully litigated cases was
18 9.57%.

19 While commissions have not adjusted authorized returns on equity down to
20 the levels indicated fair and reasonable by market-based models, they clearly are
21 reducing authorized returns on equity to follow the significant decline in capital market
22 costs. Hence, Mr. Hevert's suggestion that the opposing witnesses' return on equity
23 recommendations are deficient is a meritless argument. While commissions

¹Hevert Rebuttal Testimony at 2.

1 generally do adjust authorized returns on equity in a conservative manner, a
2 reasonable finding for a return on equity in this case is conservatively at 9.5% or less.
3 In contrast, Mr. Hevert's proposed return on equity of 10.30% is inflated and based on
4 flawed data and models.

5 Q AT PAGE 67 OF MR. HEVERT'S REBUTTAL TESTIMONY, HE DEVELOPS
6 WEIGHTS APPLIED TO YOUR DISCOUNTED CASH FLOW ("DCF"), CAPITAL
7 ASSET PRICING MODEL ("CAPM") AND RISK PREMIUM STUDIES TO
8 ILLUSTRATE HOW YOU ARRIVED AT YOUR 9.1% RECOMMENDED RETURN
9 ON EQUITY. PLEASE COMMENT.

10 A Mr. Hevert has simply concocted weights to produce this 9.1% return on equity. At
11 page 39 of my direct testimony, I explained how I developed my recommended
12 range. The weights Mr. Hevert alleges I used are not found anywhere in my
13 testimony. His development of weights is a self-serving and nonsensical assertion.

14 My recommended range is based on a complete assessment of all the
15 analyses in my study, a review of capital market factors including assessment of utility
16 access to capital, utility and corporate costs of capital, and the investment risks of the
17 utility industry in general and KCPL specifically. This information was used to help
18 interpret my market-based DCF and risk premium studies to support my
19 recommended return on equity range. Based on all of this input, and relying on my
20 lengthy experience and judgment, I recommend a return on equity within the range of
21 8.8% to 9.4%, with a midpoint of 9.1%. I did not in any way rely on the weights which
22 Mr. Hevert claims I relied on at page 67 of his rebuttal testimony.

Michael P. Gorman
Page 4

1 Q AT PAGES 69-71 OF HIS REBUTTAL TESTIMONY, MR. HEVERT COMPARES
2 YOUR RECOMMENDED RETURN ON EQUITY TO THE INDUSTRY AUTHORIZED
3 RETURNS ON EQUITY PUBLISHED BY REGULATORY RESEARCH
4 ASSOCIATES. HE CLAIMS THAT YOUR RECOMMENDED RETURN ON EQUITY
5 WOULD NOT BE A CONSTRUCTIVE REGULATORY OUTCOME OF THIS CASE.
6 PLEASE RESPOND.

7 A My recommended return on equity does reflect a continuation of the downward trend
8 of awarded authorized returns on equity for electric utility companies. This is
9 reasonable based on an estimate of KCPL's current market cost of capital made by
10 every return on equity model used by every witness in this proceeding, including
11 Mr. Hevert's own models when reasonable and balanced data is used in his studies.
12 As described above, regulatory commissions' authorized returns on equity have
13 declined over time, albeit at a much slower pace than the decline in actual capital
14 market costs. I believe this slower downward trend in regulatory authorized returns
15 on equity reflects the conservative nature that regulatory commissions exercise in
16 awarding a utility a rate of return by ensuring that the authorized return on equity
17 reflects capital market cost and protects the utility's financial interests and access to
18 capital.

19 In this case, the clear and persistent trend of very low capital market costs for
20 utility companies justifies a continued decline in the authorized returns on equity. As
21 Staff witness Zephania Marevangepo notes,² Ameren Missouri was recently awarded
22 a 9.53% return on equity, which is comparable to many other regulatory commission
23 awarded returns in 2014.

²Marevangepo Rebuttal Testimony at 4.

1 For these reasons, Mr. Hevert's proposal to use industry data to limit the
2 reduction in KCPL's authorized return on equity is without merit, and is not a
3 balanced method of measuring a fair and reasonable return on equity for KCPL.

4 **Q DID MR. HEVERT ALSO DO A BETA COMPARISON ANALYSIS TO SHOW THAT**
5 **YOUR 9.1% RETURN ON EQUITY IS UNREASONABLE?**

6 **A**Yes. At pages 71 and 72 of his rebuttal testimony, Mr. Hevert discusses his review of
7 calculated beta coefficients for Great Plains Energy Incorporated ("GPE") in the proxy
8 group and the S&P 500. There, he argues that GPE's market beta is higher than that
9 of the proxy group, and therefore justifies a return on equity higher than I am
10 recommending. He uses this to assert that a 9.1% return on equity is not appropriate
11 given the level of risk of GPE in relationship to other electric utility companies.

12 **Q IS MR. HEVERT'S BETA COMPARISON AN ACCURATE ASSESSMENT OF**
13 **WHETHER A 9.1% RETURN ON EQUITY IS A REASONABLE RETURN ON**
14 **EQUITY FOR KCPL?**

15 **A**No. Indeed, he failed to offer an estimate or measurement of the return on equity
16 using this piecemeal beta analysis. Rather, Mr. Hevert simply compares beta
17 coefficients and somehow comes to the unsupported conclusion that a 9.1% return
18 on equity is not reasonable. His argument is factually deficient and is a completely
19 flawed method of estimating a fair risk-adjusted rate of return.

20 An estimate of the current market cost of equity using a beta factor can be
21 made using a reasonable application of the CAPM. Using that model, and using a
22 reasonable estimate of the current market risk premium, clearly shows that my return
23 on equity range and point estimate are reasonable. Mr. Hevert's use of beta

Michael P. Gorman
Page 6

1 information to imply some unmeasured risk assessment of the electric utility industry
2 is simply a baseless and incomplete method of measuring a fair risk-adjusted return
3 on equity.

4 **Q DOES MR. HEVERT ALSO COMMENT ON YOUR CONSTANT GROWTH DCF**
5 **MODEL AND ITS USE IN ESTIMATING A RETURN ON EQUITY BASED ON YOUR**
6 **THREE DCF STUDIES?**

7 A Yes, although Mr. Hevert again applies weights that are not found in my testimony,
8 and rather are his hypothetical illustrations of the results of my studies. Again, my
9 recommended findings from each of my studies are based on the evidence I
10 presented, including my review of capital market costs, utility access to capital, equity
11 returns, utility and corporate bond yields, and other factors that are needed in order to
12 make an informed judgment of KCPL's current market cost of equity. I did not
13 condense this broad assessment into simple weights for particular rate of return
14 findings as Mr. Hevert alleges. Mr. Hevert's implication is simplistic, inexact and does
15 not accurately reflect my testimony or recommendations.

16 **Q DOES MR. HEVERT MAKE OTHER ASSERTIONS CONCERNING YOUR DCF**
17 **FINDINGS?**

18 A Yes. Mr. Hevert's criticisms of my DCF analysis also appear to rely more on the
19 outlook for growth, although he does make assertions concerning the current
20 price-to-earnings ("P/E") ratio of my proxy companies. Again, Mr. Hevert's arguments
21 and findings are factually flawed and meritless.

22 I went into a detailed review of different DCF methodologies using different
23 means of measuring outlooks for investor expected future growth, using both a

Michael P. Gorman
Page 7

1 constant growth and a non-constant growth methodology. I applied several DCF
2 studies to reflect this outlook, and considered the impact on a DCF study based on
3 the current and verifiable valuation of utility stocks. I presented each of these
4 separate DCF studies and the results, and described how I used my judgment to
5 develop what I believe to be an appropriate and verifiable DCF return estimate for
6 KCPL in the current market.

7 Mr. Hevert alleges that P/E ratios make the DCF results' reliability
8 questionable. However, this is nothing more than another opportunistic criticism of a
9 result that he simply does not like because he wants the return on equity to be higher
10 than it actually is.

11 While current P/E ratios are high compared to historical periods, current
12 valuations could be maintained with expected growth in earnings and continued
13 valuation metrics that could collapse to more historical normal levels going forward.
14 Nevertheless, the current high P/E ratio is an illustration of the high prices utility
15 stocks are selling for, which is a strong indication that utilities' current market cost of
16 equity is very low today relative to the historical averages implied by the historical P/E
17 ratios.

18 **Q DOES MR. HEVERT ALSO TAKE ISSUE WITH YOUR CAPM?**

19 **A** Yes. He takes issue with the market risk premium used in the model. He states that
20 the market risk premium I used implies a return on the market of 9.90% to 11.30% (at
21 page 77). There, to review the reasonableness, he produces rolling 50-year average
22 annual market return estimates over the period 1926-2013. He states the arithmetic
23 average over this period was 12.10%, and the 50-year rolling averages over this time
24 period have been consistently around 12.00% (at pages 77-78). Using this data, he

Michael P. Gorman
Page 8

1 concludes that the market returns used to produce the market risk premium in my
2 CAPM study are too low.

3 **Q PLEASE COMMENT ON MR. HEVERT'S CRITICISMS OF YOUR CAPM STUDY.**

4 A As with most of his rebuttal testimony, Mr. Hevert simply relies on historical market
5 capital costs, rather than current market capital costs in order to support his
6 recommended return on equity for KCPL. I do not dispute his 50-year rolling
7 averages or that the market return has been around 12.00% historically. However,
8 market capital costs going forward will be lower than they have been over this
9 historical period because inflation outlooks are much lower.

10 Indeed, a factor Mr. Hevert failed to consider is over the period 1926-2013
11 historical inflation has been around 3%.³ Prospectively, the market inflation outlook is
12 expected to be 2.1% to 2.4%. (See my rebuttal testimony at 13, Table 2). Hence,
13 simply reflecting a reduced level of inflation going forward, and the historical market
14 return of 12%, on a real growth basis would remain at 11.1% to 11.6% prospectively.
15 Based on my study of applying 25% to the low-end market return estimate of 9.9%,
16 and 75% to my high-end market return estimate of 11.3% produces a forward-looking
17 expected return on the market of about 11.0%, which is in line with the historic market
18 returns but adjusted to reflect forward-looking expectations relative to historical
19 inflation. When current market capital costs and inflation outlooks are considered in
20 relationship to historical data, the market return estimate underlying my CAPM return
21 estimate is shown to be reasonable. In contrast, Mr. Hevert's strict reliance on
22 historical data and complete disregard of current changes in capital market costs, are

³2015 Ibbotson SBBi Yearbook at 91.

1 clear indications of why his recommended return on equity for KCPL is excessive in
2 today's very low capital market cost environment.

3 Further, as I discuss at pages 17-18 of my rebuttal testimony, all this historical
4 data illustrates that Mr. Hevert's market return estimates of 13.71% and 13.40% are
5 inflated. Importantly, the historical data Mr. Hevert relies on to suggest my returns
6 are too low, clearly illustrate that his projected market returns are far too high. The
7 deficiency in Mr. Hevert's presentation is he does not adjust historical market results
8 for differences in future inflation outlooks versus realized inflation in the past.

9 **Q DID MR. HEVERT COMMENT ON YOUR RISK PREMIUM MODEL?**

10 **A** Yes. Specifically, Mr. Hevert makes three arguments concerning the reasonableness
11 of my risk premium study. Those include:

- 12 1. I ignored an important relationship recognized by the Missouri Commission and
13 revealed by the data that risk premiums move inversely with the level of interest
14 rates.
- 15 2. The low-end of my risk premium estimates is far lower than any return on equity
16 authorized since 1986.
- 17 3. I suggested that a market-to-book ratio of 1.00 is a relevant benchmark for
18 assessing an authorized return on equity.

19 For the reasons discussed below, each of these arguments is either a false
20 assertion or misrepresents my testimony. First, I did respond to the notion of an
21 inverse relationship between interest rates and equity risk premiums in my rebuttal
22 testimony at 14-15. In that testimony, I described extensive market and academic
23 research on this very issue, that independent academic and market research found
24 that there are times inverse relationships exist between equity risk premiums and
25 interest rates, and other times there are not. However, the principle of measuring an
26 appropriate equity risk premium is based on the current market's assessment of the

Michael P. Gorman
Page 10

1 relative risk of equity investments versus bond investments. This relative risk
2 assessment can depend on current nominal interest rates, and interest rate outlooks.
3 However, this risk assessment is not based on nominal interest rate levels alone.
4 Hence, Mr. Hevert's characterization of my risk premium study is fundamentally
5 flawed and ignores accepted academic and industry research on this very issue.

6 His second argument, that my low-end risk premium estimates are too low, is
7 simply a red herring. My recommended return on equity using my risk premium study
8 was listed at page 39 of my direct testimony to be 9.4%. Indeed, my risk premium
9 study supported the high-end of my recommended range. To the extent there are
10 low-end estimates in my risk premium study, I relied on my complete analysis as well
11 as a review of industry data to make an informed judgment on what this model
12 indicated as a fair return on equity for KCPL. As such, I did not rely on the low-end
13 estimates of my risk premium estimates as disingenuously claimed by Mr. Hevert.

14 His third argument is that I suggested a market-to-book ratio of 1.00 as a
15 relevant benchmark. My recognition of the market-to-book ratio of greater than 1.00
16 was used only to identify the time period over which regulatory authorized returns on
17 equity have supported utilities' access to capital in a manner that was not detrimental
18 to existing shareholders. When a utility stock sells at a price above book value, a
19 utility can sell additional shares without diluting the value of existing shareholders'
20 stock. Hence, I identified a time period where authorized returns on equity prevailed
21 during a period where market-to-book ratios exceeded 1.00. I did not use a market-
22 to-book ratio as a target for valuation or as an input anywhere in my studies. Rather,
23 it was simply used as a gauge to identify a time period where utilities could sell stock
24 to the public without detrimentally impacting existing shareholders. Therefore,
25 Mr. Hevert's third point is misleading and does not accurately describe my testimony.

Michael P. Gorman
Page 11

1 Q AT PAGES 90 AND 91 OF HIS REBUTTAL TESTIMONY, MR. HEVERT TAKES
2 ISSUE WITH YOUR RECOMMENDATION TO ADJUST THE RETURN ON EQUITY
3 TO REFLECT IMPLEMENTATION OF NEW REGULATORY MECHANISMS THAT
4 REDUCE COST RECOVERY RISK. PLEASE COMMENT.

5 A Mr. Hevert appears to acknowledge that implementation of a Fuel Adjustment Clause
6 ("FAC") will improve the financial strength of the utility and improve its ability to fully
7 recover its cost of service. However, he seems to believe that this regulatory
8 mechanism while improving its financial strength, and mitigating cost recovery risk,
9 does not lower the utility's investment risk. If Mr. Hevert's position is correct, then one
10 can only ask what the purpose of implementing FACs or other non-traditional
11 regulatory mechanisms would be if they are not designed to reduce risk by improving
12 a utility's uncertainty of fully recovering costs.

13 Customers do not want FACs or other regulatory mechanisms that would
14 increase utility tariff price uncertainty and allow for price adjustments outside of
15 general rate cases. Hence, if these regulatory mechanisms do not mitigate cost
16 recovery risk and lower the utility's operating risk, then what is the point of the
17 regulatory mechanisms? As such, based on Mr. Hevert's assessment of approved
18 regulatory mechanisms, if they do not reduce risk and improve cost recovery
19 uncertainty, then the Commission simply should not approve them because they do
20 not produce any measurable benefit to either investors or customers.

Michael P. Gorman
Page 12

1 Q MR. HEVERT ALSO ASSERTS THAT IT IS STANDARD FOR UTILITIES TO HAVE
2 FACS AND AWARDED A NEW FAC FOR KCPL WILL NOT DISTINGUISH ITS
3 INVESTMENT RISK FROM THAT OF OTHER UTILITIES. PLEASE COMMENT.

4 A Mr. Hevert simply has not considered total investment risk in reaching this conclusion.
5 His analysis and mine identify companies that are currently reasonably comparable to
6 KCPL's current investment risk. Hence, the rate of return I measured reflects its
7 current investment risk, and Mr. Hevert should agree that his analysis does also.
8 Therefore, if regulatory mechanisms are implemented in this case which reduce
9 KCPL's prospective investment risk versus its investment risk in the past, then that
10 risk reduction should be recognized in awarding a fair risk-adjusted return on equity in
11 this proceeding.

12 If an FAC is approved by the Commission for KCPL, then this would be a
13 regulatory mechanism that would affect its market embedded risk factors, and
14 therefore return on equity adjustments in subsequent proceedings may not be
15 necessary. However, at the time an FAC is initially implemented, it will reduce
16 prospective risk, and this risk reduction should be considered in establishing a fair
17 and reasonable return on equity for KCPL at that time.

18 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

19 A Yes.

\\Doc\Shares\Pro\aw\Docs\SDW\10005\Testimony-BAI\280172.docx

Kansas City Power & Light Company

First Quarter, 2015 Electric Utility Rate Case Authorized Return on Equity

| <u>First Quarter 2015 Authorized Return on Equity¹</u> | | | | | | | <u>Fully Litigated Rate Cases²</u> | | | | | | |
|---|--|--------------------------|-------------------------|---------------------|-------------|--------------------------------|---|--|--------------------------|--------------------------|---------------------|--------------|---------------------------------|
| State (1) | Company (2) | Case Type (3) | Decision Type (4) | Return on Equity | | S&P Credit Rating (7) | State (8) | Company (9) | Case Type (10) | Decision Type (11) | Return on Equity | | S&P Credit Rating (14) |
| | | | | (%) (5) | Date (6) | | | | | | (%) (12) | Date (13) | |
| WY | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 1/23/2015 | A- | WY | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 1/23/2015 | A- |
| WV | Monongahela Power Company | Vertically Integrated | Settled | N/A | 2/4/2015 | BBB- | NJ | Jersey Central Power & Light Company | Distribution | Fully Litigated | 9.75 | 3/18/2015 | BBB- |
| CO | Public Service Company of Colorado | Vertically Integrated | Settled | 9.83 | 2/24/2015 | A- | WA | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 3/25/2015 | A- |
| SD | Black Hills Power, Inc. | Vertically Integrated | Settled | N/A | 3/2/2015 | BBB | MN | Northern States Power Company - MN | Vertically Integrated | Fully Litigated | 9.72 | 3/26/2015 | A- |
| NJ | Jersey Central Power & Light Company | Distribution | Fully Litigated | 9.75 | 3/18/2015 | BBB- | | | | | | | |
| WA | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 3/25/2015 | A- | | | | | | | |
| MN | Northern States Power Company - MN | Vertically Integrated | Fully Litigated | 9.72 | 3/26/2015 | A- | | | | | | | |
| | | | | Average: | 9.66 | A- | | | | | Average: | 9.62 | BBB+ |
| | | | | Median: | 9.72 | A- | | | | | Median: | 9.61 | A- |
| | | | | Minimum: | 9.50 | A- | | | | | Minimum: | 9.50 | BBB- |
| | | | | Maximum: | 9.83 | A- | | | | | Maximum: | 9.75 | A- |

1) Rate Cases without ROE authorization and Virginia limited issue cases for Riders are excluded.

2) Rate Cases decided by settlement have been eliminated.

Source: SNL Financial, June 2, 2015

Kansas City Power & Light Company

First Quarter, 2015 Vertically Integrated Electric Utility Rate Case Authorized Return on Equity

| <u>First Quarter 2015 Authorized Return on Equity¹</u> | | | | | | | <u>Fully Litigated Rate Cases²</u> | | | | | | |
|---|------------------------------------|-----------------------|-----------------|----------------------|-------------|-------------------|---|------------------------------------|-----------------------|-----------------|----------------------|-------------|-------------------|
| State | Company | Case Type | Decision Type | Return on Equity (%) | Date | S&P Credit Rating | State | Company | Case Type | Decision Type | Return on Equity (%) | Date | S&P Credit Rating |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| WY | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 1/23/2015 | A- | WY | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 1/23/2015 | A- |
| WV | Monongahela Power Company | Vertically Integrated | Settled | N/A | 2/4/2015 | BBB- | WA | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 3/25/2015 | A- |
| CO | Public Service Company of Colorado | Vertically Integrated | Settled | 9.83 | 2/24/2015 | A- | MN | Northern States Power Company - MN | Vertically Integrated | Fully Litigated | 9.72 | 3/26/2015 | A- |
| SD | Black Hills Power, Inc. | Vertically Integrated | Settled | N/A | 3/2/2015 | BBB | | | | | | | |
| WA | PacifiCorp | Vertically Integrated | Fully Litigated | 9.50 | 3/25/2015 | A- | | | | | | | |
| MN | Northern States Power Company - MN | Vertically Integrated | Fully Litigated | 9.72 | 3/26/2015 | A- | | | | | | | |
| | | | | Average: | 9.64 | A- | | | | | Average: | 9.57 | A- |
| | | | | Median: | 9.61 | A- | | | | | Median: | 9.50 | A- |
| | | | | Minimum: | 9.50 | A- | | | | | Minimum: | 9.50 | A- |
| | | | | Maximum: | 9.83 | A- | | | | | Maximum: | 9.72 | A- |

1) Rate Cases without ROE authorization and Virginia limited issue cases for Riders are excluded.
 2) Rate Cases decided by settlement have been eliminated.

Source: SNL Financial, June 2, 2015

Kansas City Power & Light Company

2014 Electric Utility Rate Case Authorized Return on Equity

| 2014 Authorized Return on Equity ¹ | | | | | | | Fully Litigated Rate Cases ² | | | | | | |
|---|---------------------------------|-----------------------|-------------------------|---------------------|-------------|--------------------------------|---|---------------------------------|-----------------------|--------------------------|----------------------|--------------|---------------------------------|
| State (1) | Company (2) | Case Type (3) | Decision Type (4) | Return on | | S&P Credit Rating (7) | State (8) | Company (9) | Case Type (10) | Decision Type (11) | Return on | | S&P Credit Rating (14) |
| | | | | Equity -% (5) | Date (6) | | | | | | Equity -% (12) | Date (13) | |
| NY | Consolidated Edison Co. of NY | Distribution | Settled | 9.20 | 2/20/2014 | A- | DC | Potomac Electric Power Co. | Distribution | Fully Litigated | 9.40 | 3/26/2014 | BBB+ |
| ND | Northern States Power Co. - MN | Vertically Integrated | Settled | 9.75 | 2/26/2014 | A- | NM | Southwestern Public Service Co. | Vertically Integrated | Fully Litigated | 9.96 | 3/26/2014 | A- |
| NH | Liberty Utilities Granite St | Distribution | Settled | 9.55 | 3/17/2014 | BBB | DE | Delmarva Power & Light Co. | Distribution | Fully Litigated | 9.70 | 4/2/2014 | BBB+ |
| DC | Potomac Electric Power Co. | Distribution | Fully Litigated | 9.40 | 3/26/2014 | BBB+ | MA | Fitchburg Gas & Electric Light | Distribution | Fully Litigated | 9.70 | 5/30/2014 | BBB+ |
| NM | Southwestern Public Service Co. | Vertically Integrated | Fully Litigated | 9.96 | 3/26/2014 | A- | MD | Potomac Electric Power Co. | Distribution | Fully Litigated | 9.62 | 7/2/2014 | BBB+ |
| DE | Delmarva Power & Light Co. | Distribution | Fully Litigated | 9.70 | 4/2/2014 | BBB+ | MT | NorthWestern Corp. | Limited-Issue Rider | Fully Litigated | 9.80 | 9/25/2014 | BBB |
| TX | Entergy Texas Inc. | Vertically Integrated | Settled | 9.80 | 5/16/2014 | BBB | IL | MidAmerican Energy Co. | Vertically Integrated | Fully Litigated | 9.56 | 11/6/2014 | A- |
| MA | Fitchburg Gas & Electric Light | Distribution | Fully Litigated | 9.70 | 5/30/2014 | BBB+ | WI | Wisconsin Public Service Corp. | Vertically Integrated | Fully Litigated | 10.20 | 11/6/2014 | A- |
| WI | Wisconsin Power and Light Co. | Vertically Integrated | Fully Litigated | 10.40 | 6/6/2014 | A | VA | Appalachian Power Co. | Vertically Integrated | Fully Litigated | 9.70 | 11/26/2014 | BBB |
| ME | Emera Maine | Distribution | Settled | 9.55 | 6/30/2014 | BBB+ | IL | Ameren Illinois | Distribution | Fully Litigated | 9.25 | 12/10/2014 | BBB+ |
| MD | Potomac Electric Power Co. | Distribution | Fully Litigated | 9.62 | 7/2/2014 | BBB+ | IL | Commonwealth Edison Co. | Distribution | Fully Litigated | 9.25 | 12/10/2014 | BBB |
| LA | Entergy Louisiana LLC | Vertically Integrated | Settled | 9.95 | 7/10/2014 | BBB | CT | Connecticut Light & Power Co. | Distribution | Fully Litigated | 9.17 | 12/17/2014 | A- |
| NJ | Rockland Electric Company | Distribution | Settled | 9.75 | 7/23/2014 | A- | CO | Black Hills Colorado Electric | Vertically Integrated | Fully Litigated | 9.83 | 12/18/2014 | BBB |
| ME | Central Maine Power Co. | Distribution | Settled | 9.45 | 7/29/2014 | BBB+ | | | | | | | |
| WY | Cheyenne Light Fuel Power Co. | Vertically Integrated | Settled | 9.90 | 7/31/2014 | BBB | | | | | | | |
| NJ | Atlantic City Electric Co. | Distribution | Settled | 9.75 | 8/20/2014 | BBB+ | | | | | | | |
| VT | Green Mountain Power Corp | Vertically Integrated | Settled | 9.60 | 8/25/2014 | BBB+ | | | | | | | |
| UT | PacifiCorp | Vertically Integrated | Settled | 9.80 | 8/29/2014 | A- | | | | | | | |
| FL | Florida Public Utilities Co. | Vertically Integrated | Settled | 10.25 | 9/15/2014 | N/A | | | | | | | |
| MT | NorthWestern Corp. | Limited-Issue Rider | Fully Litigated | 9.80 | 9/25/2014 | BBB | | | | | | | |
| NV | Nevada Power Co. | Vertically Integrated | Settled | 9.80 | 10/9/2014 | BBB+ | | | | | | | |
| IL | MidAmerican Energy Co. | Vertically Integrated | Fully Litigated | 9.56 | 11/6/2014 | A- | | | | | | | |
| WI | Wisconsin Public Service Corp. | Vertically Integrated | Fully Litigated | 10.20 | 11/6/2014 | A- | | | | | | | |
| WI | Wisconsin Electric Power Co. | Vertically Integrated | Fully Litigated | 10.20 | 11/14/2014 | A- | | | | | | | |
| VA | Appalachian Power Co. | Vertically Integrated | Fully Litigated | 9.70 | 11/26/2014 | BBB | | | | | | | |
| WI | Madison Gas and Electric Co. | Vertically Integrated | Fully Litigated | 10.20 | 11/26/2014 | AA- | | | | | | | |
| OR | Portland General Electric Co. | Vertically Integrated | Settled | 9.68 | 12/4/2014 | BBB | | | | | | | |
| IL | Ameren Illinois | Distribution | Fully Litigated | 9.25 | 12/10/2014 | BBB+ | | | | | | | |
| IL | Commonwealth Edison Co. | Distribution | Fully Litigated | 9.25 | 12/10/2014 | BBB | | | | | | | |
| MS | Entergy Mississippi Inc. | Vertically Integrated | Settled | 10.07 | 12/11/2014 | BBB | | | | | | | |
| WI | Northern States Power Co - WI | Vertically Integrated | Fully Litigated | 10.20 | 12/12/2014 | A- | | | | | | | |
| CT | Connecticut Light & Power Co. | Distribution | Fully Litigated | 9.17 | 12/17/2014 | A- | | | | | | | |
| CO | Black Hills Colorado Electric | Vertically Integrated | Fully Litigated | 9.83 | 12/18/2014 | BBB | | | | | | | |
| | | | Average: | 9.76 | | BBB+ | | | | Average: | 9.63 | | BBB+ |
| | | | Median: | 9.75 | | BBB+ | | | | Median: | 9.70 | | BBB+ |
| | | | Minimum: | 9.17 | | BBB | | | | Minimum: | 9.17 | | BBB |
| | | | Maximum: | 10.40 | | AA- | | | | Maximum: | 10.20 | | A- |

1) Rate Cases without ROE authorization and Virginia limited issue cases for Riders are excluded.
 2) Rate Cases decided by settlement have been eliminated, along with the following Wisconsin cases:
 • Wisconsin Power and Light Co., docket D-6680-UR-119 (Elec)
 No rate change requested, parties filed comments in support, no hearing, ROE from prior case.
 • Wisconsin Electric Power Co., docket D-05-UR-107 (WEP-Elec)
 • Madison Gas and Electric Co., docket D-3270-UR-120 (Elec)
 • Northern States Power Co - WI, docket D-4220-UR-120 (Elec)
 ROE was not contested and agreed to in settlement by the parties.

Source: SNL Financial, January 29, 2015

Kansas City Power & Light Company

2014 Vertically Integrated Electric Utility Rate Case Authorized Return on Equity

| <u>2014 Authorized Return on Equity¹</u> | | | | | | | <u>Fully Litigated Rate Cases²</u> | | | | | | |
|---|--------------------------------|-----------------------|-----------------|----------------------|--------------|-------------------|---|--------------------------------|-----------------------|-----------------|----------------------|--------------|-------------------|
| State | Company | Case Type | Decision Type | Return on Equity (%) | Date | S&P Credit Rating | State | Company | Case Type | Decision Type | Return on Equity (%) | Date | S&P Credit Rating |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) |
| ND | Northern States Power Co. - MN | Vertically Integrated | Settled | 9.75 | 2/26/2014 | A- | NM | Southwestern Public Service Co | Vertically Integrated | Fully Litigated | 9.96 | 3/26/2014 | A- |
| NM | Southwestern Public Service Co | Vertically Integrated | Fully Litigated | 9.96 | 3/26/2014 | A- | IL | MidAmerican Energy Co. | Vertically Integrated | Fully Litigated | 9.56 | 11/6/2014 | A- |
| TX | Entergy Texas Inc. | Vertically Integrated | Settled | 9.80 | 5/16/2014 | BBB | WI | Wisconsin Public Service Corp. | Vertically Integrated | Fully Litigated | 10.20 | 11/6/2014 | A- |
| WI | Wisconsin Power and Light Co | Vertically Integrated | Fully Litigated | 10.40 | 6/6/2014 | A | VA | Appalachian Power Co. | Vertically Integrated | Fully Litigated | 9.70 | 11/26/2014 | BBB |
| LA | Entergy Louisiana LLC | Vertically Integrated | Settled | 9.95 | 7/10/2014 | BBB | CO | Black Hills Colorado Electric | Vertically Integrated | Fully Litigated | 9.83 | 12/18/2014 | BBB |
| WY | Cheyenne Light Fuel Power Co. | Vertically Integrated | Settled | 9.90 | 7/31/2014 | BBB | | | | | | | |
| VT | Green Mountain Power Corp | Vertically Integrated | Settled | 9.60 | 8/25/2014 | BBB+ | | | | | | | |
| UT | PacifiCorp | Vertically Integrated | Settled | 9.80 | 8/29/2014 | A- | | | | | | | |
| FL | Florida Public Utilities Co. | Vertically Integrated | Settled | 10.25 | 9/15/2014 | N/A | | | | | | | |
| NV | Nevada Power Co. | Vertically Integrated | Settled | 9.80 | 10/9/2014 | BBB+ | | | | | | | |
| IL | MidAmerican Energy Co. | Vertically Integrated | Fully Litigated | 9.56 | 11/6/2014 | A- | | | | | | | |
| WI | Wisconsin Public Service Corp. | Vertically Integrated | Fully Litigated | 10.20 | 11/8/2014 | A- | | | | | | | |
| WI | Wisconsin Electric Power Co. | Vertically Integrated | Fully Litigated | 10.20 | 11/14/2014 | A- | | | | | | | |
| VA | Appalachian Power Co. | Vertically Integrated | Fully Litigated | 9.70 | 11/26/2014 | BBB | | | | | | | |
| WI | Madison Gas and Electric Co. | Vertically Integrated | Fully Litigated | 10.20 | 11/26/2014 | AA- | | | | | | | |
| OR | Portland General Electric Co. | Vertically Integrated | Settled | 9.66 | 12/4/2014 | BBB | | | | | | | |
| MS | Entergy Mississippi Inc. | Vertically Integrated | Settled | 10.07 | 12/11/2014 | BBB | | | | | | | |
| WI | Northern States Power Co - WI | Vertically Integrated | Fully Litigated | 10.20 | 12/12/2014 | A- | | | | | | | |
| CO | Black Hills Colorado Electric | Vertically Integrated | Fully Litigated | 9.83 | 12/18/2014 | BBB | | | | | | | |
| | | | | Average: | 9.94 | BBB+ | | | | | Average: | 9.85 | BBB+ |
| | | | | Median: | 9.90 | A- | | | | | Median: | 9.83 | A- |
| | | | | Minimum: | 9.56 | BBB | | | | | Minimum: | 9.56 | BBB |
| | | | | Maximum: | 10.40 | AA- | | | | | Maximum: | 10.20 | A- |

1) Rate Cases without ROE authorization and Virginia limited issue cases for Riders are excluded.
 2) Rate Cases decided by settlement have been eliminated, along with the following Wisconsin cases:
 • Wisconsin Power and Light Co., docket D-6680-UR-119 (Elec)
 No rate change requested, parties filed comments in support, no hearing, ROE from prior case.
 • Wisconsin Electric Power Co., docket D-05-UR-107 (WEP-Elec)
 • Madison Gas and Electric Co., docket D-3270-UR-120 (Elec)
 ROE was not contested and agreed to in settlement by the parties.

Source: SNL Financial, January 29, 2015