Exhibit No.:	
Issue:	Policy
Witness:	Chris B. Giles
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	EO-2005-0329
Date Testimony Prepared:	April 7, 2005

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2005-0329

DIRECT TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2005

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Proposed Experimental Regulatory Plan of Kansas City Power & Light Company	)))	Case No. EO-2005-0329

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of twenty-three (23) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Chris B. Giles
Chris B. Giles

Subscribed and sworn before me this 7th day of April 2005.

Carol Sivils
Notary Public

My commission expires: ______________

CAROL SIVILS NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

CAROL SIVILS
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires: June 15, 2007

DIRECT TESTIMONY

OF

CHRIS B. GILES

Case No. EO-2005-0329

Q: Please state your name and business address.

A: My name is Chris B. Giles. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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

A: I am employed by Kansas City Power & Light Company ("KCPL") as Vice President, Regulatory.

Q. What are your responsibilities?

A. My responsibilities include all aspects of regulatory activities including cost of service, rate design, revenue requirements, and tariff administration.

Q. Please describe your education, experience and employment history.

A. I graduated from the University of Missouri at Kansas City in 1974 with a B.A. in Economics and in 1981 with an M.B.A. with concentrations in accounting and quantitative analysis. I was first employed at KCPL in 1975 as an Economic Research Analyst in the Rates and Regulation Department. I held positions as supervisor and manager of various rate functions until 1988 when I was promoted to Director of Marketing. In January 1993, I returned to the rate area as Director, Regulatory Affairs. Earlier this year, I was promoted to Vice President, Regulatory.

Q. Have you previously testified in a proceeding at the Missouri Public Service Commission or before any other utility regulatory agency?

A. I have previously testified before both the Missouri Public Service Commission ("MPSC") and the Kansas Corporation Commission ("KCC") on numerous issues regarding utility rates and regulation.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the procedural history regarding the workshop proceeding EW-2004-0596, and describe the process leading to the filing of the Stipulation and Agreement in this current docket. I will also discuss the key benefits and provisions of the Stipulation and Agreement.

Q. Please provide the procedural history, leading to the filing of the Stipulation and Agreement in this docket.

A. On May 6, 2004, KCPL filed in Case No. EO-2004-0577 its Application To Establish Investigatory Docket And Workshop Process Regarding Kansas City Power & Light Company. In its Application, KCPL requested that the MPSC issue an Order (a) opening an investigatory docket regarding the future supply and pricing of the electric service provided by KCPL; and (b) authorizing the use of the MPSC's workshop process to address certain issues related to the future supply and pricing of electricity for KCPL and its customers, and any other issues impacting KCPL that may arise from discussion among the interested participants.

Q. How did the MPSC respond?

A. On May 25, 2004, the MPSC issued an Order Directing Notice And Setting Intervention Deadline in Case No. EO-2004-0577.

Q. Were applications filed for intervention by other parties?

A. Yes. The Missouri Department of Natural Resources ("MDNR"); Aquila, Inc. ("Aquila"); The Empire Electric District Company ("Empire"); the City of Kansas City, Missouri; the Concerned Citizens of Platte County; Praxair, Inc.; the Missouri Industrial Energy Customers; and the Missouri Joint Municipal Electric Utility Commission ("MJMEUC") filed applications to intervene in Case No. EO-2004-0577. Subsequently, the Missouri Energy Group, the Sierra Club, Union Electric Company, d/b/a AmerenUE, and Jackson County, Missouri participated in the workshops conducted in Case No. EW-2004-0596.

Q. What action did the MPSC take?

A. On June 3, 2004, the MPSC issued an Order Establishing Case, which granted KCPL's Application to Establish Investigatory Docket and Workshop Process Regarding Kansas City Power & Light Company, and established an informal, investigatory proceeding designated as Case No. EW-2004-0596. In the June 9, 2004, Notice of Participants, the MPSC made the parties who intervened in Case No. EO-2004-0577 participants in Case No. EW-2004-0596. On July 1, 2004, the MPSC issued its Notice Closing Case in Case No. EO-2004-0577, which formally closed that proceeding.

Q. How did Case No. EW-2004-0596 proceed?

A. A prehearing conference was held in Case No. EW-2004-0596 on June 30, 2004. A series of presentations and workshops were held on June 21, June 30, July 21, July 30, August 10-11, August 19, August 24-26, September 7, September 15, September 29, and October 29, 2004. During this period KCPL conducted numerous informal meetings with interested groups and individuals to discuss the many issues raised by this proceeding.

Q. How was the workshop organized?

A. The workshop was organized into two teams. Team A reviewed issues concerning Integrated Resource Planning, including load forecasting, generation planning, demand side management, environmental issues, and distribution and transmission technologies. A subteam within Team A reviewed affordability, efficiency, and demand response programs. Team B reviewed the financial issues associated with KCPL's various plans, including maintaining KCPL's current investment grade credit rating. Representatives from KCPL and the MPSC staff ("Staff") led these Teams jointly. Meetings also occurred on dates subsequent to October 29, 2004. On January 18, 2005, the MPSC held an on-the-record conference. On February 18, 2005, the MPSC issued its Order Closing Case in Case No. EW-2004-0596.

Q. Why was this collaborative workshop process necessary?

A. The issues presented by KCPL in this proceeding included the following:

A. The future need for additional generating capacity in the KCPL service territory;

B. The mix of new generation that would result in a reliable and cost efficient service for Missouri customers;

C. The desirability of proactively addressing environmental concerns relating to new generation and existing generating facilities;

D. Investment into a highly reliable transmission and distribution infrastructure;

E. Establishment of customer efficiency and affordability programs and development of new technologies and applications for demand response programs;

F. Adoption of a regulatory plan that will adequately address the comprehensive undertakings being considered by KCPL, including the timeliness of the recovery of the costs and the financial considerations of such significant investments.

KCPL believed that the informal workshop process utilized by the MPSC in the past would be well-suited to consideration of wide ranging issues necessary for the development of KCPL's regulatory plan. KCPL also believed that the process of continuing these discussions in the context of informal MPSC workshops would enable all stakeholders to identify and seek agreement on a regulatory plan that addressed these dynamic issues on a prospective basis for KCPL. That plan would then be presented to the MPSC for its consideration and approval.

Q. **How did KCPL solicit this input?**

A. Throughout 2004, KCPL conducted numerous workshops, public forums, and strategic planning seminars, involving employees, customers, energy experts, financial experts, the general public, consumer groups, manufacturers, industrial and trade groups, environmental organizations, and other utility companies, as well as government and community leaders to solicit comment regarding its planning process. Meetings with the Staff, the Missouri Office of Public Counsel ("OPC"), and other parties to the workshop docket were also conducted at which KCPL made presentations and answered questions.

Q. **How does this collaborative approach compare to the traditional process used by utilities to undertake major initiatives?**

A. Traditionally, utilities conducted their planning and project work in a "near vacuum." The utility would conduct its studies, determine the best alternative, secure financing, seek whatever approvals for financing and certificates of need and necessity necessary, and at the end of the project seek approval to adjust rates as necessary to recognize major investments.

Q. Why did KCPL choose not to use the traditional model?

A. The traditional model often focuses upon historic information rather than looking forward five to ten years--something a utility must do to plan and develop a strategy to continue to provide reliable reasonably priced service for its customers. In addition, the traditional model does not facilitate a convenient method of informally discussing different perspectives on public utility issues, and as a result, it does not take advantage of the "collective wisdom" of other parties. KCPL believed that the traditional model was therefore not the best approach for developing and implementing a regulatory plan when a more collaborative, informal approach was available.

Q. Please explain.

A. In the traditional model, the utility does not spend much if any effort to gain acceptance from the interested parties for the plan. While this can save time at the beginning of the process, it can lead to contentious and time-consuming disputes concerning the prudency of its decisions after the investments are made. The public utility must defend its actions and runs the risk that it will not be awarded full recovery of its investments.

Q. Why were these issues of particular concern to KCPL?

A. KCPL recognized that during the planning horizon, it would require additional generation to meet the needs of its customers. KCPL also believed that the construction of a base load coal plant was necessary. At the same time, environmental concerns needed to be addressed along with distribution investments to maintain reliability, and customer programs for managing electricity use. In order to meet these needs, KCPL needed a plan that would facilitate attracting capital at a low cost. Investors needed some assurance that KCPL would be allowed to recover its investment, and continue to be an attractive component of the investors' investment portfolio. KCPL needed a plan that the parties could agree to in order to reduce risk and move ahead with implementation of the collaboratively developed strategy. For these reasons, KCPL chose to pursue the collaborative approach described earlier.

Q. **What are the key benefits to be realized with the implementation of the plan outlined in the Stipulation and Agreement?**

A. The key benefits are as follows:

1. KCPL can meet the growing demand in our service area for years to come;
2. KCPL will meet this need and avoid increasing our reliance on high cost and volatile natural gas as a fuel source, providing less volatile and more predictable long-term rates;
3. The environmental investments included in the plan will substantially reduce emissions from our fossil fleet, even with the addition of a new, efficient coal unit at Iatan;
4. KCPL will add renewable wind energy to our generation portfolio;
5. Customers will be offered a broad set of customer-focused demand response, efficiency and affordability programs;
6. KCPL will maintain top-tier reliability for our customers;
7. Temporary and permanent jobs will be created in the Kansas City metropolitan area; and

8. KCPL will have regulatory authority to support the investment plan and maintain key credit ratios through future rate increases, treatment of certain revenue and expense items and a mechanism to better match revenue with the cost of fuel and purchased power.

Q. Please describe the key investments set out in the Regulatory Plan.

A. KCPL has committed to investing over $1.3 billion over the course of the Regulatory Plan. This investment includes the completion or substantial progress on the following projects:

- 800-900 MW of new coal-fired generation capacity, Iatan 2, to be regulated capacity excepting that interest that may be owned by a municipality or joint municipal utility commission, located at the Iatan site near Weston, Missouri, of which KCPL will own approximately 500 MWs;
- Environmental investments related to Iatan 1 and LaCygne 1 for accelerated compliance with environmental regulations; the Iatan 1 and LaCygne 1 environmental equipment will provide significant reductions in site emissions of sulfur dioxide ("SO_2"), nitrous oxides, particulate matter and mercury, and will position the units to meet compliance requirements set forth in the Clean Air Interstate Rule, which was recently promulgated by the U.S. Environmental Protection Agency ("EPA"). With the addition of Iatan 2 at this site, compliance on Iatan 1 will ensure that total site emissions after completion of Iatan 2 will be less than the current site emissions from Iatan 1 and will help address the environmental concerns of citizens living in the area around the Iatan site.

In addition, the early installation of a selective catalytic reduction ("SCR") facility at LaCygne 1 is designed to help maintain attainment of the 8-Hour Ozone standard within the metropolitan Kansas City region. Installation of this SCR before the 2007 Ozone season is considered a significant component of the region's proposed Ozone mitigation plan by Mid-America Regional Council, regional EPA officials, Kansas Department of Health & Environment and MDNR. With respect to any of the expenditures anticipated for environmental compliance, KCPL will continue to assess the environmental laws to ensure that its expenditures will comply with existing or expected environmental regulations.

- 100 MW of new wind generation facilities to be installed in 2006. An additional 100 MW of new wind generation facilities will be installed in 2008 if a detailed evaluation (made with input from interested parties to the Stipulation and Agreement ("Signatory Parties")) supports such an action to proceed with its construction. KCPL's detailed evaluation shall include information obtained from a tall tower wind assessment performed for KCPL at two sites in Missouri. The detailed evaluation will utilize the KCPL tall tower wind assessment information (and other Missouri-specific information, if available) to analyze the cost effectiveness of wind generation in Missouri before installing the second 100 MW of wind generation in any state other than Missouri. The Signatory Parties agree that KCPL will perform an assessment of wind energy resources at Missouri sites determined in concert with MDNR and other interested Signatory Parties. KCPL will obtain access to two (2) Missouri wind assessment locations and will contract to install wind measuring equipment and evaluate data collected at levels between 50 meters up to and including 100 meters above ground level for the ultimate purpose of producing site-specific measurements that can be used to quantify the wind resources in Missouri. The two (2) Missouri tall tower installations will be in place and operating by December 31, 2005. The initial report analyzing the first 12 months of tall tower data will be completed by March 31, 2007. The final report analyzing the first 18 to 21 months of data will be completed by December 31, 2007.

- KCPL has committed to implement a number of customer programs which include demand response, efficiency and affordability programs throughout the period of the Regulatory Plan. The initially budgeted expenditures for the five (5) year period for Missouri are $13.8 million for Demand Response Programs, $2.5 million for Affordability Programs, and $12.7 million for Efficiency Programs.
- KCPL will make investments totally $42.4 million over the period of the Regulatory Plan into the transmission and distribution infrastructure to ensure a highly reliable transmission and distribution system.

Q. What impact will the Regulatory Plan have on customer service and reliability?

A. KCPL is committed to maintaining good customer service and reliability. KCPL has agreed to provide the Staff and OPC monthly data submitted quarterly (within forty-five (45) days of end of the period) on the following quality of service measures:

Call Center Data

Total Calls Offered to the Call Center

Call Center Staffing including Call Center Management Personnel

Average Speed of Answer

Abandoned Call Rate

Reliability Indicators

Customer Average Interruption Duration Index ("CAIDI")

System Average Interruption Duration Index ("SAIDI")

System Average Interruption Frequency Index ("SAIFI")

Momentary Average Interruption Frequency Index ("MAIFI")

CAIDI, SAIDI, and SAIFI will be reported on both a weather adjusted and unadjusted basis.

Q. What impact will the Regulatory Plan have on customer rates?

A. Absent a significant event, KCPL's rates will not change through December 31, 2006.

Q. And after December 31, 2006?

A. KCPL has committed to file rate schedules on February 1, 2006 with an effective date of January 1, 2007. This 2006 Rate Case will include prudent expenditures made related to 100 megawatts of wind generation, and the additions to transmission and distribution infrastructure as set out in the Regulatory Plan that are in service prior to the agreed upon true-up date of the rates approved in this case. The 2006 Rate Case will also include an amortization expense anticipated to be $17 million on a Missouri jurisdictional basis. The 2006 Rate Case will also include an amortization related to the Demand Response, Efficiency and Affordability Programs, as set out in the Stipulation and Agreement.

Q. **Will KCPL file a Class Cost of Service Study in the 2006 Rate Case?**

A. Yes. KCPL has agreed that the 2006 Rate Case will also include the filing of a Class Cost of Service Study. No later than February 1, 2006, KCPL will submit to the Signatory Parties a Missouri jurisdictional revenue requirement cost of service study and a Missouri jurisdictional customer class cost of service study covering the twelve (12) months ending December 31, 2005.

Q. **What other rate case filings are anticipated?**

A. Over the course of the Regulatory Plan, four rate case filings are contemplated. The first described above as the 2006 Rate Case, and the last to be filed on October 1, 2009, are mandatory. The other two Rate Cases are optional. If KCPL chooses to file the second rate case, rate schedules with an effective date of January 1, 2008 will be filed with the MPSC on February 1, 2007. The 2007 Rate Case will include prudent expenditures for the installation of an SCR facility at La Cygne 1, and the additions to transmission and distribution infrastructure as set out in the Stipulation and Agreement that are in service prior to the agreed upon true-up date. The 2007 Rate Case will include an amortization expense expected to be $17 million on a Missouri jurisdictional basis, as may be adjusted upward or downward. The 2007 Rate Case will also include the amortization related to the Demand Response, Efficiency and Affordability Programs, as more fully described in the Stipulation and Agreement

Q. **If KCPL chooses to file the third rate case, when would that happen?**

A. If KCPL chooses to file the third rate case, rate schedules with an effective date of January 1, 2009 will be filed with the MPSC on February 1, 2008. The 2008 Rate Case will include prudent expenditures for the installation of an SCR facility, a Flue Gas

Desulphurization ("FGD") unit and a Baghouse at Iatan 1; 100 MWs of wind generation; and the additions to transmission and distribution infrastructure as set out in the Stipulation and Agreement that are in service prior to the agreed upon true-up date. The 2008 Rate Case will include an amortization expense expected to be $17 million on a Missouri jurisdiction basis, as may be adjusted upward or downward. The 2008 Rate Case will also include the amortization related to the Demand Response, Efficiency and Affordability Programs, as more fully described in the Stipulation and Agreement.

Q. When would the fourth mandatory rate case be filed?

A. Rate schedules with an effective date of September 1, 2010, will be filed with the MPSC on October 1, 2009, or eight (8) months prior to the commercial in service operation date of Iatan 2. The 2009 Rate Case will include prudent expenditures for Iatan 2; the FGD unit and the Baghouse at La Cygne 1; and the additions to transmission and distribution infrastructure as set out in the Stipulation and Agreement. The 2009 Rate Case will also include the amortization related to the Demand Response, Efficiency and Affordability Programs, as more fully described in the Stipulation and Agreement.

Q. Please discuss the cost control system that KCPL has agreed to implement during this Regulatory Plan?

A. KCPL has agreed to develop and have a cost control system in place that identifies and explains any cost overruns above the definitive estimate during the construction period of the Iatan 2 project, the wind generation projects and the environmental investments.

Q. Will KCPL seek riders or surcharges or changes in rates outside of a general rate case?

A. No. KCPL has agreed that prior to June 1, 2015, it will not seek to utilize any mechanism authorized in current legislation known as "SB 179" or other change in state law that would allow riders or surcharges or changes in rates outside of a general rate case based upon a consideration of less than all relevant factors.

Q. Will KCPL be allowed to utilize an Interim Energy Charge?

A. KCPL can propose an Interim Energy Charge ("IEC") in a general rate case filed before June 1, 2015 in accordance with the following parameters:

i. The rates and terms for such an IEC shall be established in a rate case along with a determination of the amount of fuel and purchased power costs to be included in the calculation of base rates.

ii. The rate or terms for such an IEC shall not be subject to change outside of a general rate case where all relevant factors are considered.

iii. The IEC rate "ceiling" may be based on both historical data and forecast data for fuel and purchased power costs, forecasted retail sales, mix of generating units, purchased power, and other factors including plant availability, anticipated outages, both planned and unplanned, and other factors affecting the costs of providing energy to retail customers.

iv. The duration of any such IEC shall be established for a specified period of time, not to exceed two years.

v. A refund mechanism shall be established which will allow any over-collections of fuel and purchased power amounts to be returned to ratepayers with interest following a review and true-up of variable fuel and purchased power costs at the conclusion of each IEC. Any uncontested amount of over-collection shall be refunded to ratepayers no later than 60 days following the filing of the IEC true-up recommendation of the Staff.

vi. During any IEC period, KCPL shall provide to the Staff, OPC and other interested Signatory Parties monthly reports that include any requested energy and fuel and purchase power cost data.

Q. The Stipulation and Agreement discusses current amortizations and additional amortizations to maintain financial ratios. Please explain the significance of these amortizations and the maintenance of financial ratios for KCPL.

A. The Signatory Parties agreed that it is desirable to maintain KCPL's debt at an investment grade rating during the period of the construction expenditures contained in the Stipulation and Agreement. KCPL understands it has the responsibility to take prudent and reasonable actions in an effort to achieve the goal of maintaining its debt at investment grade levels. KCPL understands that it is incumbent upon it to take prudent and reasonable actions that do not place its investment grade debt rating at risk. The non-KCPL Signatory Parties committed to work with KCPL to ensure that based on prudent and reasonable actions, KCPL has a reasonable opportunity to maintain its bonds at an investment grade rating during the construction period ending June 1, 2010. As part of this commitment, the non-KCPL Signatory Parties agreed to support the "Additional Amortizations to Maintain Financial Ratios," as defined in the Stipulation and Agreement and related appendices, in KCPL general rate cases filed prior to June 1, 2010. The "Additional Amortization to Maintain Financial Ratios" will only be an element in any

KCPL rate case when the Missouri jurisdictional revenue requirement in that case fails to satisfy the financial ratios shown in Appendix E of the Stipulation and Agreement through the application of the process illustrated in Appendix F of the Stipulation and Agreement.

Q. What is the purpose of the "Additional Amortizations to Maintain Financial Ratios"?

A. The "Additional Amortizations to Maintain Financial Ratios," is designed to satisfy two of three financial ratios shown in Appendix E of the Stipulation and Agreement "Credit Ratio Ranges & Definitions." The three selected financial ratios are: (i) Total Debt to Total Capitalization; (ii) Funds from Operations Interest Coverage; and (iii) Funds from Operations as a Percentage of Average Total Debt. The Total Debt to Total Capitalization ratio will be addressed in the KCPL financing application that will be filed in the near future. The values for these ratios were selected to meet the lower end of the top third of the three financial ratios under the BBB columns as shown in Appendix E of the Stipulation and Agreement "Credit Ratio Ranges & Definitions." If these ratio guidelines or ranges are changed or modified before June 1, 2010, the Signatory Parties will work together to determine the appropriate values for these ratios, including consideration of the use of the last published ranges for these ratios.

Q. When would the additional amortization be added to KCPL's cost of service?

A. The Signatory Parties agree to support an additional amortization amount added to KCPL's cost of service in a rate case when the projected cash flows resulting from KCPL's Missouri jurisdictional operations, as determined by the MPSC, fail to meet or exceed the Missouri jurisdictional portion of the lower end of the top third of the BBB range shown in Appendix E, for the Funds from Operations Interest Coverage ratio and the Funds from Operations as a Percentage of Average Total Debt ratio. The Signatory Parties agree to adopt an amortization level necessary to meet the Missouri jurisdictional portion of these financial ratios.

Q. How will the additional amortization amounts be determined?

A. The Missouri jurisdictional portion and amounts of the additional amortization will be determined by the MPSC in each relevant rate case. The additional amortization will exclude any consideration of amounts related to imprudent actions as determined by the MPSC. The prudence of the "Capitalized Lease Obligations" and "Off-Balance Sheet Obligations" will be determined in the first general rate case that affords the MPSC the opportunity to review the matter, if the matter has not been approved by the MPSC in a prior proceeding. Additional taxes will be added to the amortization to the extent that the MPSC finds such taxes to be appropriate. The additional amortization will not reflect any negative cash flow impacts related to special contracts. For purposes of calculating additional amortization, these special contract customers will be treated as if they were paying the full generally applicable tariff rate. In addition, any other provisions and special contracts will not affect rate base for regulatory purposes.

Q. Does the additional amortization provisions in the Stipulation and Agreement in any way limit the ability of the Signatory Parties to recommend a specific capital structure or rate of return for ratemaking purposes?

A. No. The agreement allows Signatory Parties the ability to propose a return on equity and capital structure in rate cases utilized to determine rates. The amortization will only help KCPL meet the credit ratio metrics. In addition, the amortization will result in an offset to rate base, which will result in lower rates, attributable to the amortization offset to rate base, after the conclusion of the regulatory plan.

Q. Will maintaining these three credit ratios ensure that KCPL earn a BBB+ credit rating?

A. Credit rating agencies review other financial indicators and these three ratios are not definitive in and of themselves. Credit rating agencies acknowledge that other factors, some subjective, do impact their financial ratings. KCPL recognizes the fact that it may not earn an investment grade rating even if it meets the BBB+ ratio guidelines. Conversely, KCPL recognizes the fact that it may earn a BBB+ credit rating without meeting the values set out for a BBB+ credit rating. If KCPL meets the BBB+ credit rating values but does not receive an investment grade credit rating, KCPL agrees that the Signatory Parties are under no obligation to recommend any further cash flow or rate relief to satisfy the obligations of the Stipulation and Agreement. KCPL also recognizes and agrees that its Missouri operations are only responsible for and will only provide cash flow for its Missouri operating share of the necessary cash flows. Therefore, if KCPL is unable to meet the BBB+ credit ratio values in Appendix E of the Stipulation and Agreement because of (i) inadequate cash flows from its regulated Kansas or other non-Missouri retail regulated operations, (ii) inadequate cash flows from any wholesale operations, (iii) inadequate cash flows from the non-regulated subsidiaries of Great Plains Energy, Inc. ("GPE"), (iv) any risk associated with GPE that is unrelated to KCPL's Missouri regulated operations, or (v) any KCPL or GPE imprudent costs, KCPL will not argue for or receive increased cash flows from its Missouri regulated operations in order to meet the BBB+ credit ratio values.

Q. Can KCPL seek other amortizations should conditions beyond its control occur?

A. Yes, depending on the conditions, such as a major weather event, KCPL could seek other amortizations or other relief to address cash flow concerns resulting from a significant event.

Q. Has KCPL recently entered into Special Contracts with industrial customers who participated in this proceeding?

A. Yes. KCPL recently signed a Special Interruptible Contract with Praxair, Inc. and a Letter of Understanding concerning a similar arrangement with Ford Motor Company. KCPL intends to initiate proceedings related to these contracts in the near future to obtain the MPSC's approval of them, or alternatively, a determination from the MPSC that no formal regulatory approval is needed. In any event, under the terms of the Stipulation and Agreement, KCPL has agreed that for ratemaking determinations, Praxair, Ford or other special contracts will be treated as if they were paying the full generally applicable tariff rate for service from KCPL and other provisions in special contracts will not affect rate base for regulatory purposes.

Q. Can you discuss KCPL's SO_2 Emission Allowances, and the impact of those Allowances in the Regulatory Plan?

A. This subject will be addressed in detail by KCPL witness Wm. Edward Blunk. Generally, KCPL finds itself in a position where it has an inventory of past, current and future vintage SO_2 emission allowances. The Regulatory Plan sets out procedures that KCPL will follow to manage its allowance inventory in order to benefit KCPL and its customers and to provide the Staff and OPC with information relevant to the MPSC's oversight of such activities. In particular, the proceeds and costs of all transactions identified in the SO_2 Emissions Allowance Management Policy ("SEAMP") will be recorded in Account 254 for ratemaking purposes.

The regulatory liability will be amortized over the same time period used to depreciate environmental assets (emission control equipment and other emission control investments). This provision recognizes that the sales of SO_2 emission allowances to fund investments in new environmental control equipment, in order to meet emissions standards required now or in the future by legislation, MDNR or the EPA regulations, are like-kind exchanges of assets. KCPL has agreed to provide all correspondence between KCPL and the U. S. Internal Revenue Service ("IRS") with respect to SO_2 emission allowances to the parties to the Stipulation and Agreement, within fourteen (14) days of such correspondence.

In the event the IRS fails to certify SO_2 emission allowance sales as like-kind exchanges, the Signatory Parties agreed that the above agreement on the amortization period for the regulatory liability is no longer binding on, or prejudicial to, KCPL or the other parties to the Stipulation and Agreement, and that KCPL and the parties are free to, and may, recommend the appropriate amortization period for such regulatory liability to be included in the Rate Case #4 (*i.e.*, Iatan 2 rate case) revenue requirement. Other provisions in the Stipulation and Agreement address the accounting treatment of certain premiums that may be paid by KCPL for lower sulfur coal.

Q. Have any agreements been reached regarding the allowance for funds used during construction ("AFUDC"), as it relates to Iatan 2?

A. Yes. KCPL agrees to a 1.25% or 125 basis point reduction in the equity portion of the AFUDC rate applicable to Iatan 2. KCPL shall use this 125 basis point reduction in the

AFUDC rate from the effective date of the Order Approving Stipulation and Agreement in this proceeding, and in all subsequent calculations of AFUDC on Iatan 2 until the in-service date of Iatan 2.

Q. How will off-system sales be treated for ratemaking purposes?

A. KCPL agrees that off-system energy and capacity sales revenues and related costs will continue to be treated above the line for ratemaking purposes. KCPL will not propose any adjustment that would remove any portion of its off-system sales from its revenue requirement determination in any rate case, and KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process.

Q. How will transmission related revenues be treated for ratemaking purposes?

A. KCPL agrees that transmission related revenues and related costs will continue to be treated above the line for ratemaking purposes. KCPL specifically agrees not to propose any adjustment that would remove any portion of its transmission related revenues from its revenue requirement determination in any rate case, and KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process.

Q. KCPL will not own all of the Iatan 2. Who will be the other co-owners of Iatan 2?

A. Empire and Aquila are partners with KCPL in the Iatan 1 plant, with a combined interest of 30%. Empire and Aquila have each expressed an interest in participating in the Iatan 2 plant. KCPL will consider Empire and Aquila preferred potential partners in the Iatan 2 plant with at least a 30% combined share, so long as they can each demonstrate that they have a commercially feasible plan for meeting the necessary financial commitments by the later of August 1, 2005, or such date that KCPL shall issue its request(s) for proposal(s) related to Iatan 2. Such a financing plan must not adversely affect KCPL's ability to finance its share of the Iatan 2 plant or to complete construction on the timeframe established in the Stipulation and Agreement.

Q. Are there others interested in partnering in the Iatan 2 plant?

A. Yes. MJMEUC has expressed an interest in participating in the Iatan 2 plant. KCPL will consider MJMEUC as a preferred potential partner in the Iatan 2 plant with at least 100 MW of the plant's capacity, so long as it can demonstrate that it has a commercially feasible plan for meeting the necessary financial commitments by the later of August 1, 2005, or such date that KCPL shall issue its request(s) for proposal(s) related to Iatan 2. Such a financing plan must not adversely affect KCPL's ability to finance its share of the Iatan 2 plant or to complete construction on the timeframe established in the Stipulation and Agreement.

Q. Would KCPL consider other partners?

A. Yes, KCPL specifically reserves the right to continue to discuss with other entities, including entities not regulated by the MPSC, the potential participation of those entities in the Iatan 2 plant.

Q. Is this agreement conditioned on approval by any other Regulatory body?

A Yes. KCPL believes that the viability of the Regulatory Plan is dependent upon approval by both the KCC and the MPSC. Consequently, the approval of the Regulatory Plan as set out in the Stipulation and Agreement, is conditioned upon the approval of a Regulatory Plan by the KCC that is substantially similar to the terms of the Regulatory Plan agreed to and approved in Missouri.

Q. **Does that conclude your testimony?**

A. Yes, it does.