Exhibit No.:	
Issue:	Overview and Policy
Witness:	Chris B. Giles
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2009-____
Date Testimony Prepared:	September 5, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2009-____

DIRECT TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2008

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed Pursuant to 4 CSR 240-2.135.**

DIRECT TESTIMONY

OF

CHRIS B. GILES

CASE NO. ER-2009-____

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 ("KCP&L" or the "Company") as Vice President, Regulatory Affairs.

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 Bachelor of Arts degree in Economics and in 1981 with a Master of Business Administration degree with concentrations in accounting and quantitative analysis. I was first employed at KCP&L 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. In March of 2005, I was promoted to Vice-President, Regulatory Affairs.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC" or the "Commission") or before any other utility regulatory agency?

A: I have previously testified before both the MPSC and the Kansas Corporation Commission 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 a summary and overview of this case. I will address the progress of KCP&L's Regulatory Plan ("Regulatory Plan"), which the Commission approved in Case No. EO-2005-0329, including the status of the investments associated with the Regulatory Plan. I will describe the major drivers underlying the proposed rate increase. Finally, I will ask for Commission authorization on certain additional matters.

Q: Please describe the results of the first two rate cases under the Regulatory Plan?

A: The Company filed its first rate case in nearly 20 years on February 1, 2006 (ER-2006-0314, or "2006 case"). The Company requested an increase of $57 million (11.5%). The Report and Order issued by the Commission on December 21, 2006 approved an increase in Missouri revenues in the amount of $50.6 million (10.5%), effective January 1, 2007. The increase included an annual amortization amount to maintain credit ratios ("Additional Amortizations") of $21.7 million.

KCP&L filed the second rate case under the Regulatory Plan on February 1, 2007 (ER-2007-0291, or "2007 case"). The Company requested an increase of $45.4 million (8.3%). The Report and Order issued by the Commission on December 6, 2007 approved an increase in Missouri revenues in the amount of $35.3 million (6.5%), effective January 1, 2008. The increase included an Additional Amortizations amount of $10.7 million.

Q: Did KCP&L reflect the impact of the Regulatory Plan in these two rate cases?

A: Yes, KCP&L included in the 2006 case the investment to build 100 MW of wind generation, which was completed in September 2006, as well as the investments in customer affordability, energy efficiency, and demand response programs ("Customer Programs"), and system reliability focused transmission and distribution ("T&D") projects. The Company included in the 2007 case the investment to install selective catalytic reduction ("SCR") equipment at LaCygne Unit 1, as well as continued investments in Customer Programs and T&D projects. These investments are consistent with and represent continued implementation of the Company's Comprehensive Energy Plan ("CEP"), as set forth in the Regulatory Plan.

Q: Please describe this rate case filing and how it reflects the continued implementation of the CEP and the Regulatory Plan?

A: The Regulatory Plan contemplated as many as four rate cases; however, only two are mandatory, the 2006 case and a case to be filed in 2009 ("2009 case"). The 2007 case was optional, as is the current rate case ("2008 case"). The 2008 case includes rate schedules that are expected to become effective on August 5, 2009. The Company is requesting an increase of $101.5 million (17.5%), including $15.1 million related to Additional Amortizations, as described in the testimony of KCP&L witness Michael Cline. The 2008 case includes the installation of the Iatan Unit 1 Air Quality Control ("AQCS") equipment as set out in the Regulatory Plan. The ACQ equipment is expected to be in service prior to the April 30, 2009 true-up date of this proceeding. The 2008 case also includes continued implementation of Customer Programs, as described in the Direct Testimony of KCP&L witness Allen Dennis, and T&D infrastructure, as described in the Direct Testimony of Company witness William Herdegen, both as set out in the Regulatory Plan.

Q: When will KCP&L file the 2009 case?

A: It is anticipated that rate schedules with an effective date of September 1, 2010, will be filed with the Commission on or about October 1, 2009, or eight months prior to the commercial in-service operation date of Iatan Unit 2.

Q: Please describe the progress of the Regulatory Plan investments in power supply infrastructure.

A: KCP&L completed 100 MW of wind generation at a site near Spearville, Kansas in September 2006. The SCR at the LaCygne Unit 1 generating plant was placed in operation in May 2007. The Iatan Unit 1 AQC equipment is currently under construction and is expected to be in service in early 2009. Company witnesses Brent Davis, Carl Churchman and Kenneth Roberts discuss various aspects of the AQC project in their Direct Testimonies.

The Iatan Unit 2 project is well underway. A control budget and schedule has been established. Contracting, procurement, and construction strategies are in place along with a cost control system to track and monitor schedule and costs. Partnership agreements have been executed. Ownership shares, based upon a total of 850 MW, are as follows: KCP&L - 465 MW, The Empire District Electric Company - 102 MW, Aquila, Inc. dba KCP&L Greater Missouri Operations Company ("GMO") - 153 MW, Missouri Joint Municipal Electric Utility Commission - 100 MW, and Kansas Electric Power

Cooperative - 30 MW. As part of the Regulatory Plan, the Company submits to the signatories of the Stipulation and Agreement in the Regulatory Plan docket a quarterly report outlining the overall progress of the project. Periodically, the Company meets with the parties to discuss progress.

A second phase of investment in environmental equipment for LaCygne unit 1 was planned to be completed in 2009. This investment included a fabric filter (baghouse) and scrubber. In late 2006, early 2007, it became known that it would not be possible to complete the second phase of the LaCygne project until 2011 due to the increased lead time required to procure the equipment. Both LaCygne 1 and LaCygne 2 generating units will be required to have equipment designated as Best Available Retrofit Technology ("BART") sometime in the year 2013. BART includes SCR, baghouse, and scrubber equipment. In addition to the extended lead time to procure AQC equipment, the installed cost of the equipment has increased dramatically since the Regulatory Plan was constructed. Given the increased cost and the need to evaluate all options regarding both LaCygne units, KCP&L contracted with Sargent and Lundy to study various options regarding construction of AQCS at both units. KCP&L is also reviewing options as part of its Sustainable Resource Strategy ("SRS") and will seek to collaborate with interested parties in formulating this strategy over the course of the next six to nine months.

The Regulatory Plan also required KCP&L to evaluate an additional 100 MW of wind generation for service in 2008. The Company conducted an evaluation in the fall of 2007 and determined that due to the uncertainty of the capital markets at that time would be prudent not to pursue a wind project that would go into service in 2008. Since that time KCP&L has continued to evaluate wind options for service in 2009. As directed by the Commission in Case No. EO-2008-0224, KCP&L will file an update concerning the potential for future wind projects. by September 15, 2008.

Q: Please describe the status of Customer Programs.

A. The Regulatory Plan established an advisory group, the Customer Programs Advisory Group ("CPAG"), consisting of representatives of signatories to the Regulatory Plan. CPAG has two key objectives: perform pre-implementation evaluation of energy efficiency programs, and review program design, implementation and evaluation plans for all programs. It is not a governmental body and makes no recommendations on government policy. CPAG meets on a regular basis and, as a result, tariffs have been filed and approved by the Commission for all programs. KCP&L witness Allen Dennis more fully describes the progress and success of Customer Programs in his Direct Testimony.

Q: Please describe the status of the T&D infrastructure investments.

A: Numerous projects have been completed and others are well under way, as described more fully in the Direct Testimony of KCP&L witness William Herdegen.

Q: How was the 2008 case test year and resultant rate increase amount determined?

A: Pursuant to the Regulatory Plan, the test year for the 2008 case is based on the historical year ending December 31, 2007. Although the Regulatory Plan contemplated that the Company would file the 2008 case on February 1, 2008, the Regulatory Plan also recognized that KCP&L might need to adjust the timing of its rate filings due to the magnitude of its investments and the length of time of the Regulatory Plan. Because this case is being filed later than anticipated, the update and true-up dates as specified in the Regulatory Plan will need to be revised. KCP&L anticipates an update based on October

31, 2008 financials and a true-up as of April 30, 2009. Accordingly, test year data was annualized and normalized and reflects projected values for true-up items as of April 30, 2009. The resulting annualized and normalized amounts were then allocated between FERC, Missouri and Kansas jurisdictions. The allocation process is described in the Direct Testimony of KCP&L witness John Weisensee. Additionally, Company witness Larry Loos of Black & Veatch Corporation provides support for certain recommended allocation procedural changes reflected in this rate filing. The cost of service and revenue requirement determination is supported by the Direct Testimony of KCP&L witness John Weisensee and included in his Schedule JPW-1.

Q: What is the amount of rate increase requested in this case?

A: The amount of rate increase is 17.5% or $101.5 million dollars based on test year revenue of approximately $580 million.

Q: Does this amount include Additional Amortizations?

A: Yes, KCP&L's requested rate increase includes Additional Amortizations of $15.1 million, as described in the Direct Testimony of KCP&L witness Michael Cline. The Additional Amortization requested is only about 32% of the amount that could have been requested utilizing the Additional Amortization metrics specified in the Regulatory Plan. The lower request resulted from the use of metrics more future-oriented than those encompassed in the Regulatory Plan formulas. However, as Mr. Cline discusses, the Additional Amortization request is dependent on the results of this rate proceeding; that is, Additional Amortization will be adjusted to reflect the outcome of the case as determined by the Commission.

Q: What is the total cumulative amount of Additional Amortization KCP&L proposes to include in rates in this case?

A: The Additional Amortization of $15.1 million requested in this case is in addition to the $21.7 million ordered in the 2006 case and the $10.7 million ordered in the 2007 case. This would result in an annual Additional Amortization level of approximately $47.5 million. This total amount will result in an offset to rate base under the Regulatory Plan and will lower rates in future KCP&L rate proceedings.

Q: What is the return on equity KCP&L is requesting in this case?

A: KCP&L is requesting a return on equity of 10.75% based upon a 53.82% equity capital structure of KCP&L's parent holding company Great Plains Energy Incorporated ("Great Plains Energy"). KCP&L witness Samuel Hadaway presents in his Direct Testimony his cost of capital study results and recommendations in support of a 10.75% return on equity. Dr. Hadaway has utilized the same approach as in the 2007 case, which is based on a traditional approach to estimate the underlying cost of equity capital for a group of investment grade electric utility companies.

Q: Does a 10.75% return on equity adequately address the substantial risk of KCP&L's Off-system Sales?

A: No, it does not. The risk of the Off-system Sales market consists of several components, including market price, volumetric risk associated with generation variable cost, generation unit outages, coal supply availability, weather, and uncertainty of retail sales growth. A detailed risk analysis of the off-system sales market has been prepared by the Northbridge Group, Inc. ("Northbridge") and is contained in the Direct Testimony of KCP&L witness Michael Schnitzer of Northbridge. The risk of this market is too large for either the Company or its customers to bear entirely. The Commission agreed with this position in the 2006 case and included in the revenue requirement an amount of Off-system Sales Margins at the 25th percentile of the expected value of Off-system Sales Margins for 2007. The Commission reinforced this position in its Report and Order in the 2007 case. If the Company's Off-system Sales Margins exceed the 25th percentile, then the Company will book any additional margins as a regulatory liability. By its prior decisions the Commission clearly understands and recognizes the risks associated with these Off-system Sales Markets. Consistent with the Commission's orders in the past two KCP&L rate cases, the Company has included in the revenue requirement in this case a level of Off-system Sales Margins at the 25th percentile for the period July 2009 through June 2010, the first full year rates will be in effect resulting from this rate proceeding.

Significant changes have occurred in the Off-system Sales market since the Company filed the 2006 case. Based on these changes in the market, the Commission's decisions in the last two KCP&L rate cases regarding Off-system Sales Margins were not only appropriate, but confirm that absent those decisions the Company's cash flow and earnings requirements in 2007 and 2008 would not have been achievable.

Q. **Please describe the changes in the market during the 2006 case process.**

A. When KCP&L filed its original application for the 2006 case, the expected 50th percentile level of Off-system Sales Margin was **[redacted]**. The Company included in its revenue requirement an amount equal to the 25th percentile, **[redacted]**. At that time, natural gas prices and the wholesale energy market were at a relatively high level. Natural gas prices were around $10 per mcf, considerably higher than the $2-$5 range during years prior to that case. In the 2006 case I testified that the Commission should look forward and take into account the risk of the Off-system Sales Market in determining the amount of Off-system Margins to include in revenue requirement. Historical data should not be used as indicative of the potential margins in this volatile market. By the time of the true-up, September 2006, natural gas prices had sharply declined. This resulted in a much lower expectation of Off-system Sales Margins. In fact, prices declined to the extent the expected 50th percentile point on the curve was approximately $11 million lower than originally filed in the case. The 25th percentile was approximately $7 million lower than originally included in the case.

Q: Did similar changes occur during the course of the 2007 case?

A. Yes, When KCP&L filed its original application for the 2007 case, the expected 50th percentile level of Off-system Sales Margin was **[redacted]**. The Company included in its revenue requirement an amount equal to the 25th percentile, **[redacted]**. By the time of the true-up, September 2007, the 50th and 25th percentiles were **[redacted]** and **[redacted]**, respectively.

Q: What level of Off-System Sales Margins did the Commission determine appropriate to include in revenue requirement in the previous two KCP&L rate cases?

A: The Commission's orders in those cases established Off-system Sales Margins at the 25th percentile of projected margins, at **[redacted]** total Company and **[redacted]** total Company, respectively. The orders stated that if the Company achieves margins in excess of those amounts, the excesses were to be booked as regulatory liabilities to be returned to customers. If KCP&L did not achieve off-system sales margins equal to the

25th percentile level, then the Company would not be able to earn its authorized rate of return and earnings by the amounts not achieved in margins up to the 25th percentile.

Q: Did the Company's actual 2007 margins exceed the 25th percentile amount, $69 million as ordered in the 2006 case?

A: Actual 2007 total company margins were **[redacted]**. The Missouri jurisdictional portion of the excess, together with interest, was included as a revenue requirement offset in the current rate proceeding (2008 case), as more fully discussed in the Direct Testimony of Company witness John Weisensee.

Q: Has the Company included a revenue requirement offset in the 2008 case for projected 2008 margins in excess of the 25th percentile ordered in the 2007 case ([redacted]** total company)?**

A: Because of the inherent difficulties in projecting Off-system Margins, as discussed above, KCP&L did not include an adjustment to reflect projected 2008 margins in excess of the 25th percentile ordered in the 2007 case. Rather, actual 2008 margins will be known at the time of true-up in this proceeding and will be compared to the 25th percentile amount, with any overage returned to ratepayers in this case, including interest.

Q: Did the Commission Report and Orders in the 2006 and 2007 KCP&L cases address tracking off-system sales margins?

A: No, there was no mechanism ordered to track actual margins realized against margins returned to ratepayers. By way of contrast, such a tracking mechanism is in place for pension costs, whereby costs incurred are tracked against costs recovered in rates, with the difference recorded as a regulatory asset or liability as appropriate.

Q: Would you propose such a tracking mechanism for Off-System Sales Margins?

A: Yes, such a mechanism would be appropriate for a couple of reasons. First, the amounts involved are significant and will become even more so with the completion of the Iatan 2 unit. Second, the Company does not file rate cases each and every year; therefore, a serious mismatch may develop between amounts realized and amounts returned to ratepayers.

Q: Are you asking that such a tracking mechanism be ordered in this rate case?

A: No, not in this rate case but in the 2009, Iatan 2 case. We anticipate filing the Iatan 2 case shortly after the completion of this rate case, as discussed above and as anticipated in the Regulatory Plan. Therefore, the need for a tracking mechanism in this case is reduced. However, the Company will ask that an off-system sales margin tracking mechanism be implemented in the Iatan 2 rate case because of the anticipated higher margins and the uncertainty as to the timing of future rate cases.

Q: What is the current expectation for Off-system Sales Margins for 2008?

A: The Company's current 50th percentile projection (**[redacted]** total Company) for the 2008 case is about equal to the 25th percentile projection (**[redacted]** total Company) included in revenue requirement in the 2007 case.

Q: Based on current market estimates what would have been the impact on the Company in 2008 had the Commission included Off-system Sales Margins in revenue requirement at the 50th percentile in the 2007 case?

A: The 50th percentile at the time of the 2007 case true-up was **[redacted]** on a total Company basis. Given current market prices and revised margin estimates for 2008, KCP&L would be short cash and earnings related revenue on a total Company basis of about **[redacted]**.

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Q: What level of Off-system Sales Margin is included in the Company's revenue requirement in the current 2008 case?

A: Based on the analysis of Michael Schnitzer of Northbridge, the 25th percentile expectation for 2008 Off-system Sales Margins is **[redacted]** total Company. This is the amount KCP&L included in the revenue requirement in this case. This amount will be updated in October 2008 and again in April 2009 for the true-up of this case.

Q: Does this mean that KCP&L expects the Off-system Sales Margin to be more in 2008 than 2007?

A: Yes, the difference between the 25th percentile in the 2007 case and the 25th percentile in the 2008 case is an increase of expected margin of **[redacted]** on a total Company basis. Michael Schnitzer explains the facts contributing to this increase in his testimony.

Q: Is it appropriate to use historical data to estimate Off-system Sales Margin when determining a test-year revenue requirement?

A: No, it is not. The only reasonable and responsible method to determine the appropriate amount of Off-system Sales Margin to include in test year revenue is to project the amount of Margin expected during the first year that the increased rates would be in effect, calculate the risk of those Off-system Sales and share that risk between retail customers and the Company. This is the method described above. This method provides the best balance of interests among customers, investors, and creditors, particularly in view of the scale of KCP&L's construction program through the 2010 timeframe.

Q: **Has KCP&L implemented its SO_2 allowance plan?**

A: Yes. KCP&L witness Wm. Edward Blunk describes the plan in his Direct Testimony, its implementation and the 2008 plan submitted to the Commission Staff and Office of Public Counsel.

Q: **Has the Surface Transportation Board ("STB") litigation involving Montrose freight rates been resolved and reflected in revenue requirement?**

A: In May 2008 the STB found that the Union Pacific Railroad ("UP") freight rates for Montrose were excessive and ordered UP to reimburse KCP&L for amounts previously collected above the maximum lawful rate. The projected reparations, less unrecovered litigation costs, were reflected as a reduction in cost of service in this rate proceeding based on a two-year amortization. Company witnesses William Blunk and John Weisensee discuss the STB litigation and the impact of the litigation on KCP&L's rates in their respective direct testimonies.

Q: **Has the Company included the revenue requirement impact of the recent merger between Great Plains Energy Incorporated, KCP&L's parent company, and Aquila, Inc. in the revenue requirement for this case?**

A: Yes, KCP&L has included its allocable share of the merger savings and transition cost amortization in the revenue requirement in this case, as ordered by the Commission in Case No. EM-2007-0374.

Q: **Does the revenue requirement in this case address the Commission's recent rulemakings concerning electric utility operational standards?**

A: Yes. As more fully discussed in the Direct Testimony of Company witness William Herdegen, KCP&L has included in its revenue requirement incremental costs resulting from 4 CSR 240-23.020 to 23.030, including Reliability Monitoring and Reporting Requirements, Infrastructure Standards, and Vegetation Management Standards and Reporting Requirements.

Q: Are there any other revenue requirement matters that you would like to draw to the Commissioners attention?

A: I would like to briefly address the issue of commodity price sensitivity. Our T&D and production operations and maintenance commodity costs have experienced dramatic price increases driven by increased demand, the weakness of the U.S. dollar and other causes. Company witnesses William Herdegen and Dana Crawford discuss this impact in their Direct Testimonies addressing T&D and production, respectively. In each instance we have attempted to reflect this sensitivity in the maintenance normalization indexing.

Q: Does the Company request Commission authorization on any additional matters?

A: Yes, KCP&L requests Commission authorization on an accounting matter and a tariff matter.

Q: Please briefly describe the accounting request.

A: Financial Accounting Standard ("FAS") 158 requires the Company to convert its pension and other post-employment benefits ("OPEB") measurement date from September 30, 2008 to December 31, 2008. As a result, KCP&L will incur a "catch up" of three months of additional pension and OPEB expense in 2008. As more fully discussed in the Direct Testimony of Company witness John Weisensee, KCP&L requests the Commission to authorize the deferral of incremental FAS 158 pension and OPEB expense in a regulatory asset account and the amortization of such costs into rates over a five-year period commencing with the effective date of new rates in this rate proceeding.

Q: Please briefly describe the tariff request.

A: As more fully discussed in the Direct Testimony of Company witness Allen Dennis, KCP&L requests the Commission to authorize the implementation of a Residential Economic Relief Pilot Program. This program delivers a monthly $50 "fixed credit" to low-income customers in an effort to improve low-income home energy affordability. The details behind this program are included in the Company's proposed tariffs. The Company requests that 50% of the cost of this program be deferred until the 2009 case, with cost recovery determined at that time. The remaining 50% of cost will be borne by KCP&L's shareholders.

Q: The Report and Order in the 2007 case addressed the Commission's concerns regarding the Company's all-electric and separately metered space heating rates. Has the Company addressed this issue in its direct testimonies in this rate proceeding?

A: Yes, the Company was ordered to present in its next rate case "complete cost of service and/or cost-effectiveness studies and analyses of KCP&L's general service all-electric tariffs and separately metered space heating rates…." The study and analysis was prepared by Paul Normand of Management Applications Consulting, Inc. and he presents the results of his study in his Direct Testimony in this rate proceeding. Further, KCP&L witness Tim Rush discusses the electric rate design related to this issue in his Direct Testimony.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-____

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 sixteen (16) 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 5th day of ~~August~~ September 2008.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200