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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing

May 4, 2009  
Jefferson City, Missouri  
Volume 11

In the Matter of the Application )  
of Aquila, Inc. d/b/a KCP&L )  
Greater Missouri Operations ) Case No. HR-2009-0092  
Company, For Approval to Make )  
Certain Changes in its Charges for )  
Steam Heating Service )

NANCY M. DIPPELL, Presiding,  
DEPUTY CHIEF REGULATORY LAW JUDGE.

JEFF DAVIS,  
TERRY JARRETT,  
COMMISSIONERS.

REPORTED BY:  
KELLENE K. FEDDERSEN, CSR, RPR, CCR  
MIDWEST LITIGATION SERVICES

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FOR: Kansas City Power &amp; Light.

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FOR: Staff of the Missouri Public  
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1 P R O C E E D I N G S

2 JUDGE DIPPELL: Good morning. This is Case  
3 No. HR-2009-0092, in the matter of the application of  
4 KCP&L Greater Missouri Operations Company for approval to  
5 make certain changes in its charges for steam heating  
6 service. My name is Nancy Dippell. I'm the Regulatory  
7 Law Judge assigned to this matter.

8 I'd like to begin this morning by taking  
9 entries of appearance. Let's begin with KCP&L.

10 MR. FISCHER: Thank you, Judge. Let the  
11 record reflect the appearance of James M. Fischer, Carl  
12 Zobrist, Roger Steiner, Curtis Blanc and Chuck Hatfield on  
13 behalf of KCPL Greater Missouri Operations Company. Our  
14 addresses and telephone numbers are on our written  
15 entries. Thank you.

16 JUDGE DIPPELL: Office of Public Counsel.

17 MR. MILLS: On behalf of the Office of the  
18 Public Counsel and the public, my name is Lewis Mills. My  
19 address is Post Office Box 2230, Jefferson City, Missouri  
20 65102.

21 JUDGE DIPPELL: Ag Processing?

22 MR. CONRAD: Stu Conrad, David Woodsmall,  
23 law firm of Finnegan, Conrad & Peterson, 3100 Broadway,  
24 Suite 1209 in Kansas City, Missouri 64111. And by the  
25 way, your Honor, we're also -- within the group that is

1 supporting this effort are two additional companies,  
2 Triumph Food and Omni. They have not, however, intervened  
3 largely because they made their decision too late to do  
4 so.

5 JUDGE DIPPELL: I'm going to need you to  
6 speak up a little, Mr. Conrad.

7 MR. CONRAD: What did you not get?

8 JUDGE DIPPELL: I heard it, but I had to  
9 listen very carefully.

10 MR. CONRAD: All right. I apologize.

11 JUDGE DIPPELL: Staff.

12 MR. WILLIAMS: Kevin Thompson, Steven  
13 Dottheim, Nathan Williams, Eric Dearmont, Sarah  
14 Kliethermes, Jennifer Hernandez, Samuel Ritchie, P.O.  
15 Box 360, Jefferson City, Missouri 65102.

16 JUDGE DIPPELL: I think you left yourself  
17 out, Mr. Williams.

18 MR. WILLIAMS: I did. Nathan Williams as  
19 well.

20 JUDGE DIPPELL: Very well. Is there anyone  
21 else that needs to make an entry of appearance?

22 (No response.)

23 JUDGE DIPPELL: All right, then. I was  
24 asked earlier about the exhibits. We had the exhibits  
25 premarked, and I did want to ask counsel how you wanted to

1 handle the exhibits, if they would be entered as you go or  
2 if they would be entered at the end. Sometimes when we  
3 have testimony by issue, you have preferred to enter them  
4 at the end. Is there any thoughts on that matter?

5 Mr. Conrad?

6 MR. CONRAD: I had sent around an e-mail, I  
7 think within the last 36 hours, suggesting the issue by  
8 issue approach, and I didn't get back any objections to  
9 that. That doesn't mean that everybody's agreeable. They  
10 can speak for themselves.

11 What that suggestion entailed, though, was  
12 that we would not offer the witness' testimony until we  
13 got through with their final appearance. Now, in some  
14 cases that might be their first one, but there's some  
15 witnesses that have several topics, and we wouldn't take  
16 that up until we put that forward. It's all premarked as  
17 I understand from your earlier orders. I think maybe  
18 others can speak to that.

19 JUDGE DIPPELL: Would anyone have an  
20 objection to handling it that way, basically as the  
21 witness has finished all of their testimony, that is when  
22 the exhibits would be offered?

23 MR. FISCHER: We wouldn't have an objection  
24 to that, Judge.

25 JUDGE DIPPELL: All right.

1                   MR. WILLIAMS: Staff has no objection to  
2 that process.

3                   MR. MILLS: No objection.

4                   JUDGE DIPPELL: All right. Then we'll  
5 proceed in that manner. And as well I'm going adopt the  
6 order of witnesses that was proposed by Staff and the  
7 company I believe also.

8                   MR. FISCHER: Judge, we did have one  
9 preliminary matter regarding a witness availability issue  
10 that I'd like to address early on.

11                   JUDGE DIPPELL: Go ahead, Mr. Fischer.

12                   MR. STEINER: Barbara Curry is scheduled  
13 for tomorrow on two issues, short-term incentive and SERP,  
14 and she's unavailable due to the annual meeting, and she  
15 could be available May 6th.

16                   JUDGE DIPPELL: All right.

17                   MR. STEINER: And I don't know if you want  
18 to just move the issues then or take her out of order,  
19 whatever the preference is.

20                   JUDGE DIPPELL: Let me ask the other  
21 parties their preference for Ms. Curry, take her out of  
22 order or rearrange issues?

23                   MR. WILLIAMS: Judge, we'd want to talk  
24 amongst ourselves before we make a proposal or a response  
25 on that.

1                   JUDGE DIPPELL: We'll save that one for  
2 after our morning break, then.

3                   MR. WILLIAMS: Judge, in the same vein,  
4 Bill Harris with the Staff is unavailable for the first  
5 two days of the hearing, and he's scheduled on fuel for  
6 tomorrow. He'll be available Wednesday and thereafter,  
7 but the first two days he has availability issues for  
8 medical reasons.

9                   MR. FISCHER: Judge, if it would help,  
10 Kansas City -- KCPL will not have any questions for  
11 Mr. Harris, and we could waive him and he wouldn't have to  
12 come at all, unless there's a need for him for some other  
13 reason.

14                  MR. CONRAD: We're looking at that, Judge,  
15 but we haven't made a decision on that at least at this  
16 point. Mr. Williams had made us aware of Mr. Harris'  
17 scheduling difficulty. We didn't have any objection to  
18 taking him, trying to work him in Wednesday or Thursday,  
19 whenever he was available.

20                  JUDGE DIPPELL: Okay. I'm going to -- are  
21 there any other scheduling issues, witness unavailability?  
22 There was one witness, I believe Mr. Ensrud, was not  
23 available, and that was on the list on certain days. But  
24 I'm going to take up the witness order and so forth then  
25 for the following days after you-all had a chance to talk



1 maybe either after the first break or after lunch. For  
2 today, everyone's available and ready to go that's on the  
3 list for today, correct?

4 MR. FISCHER: Yes. I also had a bit of a  
5 concern. I think we may go -- maybe I'm optimistic, but I  
6 think we may go faster than our witness list indicates,  
7 too. We may be able to move more quickly than what that  
8 indicates.

9 JUDGE DIPPELL: Well, I hope that that's  
10 the case, and we will, as usual, I mean, work with the  
11 schedule as we go, try to keep things moving, and try to  
12 keep them in some sort of order, but be prepared to keep  
13 moving on issues as we go if we get to them faster.

14 MR. WILLIAMS: Judge, in the past with rate  
15 cases such as this where we've broken up the hearings by  
16 issue, we've done I guess what have been characterized as  
17 mini openings, and there's been some discussion about  
18 using that approach here.

19 JUDGE DIPPELL: And that was my next  
20 question. Is that the preferred approach, mini opening  
21 statements, opening statements by issue?

22 MR. CONRAD: Yes.

23 JUDGE DIPPELL: All right.

24 MR. ZOBRIST: Judge, I would just say,  
25 there are certain issues where we're not going to make an

1 opening statement, if the other parties want to do so. I  
2 don't intend to make one on cost of capital, which is my  
3 topic.

4 JUDGE DIPPELL: All right. Well, it can  
5 certainly be waived as we get to each issue.

6 All right. Other procedural matters and  
7 pending motions? I did have Staff had a pending motion to  
8 file some affidavits. GMO had a motion to file the  
9 curriculum vitae of Mr. Hadaway. I didn't have any  
10 objections to those, so I'm going to grant those motions.

11 Also, I would ask that you turn off your  
12 portable devices so that they do not interfere with our  
13 web casting.

14 Also, there's some people doing some work  
15 in the building. I've been informed that it is possible  
16 that the fire alarms could go off and that it should be a  
17 false alarm, that we should ignore it. Also, on Wednesday  
18 there will be someone here testing fire alarms and so they  
19 should go off on Wednesday. So expect those possible  
20 interruptions.

21 MR. CONRAD: Perhaps to that point, I will  
22 bubble this to the top, but we have had another exchange  
23 of correspondence at least from my shop that what we might  
24 try to do this morning, by your leave of course, was to go  
25 through the openings, to the extent people had them, and

1 then take a long break. The company has indicated to me  
2 this morning they were amenable to that to again continue  
3 to explore whether it's necessary for us to sit here  
4 Wednesday and listen to the test of the fire alarm.

5 JUDGE DIPPELL: All right. I am certainly  
6 agreeable to that, and with that, then, I think we could  
7 go ahead and begin with some opening statements and get  
8 this ball rolling. Let's start with GMO.

9 MR. FISCHER: May it please the Commission?  
10 My name is Jim Fischer, and I'll be working with the  
11 company, representing them today.

12 This is the first steam heating rate case  
13 since KCPL Greater Missouri Operations Company, which I'll  
14 also prefer to as GMO, was acquired by Great Plains  
15 Energy. In this case, the company has requested a base  
16 rate increase of \$1.3 million or about 7.7 percent to  
17 recover the cost of providing steam heating service in the  
18 area formerly served by Aquila Networks L&P.

19 The primary driver for this rate case is  
20 the recovery of fuel costs. While the company has a  
21 quarterly adjustment clause which is similar to a fuel  
22 adjustment clause to recover fuel expenses, the QCA only  
23 recovers a portion of the actual fuel expenses incurred by  
24 the company. The fuel cost is adjusted to be only  
25 80 percent of the incremental fuel expenses after a coal

1 usage target adjustment is made.

2                   From the company's perspective, in recent  
3 years the steam heating business has not earned a  
4 reasonable rate of return, and from our perspective a lot  
5 of the reason for that poor performance of this division  
6 is due to the flawed design of the QCA.

7                   In this case, the company's requesting to  
8 continue the QCA, but it proposes to change or modify the  
9 recovery adjustment to reflect 100 percent of the recovery  
10 of the incremental fuel costs.

11                   The company is also proposing a rate design  
12 change that would rebase the fuel cost to include the  
13 expected fuel expenses filed in this case into the base  
14 rates. This would establish a new baseline for the QCA  
15 adjustment in the future. This is similar to the rebasing  
16 of fuel costs that occurred in electric cases in the '70s  
17 when the electric companies had fuel adjustment clauses.

18                   I'd like to give the Commission a big  
19 picture, though, before we go too far of where I think the  
20 company and the Staff cases are at this point. I'd like  
21 to have an exhibit marked if that would be possible.

22                   JUDGE DIPPELL: All right. This is  
23 something in addition to your already marked exhibits?

24                   MR. FISCHER: That's correct.

25                   JUDGE DIPPELL: This should be GMO 21.

1 (GMO EXHIBIT NO. 21 WAS MARKED FOR  
2 IDENTIFICATION BY THE REPORTER.)

3 MR. FISCHER: As I mentioned, the company's  
4 request in its tariff filing was for a \$1.3 million rate  
5 increase on base rates. In addition, the company's  
6 tariffs reflect the company's proposal to move 3.4 million  
7 of fuel costs that are currently recovered through the  
8 quarterly adjustment clause into base rates and establish  
9 a new baseline for future QCA adjustments.

10 This is what I referred to as the fuel  
11 rebasing proposal. The rebasing of fuel costs is  
12 basically just moving the fuel costs from the quarterly  
13 adjustment clause bucket into the base rate bucket.

14 As I mentioned, the company originally  
15 filed for a \$1.3 million base rate increase, not including  
16 the rebasing of fuel costs. Now, after some compromises  
17 on the issues, the current reconciliation reflects the  
18 fact that the company's case for the steam service  
19 supports an increase of about \$1.1 million. However, this  
20 does not include the 3.4 million of fuel costs that would  
21 be rebased or moved from the QCA bucket into the base rate  
22 bucket.

23 According to the reconciliation, Staff's  
24 revenue requirement as of September 30, 2008 is  
25 \$3,774,259. In its original filing, Staff included a

1 \$100,000 allowance for known and measurable changes for  
2 the steam system. According to Mr. Featherstone's  
3 company, this plug as we've sometimes called it is a rough  
4 estimate designed to cover an expected or anticipated  
5 increase in the overall revenue requirement being  
6 recommended in this case due to events in the true-up  
7 period.

8                   Staff's case after the true-up then would  
9 be approximately \$3.9 million. Now, it's my understanding  
10 this figure would assume no quarterly cost adjustment  
11 clause and all of Staff's revenue requirement would be  
12 reflected in base rates on an equal percentage basis.

13                   The largest issues I've also listed at the  
14 bottom of that exhibit, ROE, plant additions, depreciation  
15 and conjunctive billing.

16                   I addressed in my opening statement in the  
17 KCPL rate case two weeks ago the dramatic changes that  
18 occurred in the capital market since the company filed its  
19 case in September of 2008, and I'm not going to repeat  
20 those -- that information at this point, but I would note  
21 that Dr. Sam Hadaway will be here later today, and he can  
22 answer your questions on the cost of capital issue. He'll  
23 explain why the company's cost of equity now is 11.55  
24 percent following the recent changes that have occurred in  
25 the turbulent financial markets.

1                   The plant additions issue is really a  
2 true-up issue that will reflect the cost of work that's  
3 been done on boiler No. 5 out at the Lake Road plant.  
4 This is an increase to the company's revenue requirement  
5 by approximately \$170,000. I don't really think this is  
6 an issue that will have to be resolved by the Commission,  
7 but it will come into the case as part of the true-up  
8 process.

9                   The depreciation issue is a \$140,000 issue.  
10 The company recommends using the depreciation rates that  
11 were approved in the company's last steam rate case, which  
12 is Case HR-2005-0450. In the near future, there will be a  
13 system-wide depreciation study conducted on all Kansas  
14 City Power & Light and GMO assets with the completion of  
15 the Iatan 2 plant.

16                   Staff has agreed to wait for that  
17 depreciation study for the Kansas City Power & Light  
18 Company system, and it would make sense from our  
19 perspective and we think it would be more efficient to use  
20 that comprehensive study to review the GMO plant accounts,  
21 including the steam accounts. We recommend that existing  
22 steam depreciation rates be maintained in this case until  
23 that comprehensive study is completed.

24                   We do have, though, Dr. Ronald White here  
25 to discuss and address the deficiencies in the Staff's

1 current study that was performed in this case, but I still  
2 think it would be more reasonable and efficient to deal  
3 with those substantive problems in the next case when a  
4 new comprehensive study is available for the Commission's  
5 review.

6                   Like the recent Kansas City Power & Light  
7 rate case, the company and Staff are really not that far  
8 apart on the revenue requirement issues in this case. If  
9 the Commission splits the difference on ROE, that would  
10 add about \$100,000 to the Staff's case. If the Commission  
11 decided to wait to change the depreciation rates until a  
12 comprehensive study is completed following the completion  
13 of the Iatan 2 plant, then that decision would add an  
14 additional \$140,000 to the Staff's revenue requirement.  
15 And assuming the plant additions is reflected in the  
16 true-up proceeding, then that would add another \$170,000  
17 to the Staff's case.

18                   Now, under those circumstances, if my math  
19 is right, Staff's revenue requirement would be  
20 approximately 4.2, \$4.3 million, and that would compare to  
21 the company's current case of \$4.5 million, including the  
22 rebasing of fuel.

23                   Now, on the rate design issue, the company  
24 is proposing that an equal percentage increase be applied  
25 to all the rate components of each tariff for the non-fuel



1 portion of the rate increase. As I mentioned earlier, the  
2 company's also proposing to rebase the fuel cost to equal  
3 the expected cost for fuel expenses filed in this case.

4                   It's my understanding that Staff's position  
5 on rate design is to spread its revenue increase on an  
6 equal percentage basis to the base rates without a  
7 quarterly adjustment clause.

8                   And in the rebuttal testimony of AGP's  
9 witness Don Johnstone at page 2, Mr. Johnstone supports  
10 the company's proposal to continue the current rate design  
11 and also the company's proposal to reflect the current  
12 fuel costs as the base fuel amount in base rates. If I'm  
13 misunderstanding that proposal, I'm sure I'll be  
14 corrected.

15                   I'd also like to mark one other exhibit  
16 related to the quarterly cost adjustment clause.

17                   JUDGE DIPPELL: Can I get three other --

18                   MR. FISCHER: Certainly.

19                   JUDGE DIPPELL: -- copies of that? And  
20 this would be GMO 22.

21                   (GMO EXHIBIT NO. 22 WAS MARKED FOR  
22 IDENTIFICATION BY THE REPORTER.)

23                   MR. FISCHER: Turning to the QCA issue just  
24 for a moment, the QCA recovers fuel costs above 3.0050 per  
25 MMBtu of input steam. It's adjusted by two factors.

1 First an adjustment is made to reflect the coal generation  
2 versus natural gas generation. This adjustment is  
3 designed to give the company an incentive to use coal  
4 rather than natural gas to produce steam.

5                   Recently as natural gas prices have  
6 dramatically declined, this feature of the QCA has  
7 operated as a bit of a penalty when the company has found  
8 it more economical to use natural as to fire the boiler.

9                   The company has also discovered that its  
10 ability to achieve the targeted level of coal operations  
11 is highly dependent on two factors that are outside of its  
12 control. First, the level of coal generation is heavily  
13 dependent upon the level of the steam customers'  
14 operations. As the customer loads fall, the company does  
15 not need to burn as much coal.

16                   Second, when the Lake Road plant is needed  
17 for electricity production, the QCA formula will allocate  
18 a greater portion of the steam produced from coal to the  
19 electric operations. In this event, less than the  
20 targeted level of coal generation included in the QCA will  
21 be allocated to the steam side of the business.

22                   As Tim Rush explains in his direct  
23 testimony, this feature of the QCA has resulted in an  
24 under-recovery of approximately \$3.4 million since the  
25 inception of the QCA.

1                   There's also a second adjustment to the QCA  
2 process that needs to be revisited. This second  
3 adjustment reduces the actual level of fuel cost recovery  
4 by 20 percent right off the top. This feature of the QCA  
5 results in the company recovering only 80 percent of its  
6 incremental fuel costs. This feature has resulted in a  
7 loss of \$1 million since the inception of the QCA.

8                   By rebasing the fuel costs included in  
9 rates, the base rates will essentially recover all of the  
10 expected fuel costs and a new base rate will be  
11 established. In addition, the company is recommending  
12 that the QCA no longer include a coal performance standard  
13 or be adjusted by 80 percent on a going-forward basis.  
14 Instead, the company should be allowed to recover the full  
15 amount of its incremental costs through the QCA.

16                   Now, if you have questions regarding this  
17 issue, Tim Rush will be available to answer your  
18 questions. Thank you very much for your attention today.  
19 We look forward to your questions.

20                   JUDGE DIPPELL: Thank you. Staff?

21                   MR. WILLIAMS: Thank you, Judge. I do have  
22 some exhibits, and I think I'll take care of getting those  
23 marked and circulated up front.

24                   JUDGE DIPPELL: Okay. If you can give me  
25 the extra copies for the other Commissioners, please.

1                   MR. WILLIAMS: The first one I don't know  
2 if we need to mark or not. It's just a courtesy copy of  
3 Exhibit 205, which is the April 22 of 2009 reconciliation.

4                   JUDGE DIPPELL: It's already in your list?

5                   MR. WILLIAMS: It's premarked as 205.

6                   JUDGE DIPPELL: As 205?

7                   MR. WILLIAMS: Let me check.

8                   JUDGE DIPPELL: Or as 5?

9                   MR. WILLIAMS: 205. The reason for that is  
10 I wasn't sure about what consolidation might occur in the  
11 three cases or the two.

12                   JUDGE DIPPELL: Okay.

13                   MR. WILLIAMS: Then what I believe would be  
14 Staff Exhibit 220 is a current rate sheet for Kansas City,  
15 KCP&L Greater Missouri Operations Company that's on file  
16 with the Commission.

17                   JUDGE DIPPELL: And this one's Staff 220.

18                   (STAFF EXHIBIT NO. 220 WAS MARKED FOR  
19 IDENTIFICATION BY THE REPORTER.)

20                   MR. WILLIAMS: Then Staff 221 is a copy of  
21 a proposed tariff rate sheet that corresponds to the  
22 current tariff rate sheet that we just marked as  
23 Exhibit 220.

24                   JUDGE DIPPELL: Okay. Staff Exhibit 221 is  
25 marked.

1 (STAFF EXHIBIT NO. 221 WAS MARKED FOR  
2 IDENTIFICATION BY THE REPORTER.)

3 MR. WILLIAMS: May it please the  
4 Commission? My name is Nathan Williams, and I'm  
5 representing the Staff here before you today.

6 (The hearing was interrupted by the fire  
7 alarm.)

8 JUDGE DIPPELL: This would be that  
9 interruption I was talking about. That should be a false  
10 alarm. I guess we can go off the record until the fire  
11 drill has subsided.

12 (Discussion off the record.)

13 JUDGE DIPPELL: Let's go back on the  
14 record. Okay. We'll resume then with -- we'll begin with  
15 Staff's opening statement.

16 MR. WILLIAMS: May it please the  
17 Commission?

18 The Staff expects the evidence in this case  
19 will show the following: KCPL Greater Missouri Operations  
20 Company began this case with a tariff filing seeking a  
21 general rate increase designed to collect from its  
22 approximately one-half dozen customers an additional  
23 \$5.8 million in revenues exclusive of fuel adjustment  
24 clause, which has been referenced as quarterly cost  
25 adjustment or QCA. This represents a proposed increase of

1 about 34 percent in non-fuel-clause revenues.

2                   The magnitude of this increase is perhaps  
3 best illustrated by comparison of the current and proposed  
4 reserve capacity and energy charges. I passed around some  
5 exhibits earlier. If you look at Exhibit 220 and  
6 Exhibit 221, Staff Exhibit 220 are the current rates for  
7 steam service by KCP&L Greater Missouri Operations  
8 Company, and Exhibit 221 is the proposed change in those  
9 rates.

10                   As you can see, the reserve capacity charge  
11 change is relatively small, on the order of .75 percent.  
12 But if you look at the energy charges, for the first  
13 300 million Btus per million Btu of reserve capacity, the  
14 rate goes from \$5 -- or let's do it this way,  
15 5.8768 to 7.9728, which is an increase of approximately  
16 35.67 percent, and for over 300 million Btus per million  
17 Btus of reserve capacity, the charge is proposed to go  
18 from 4.7762 to 6.8639, an increase of approximately  
19 43.71 percent.

20                   That gives you a flavor for the kind of  
21 increase customers are going to see out of this rate case  
22 if the Commission grants the relief that the company's  
23 requested in its tariff filing, if the rates were just  
24 allowed to go into effect.

25                   Before true-up, the Staff's revenue

1 requirement increase for the steam operations of KCP&L  
2 Greater Missouri Operations Company is about  
3 \$3.8 million as reflected on the reconciliation. That's  
4 approximately a 23 percent increase. The Staff does not  
5 anticipate the steam revenue requirement increase will  
6 change significantly through the true-up.

7                   As shown on the reconciliation that was  
8 filed April 22nd, the largest dollar issue between the  
9 Staff and KCP&L Greater Missouri Operations Company is  
10 coal fuel expense and steam operations in and about  
11 St. Joseph, Missouri. That issue is about a \$2.6 million  
12 issue.

13                   The return on equity difference between  
14 9.75 percent that the Staff proposes as its midpoint and  
15 the 11.55 percent that KCP&L Greater Missouri Operations  
16 Company proposes is worth about \$200,000 in this case.

17                   The capital structure issue in this case is  
18 on the order of \$65,000, and depreciation is about  
19 \$140,000. I've been advised by Staff that what  
20 Mr. Fischer referred to as the conjunctive billing issue,  
21 instead of being worth 120 as shown on the reconciliation  
22 or 110 as related by Mr. Fischer, is actually on the order  
23 of \$85,000.

24                   There are additional issues in the case  
25 such as short-term incentive compensation, supplemental

1 executive retirement pension costs, payroll overtime,  
2 merger transition costs and depreciation rates that are  
3 all issues of less than \$100,000 in difference between the  
4 company and Staff.

5                   Mr. Fischer suggested that there should be  
6 delay in handling depreciation rates to permit a full -- a  
7 comprehensive depreciation study. The Staff has done one.  
8 There's no reason for delay.

9                   The Staff is not proposing a fuel clause  
10 for the steam operations of KCP&L Greater Missouri  
11 Operations Company. As the Commission may recall, the  
12 quarterly cost adjustment came about as a result of a  
13 stipulation. Staff was a signatory by that -- to that  
14 stipulation, but it was primarily an agreement reached  
15 between customers of what was then Aquila, Inc. and  
16 Aquila, Inc.

17                   Regarding the existing steam fuel -- Staff  
18 wouldn't be opposed in this case to a quarterly cost  
19 adjustment mechanism outright if the company and its  
20 customers were able to agree to a fuel clause. Staff  
21 likely would be in favor of allowing that clause to go  
22 into effect.

23                   Regarding the existing steam fuel clause,  
24 the quarterly cost adjustment mechanism, the Staff would  
25 like to point out that under that mechanism, regardless of



1 what happens to rates in this case, there will continue to  
2 be monies collected under that clause. If you were to  
3 eliminate going forward a quarterly cost adjustment or a  
4 fuel clause, there still will be -- because it's  
5 retrospective in collecting the difference between costs  
6 that have been incurred and costs that were collected  
7 through base rates set in the last rate case, there will  
8 continue to be those costs collected prospectively until  
9 all of those differences have been collected out.

10                   Because rates set in this case are going to  
11 be prospective in their operation, the Staff disagrees  
12 with KCP&L Greater Missouri Operation Company's  
13 characterization of the proposed rate increase that  
14 they've made of being a 7.7 percent increase based on  
15 \$1.3 million in revenue deficiency. Staff believes it is  
16 more accurate to characterize the original increase  
17 requested in this case to be about a 34 percent increase,  
18 not a 7.7 percent increase.

19                   The Staff will make opening statements  
20 before each issue as they come up, and I thank you for  
21 your attention.

22                   JUDGE DIPPELL: Thank you. Public Counsel?

23                   MR. MILLS: Judge, I'll waive my opening  
24 statement. Thank you.

25                   JUDGE DIPPELL: Okay. Ag Processing?

1                   MR. CONRAD: Good morning. May it please  
2 the Commission? I was still chuckling about GMO 21, and  
3 I'll be looking forward to the witness that's going to  
4 authenticate that.

5                   I'm going to focus my comments at this time  
6 on the revenue issues in this case. I intend to address  
7 the specifics of the QCA a bit later and would  
8 respectfully reserve a more detailed treatment of the  
9 issues involved in that until that later time. I think  
10 that's presently scheduled for Thursday.

11                   But that said, a very brief reference to  
12 the QCA is necessary to establish some context. This  
13 general rate case is the first since the QCA, and I think  
14 a couple of other people have made that comment, was  
15 adopted for the steam business in St. Joseph. Much has  
16 happened since then. Steam business was a part of Aquila.  
17 QCA was developed by agreement between customers and  
18 Aquila. That agreement was approved by the Commission as  
19 being in the public interest. That's the end of it. It's  
20 a contract.

21                   If you look at that contract, there is no  
22 reserve clause. You-all may recall there was a squabble  
23 about a contract for an IEC in the Empire case where it  
24 was reserved and had a defined ending time or such earlier  
25 date as the Commission might terminate it. There is no

1 reserve authority here.

2                   The parties can certainly adjust their  
3 contract, and we're certainly not unwilling to discuss  
4 that, but the Commission approved the package as being in  
5 the public interest, and absent appropriate showing,  
6 that's the end. There is no unilateral ability to modify  
7 a contract.

8                   The QCA agreement was developed by mutual  
9 consent and incorporated an important 80 by 20 cost  
10 sharing mechanism. It is indeed interesting looking at  
11 GMO 22. They were talking about needed changes. Well,  
12 every one of those, the 80/20 mechanism, the coal  
13 performance standard, every one of those was in that  
14 agreement. It was in that agreement at the time Kansas  
15 City Power & Light Company through Great Plains Energy  
16 decided to purchase Aquila.

17                   You perhaps have heard the expression of  
18 moving to the nuisance. If I move to -- if I buy a piece  
19 of property that is adjacent to a coal mine, I'm not  
20 really going to be given a lot of latitude by a court when  
21 I go and sue the coal company asking them to shut down  
22 their operation.

23                   And they knew what those parameters were,  
24 either that or they didn't do a very good job of due  
25 diligence. So they bought that package. It's really

1     ironic to have a squabble about that at this point.

2                     You may hear reference today, in fact I  
3     just made it, to another important feature of the QCA, the  
4     coal performance standard. That standard ensures that  
5     customers do not pay higher costs if GMO or its  
6     predecessor, Aquila, did not operate the Lake Road plant  
7     consistent with reasonable expectations.

8                     It is again interesting that the very  
9     standard that is argued about and whined about on GMO 22  
10    was a figure that was agreed upon by Aquila and by the  
11    customers, and which this Commission approved. It is not  
12    intended as a penalty, although doubtless you will hear it  
13    referred to as an excruciating penalty.

14                    Rather, it is designed to avoid the steam  
15    customers becoming insurers of the efficient operation of  
16    the Lake Road plant. If something happens at the Lake  
17    Road plant, one or -- well, I don't think Commissioner  
18    Davis, I know Commissioner Jarrett was not here when  
19    St. Joe Light & Power Company came close to blowing up  
20    part of the Lake Road plant with an interesting new  
21    control that they had introduced, which unfortunately they  
22    had installed in their control room in such a way that in  
23    order to fit it in they had to remove the manual off  
24    switch. And when the electronic control did not function,  
25    people were not able to find the manual off switch for

1 very good reason.

2                   So it's that type of thing that we did not  
3 as customers want to insure. All it does is set a minimum  
4 level of coal performance, which was agreed upon again  
5 between Aquila and Aquila customers. Now, we're amenable  
6 to looking at that, but that seems to not be the game  
7 here. The game seems to be let's make a unilateral  
8 change.

9                   But again, at a later stage of this case I  
10 intend to and expect to have more to say about that coal  
11 performance standard.

12                   With that as a context, an unfortunate  
13 byproduct of this being the first rate case after  
14 implementation of that QCA is that parties have struggled  
15 somewhat, and that's manifest in some of the materials  
16 that you've already seen with the impact of the QCA on the  
17 revenues and the revenue requirements calculations.

18                   Staff counsel a few moments ago stated that  
19 they believe that KCPL had applied for 5.8 million. Well,  
20 that doesn't square with 7.7 percent increase. It's in  
21 their minimum filing requirements. It's in their  
22 application. It's in a lot of stuff.

23                   KCPL has different numbers, but we were  
24 looking as customers at something, shall we say, in excess  
25 of 35 percent of that. KCPL said, as St. Joe said before

1 it, we like the steam business. We don't want to shut it  
2 down. Let me suggest to you a very good way to shut a  
3 steam business down. That's to increase the rates about  
4 35 percent, because that will drive people off.

5                   You're not talking about 100,000 customers  
6 here. You're talking about five that are clustered around  
7 the Lake Road plant. I don't know if you've ever been on  
8 a tour up there, but the steam pipes that come out of Lake  
9 Road essentially are aboveground. They even go up above a  
10 road at one point. They're insulated, but they are  
11 essentially offshore drops. They don't go very far beyond  
12 the Lake Road plant.

13                   For budgetary reasons, steam customers have  
14 historically relied on Aquila and Staff to develop and  
15 work on revenue requirements. Indeed, Staff's good work  
16 here has allowed customers to focus their participation  
17 largely on rate design matters. But unfortunately the  
18 presentations have suffered for want of clarity, as you  
19 see.

20                   KCPL in its applications states in about  
21 five different places, perhaps more, that it proposes a  
22 1.3 million aggregate revenue increase, 7.7 percent.  
23 Staff direct testimony finds a need for 1.006 million rate  
24 increase.

25                   To add to the confusion, in rebuttal

1 testimony we find schedules labeled in the name of  
2 Mr. Featherstone of the Staff that are attached to the  
3 rebuttal of GMO witness Ronald Klote. There the alleged  
4 revenue deficiency is 2.182 million. You heard Staff  
5 counsel this morning suggest that it's somewhere around  
6 3.8. Well, neither Mr. Rush or Mr. Featherstone explain  
7 these differences or changes.

8                   Still further confusion results from the  
9 reconciliations. On April 22, Staff submitted a  
10 reconciliation that appears to come in just under  
11 3.8 million and climbs to just under 3.9 million with  
12 OPC's adjustments. But according to GMO, its number is  
13 somewhere between 1 and 1.7 million. This difference in  
14 amount in customer impact is huge given the small size of  
15 GMO's steam business with just five customers.

16                   In a deposition taken last week, Mr. Rush  
17 stated that he had wished for clarity. That's a point on  
18 which we can agree. It will certainly be our goal to  
19 clarify for the Commission the size of the increase, if  
20 any, that is needed.

21                   The case may be thought of as having two  
22 overreaching components, overarching components rather.  
23 The first is the increase due to changes in fuel cost, and  
24 that can and should be separated to facilitate an  
25 understanding of the case. But at this point neither

1 KCPL, GMO or Staff has done so.

2                   The second component must address the  
3 quarterly cost adjustment mechanism, its structure and any  
4 rate impacts due to changes in that mechanism. If the QCA  
5 is found to be just and reasonable in its current form,  
6 then there will be no increase due to changes in fuel cost  
7 because the very nature of that mechanism addresses  
8 changes in fuel cost.

9                   Currently, the QCA operates to provide  
10 additional revenue when fuel costs are above the base  
11 amount of \$3 and half a penny, 3.005 per MMBtu of input.  
12 Since its inception, quarterly costs have gone up and  
13 down. In the most recent quarter for which we have  
14 results, the first three months of 2009, the average fuel  
15 cost was \$3.11. Indeed, the last two QCAs, January and  
16 April filings, represented reductions from prior levels.

17                   There will be much testimony, hand  
18 wringing, perhaps whining about fuel costs. What the  
19 facts will show is that costs go up and they go down and  
20 we are back to within 10 cents of where we started three  
21 years ago. The 3.8 million increase indicated by the  
22 Staff case is unnecessary and inappropriate because it is  
23 so far above reality of current costs.

24                   I don't know if you've been watching what's  
25 been happening in the gas market, but thankfully it has



1 been dropping and dropped very significantly, to the point  
2 that you-all may recall that in another case, which I need  
3 not mention, some of the margin for off-system sales  
4 disappear. We'll address that also in due course later in  
5 this case.

6                   The Staff case when properly presented will  
7 show that base non-fuel rates should be decreased, not  
8 increased. The record will show when we're done that the  
9 present base rates in combination with the QCA mechanism  
10 are providing adequate revenues, and as will be shown when  
11 we get to that portion of the case, the QCA is operating  
12 as intended and will continue to do so.

13                   There is no need for any substantial rate  
14 or revenue change to accommodate higher fuel costs. That  
15 is the very purpose of the QCA. Left alone or with the  
16 modest changes that we would be agreeable to, the QCA  
17 mechanism will continue to work well to balance the  
18 interests of customers and GMO.

19                   And with that, I would reserve additional  
20 comments, your Honor, for the specific issues. Questions?

21                   JUDGE DIPPELL: Thank you. All right,  
22 then. That covers the opening statements. How much time  
23 do you-all think you'd like to break? Do you want to  
24 break until after lunch? Is that -- it's almost ten  
25 o'clock now, or come --

1 MR. FISCHER: That makes sense to me.

2 JUDGE DIPPELL: All right, then. It may  
3 slow down that optimistic progress that we had earlier,  
4 but if you-all can settle it, that certainly helps us out  
5 all around. Do keep in mind your witness schedules if you  
6 can't come to some other agreement, and when was Harris  
7 not available?

8 MR. WILLIAMS: Today and tomorrow.

9 JUDGE DIPPELL: Okay. All right. Then I  
10 think we'll go ahead and break then until one o'clock.  
11 Off the record.

12 (A BREAK WAS TAKEN.)

13 JUDGE DIPPELL: Okay. We are back on the  
14 record at almost three o'clock. We've delayed to allow  
15 the parties to talk settlement, and they have informed me  
16 off the record that those negotiations are being  
17 productive but have not concluded at this point, and we  
18 have some additional witness issues. Mr. Zobrist,

19 MR. ZOBRIST: The company would like to put  
20 Mr. Cline on out of order or alternatively confirm that  
21 Staff has no questions of him. I've been advised that  
22 neither Public Counsel nor Mr. Conrad have questions of  
23 Mr. Cline. He is the capital structure witness for the  
24 company.

25 JUDGE DIPPELL: And Mr. Williams, someone

1 for Staff is trying to determine if there's --

2 MR. WILLIAMS: Yes. Kevin Thompson,  
3 General Counsel, is the one responsible for this issue,  
4 and we're trying to locate him and make a determination as  
5 to whether or not there are any questions that Staff has  
6 for Mr. Cline. At this point we're not aware of any, but  
7 we're not quite ready to just say we have none.

8 MR. CONRAD: Judge Dippell, now that we're  
9 back on the record, I would confirm Mr. Zobrist's comment  
10 that we don't have any questions for Mr. Cline.

11 JUDGE DIPPELL: Okay. Well, we were  
12 scheduled to begin with Mr. Rush. Do you-all feel that if  
13 Mr. Cline is not needed today, do you feel that it would  
14 be more productive to continue your negotiations today or  
15 more productive to begin with Mr. Rush?

16 MR. CONRAD: The former.

17 JUDGE DIPPELL: How does the company --  
18 what's the company's reaction to that one?

19 MR. ZOBRIST: Because Mr. Rush has been  
20 instrumental to the settlement talks, I think if they're  
21 going to continue as Mr. Conrad suggests, the company is  
22 willing to put Mr. Hadaway on the stand, who is our cost  
23 of capital witness. He is an out-of-town witness. He's  
24 available today as well as tomorrow, but we could put him  
25 on, unless the parties want to adjourn again, which the

1 company's not opposed to but shares the Bench's concern  
2 about not getting terribly off schedule if matters are not  
3 resolved.

4 JUDGE DIPPELL: Mr. Conrad?

5 MR. CONRAD: We would not have any  
6 questions for Mr. Hadaway.

7 JUDGE DIPPELL: All right. Does Staff have  
8 questions for Mr. Hadaway?

9 MR. WILLIAMS: I would have to confirm, but  
10 I believe we do.

11 JUDGE DIPPELL: Public Counsel?

12 MR. MILLS: I don't anticipate asking  
13 Mr. Hadaway any questions in this case.

14 JUDGE DIPPELL: Would you have any  
15 objection to putting Mr. Hadaway on now since he is an  
16 out-of-town witness?

17 MR. MILLS: I think for some of us, and I  
18 don't want to speak for Mr. Conrad, it's going to be  
19 difficult to participate, with those of us who have only  
20 one attorney, to participate in settlement talks and the  
21 hearing at the same time. But if it's your desire to go  
22 ahead with the hearing, then I would simply have to look  
23 at the transcript and see what happened with Mr. Hadaway.

24 MR. ZOBRIST: That's fine with us. I  
25 certainly don't want to press Mr. Hadaway and anybody, and

1 I understand Mr. Mills' predicament. I was just  
2 indicating we have some flexibility if you want to proceed  
3 on two tracks.

4 JUDGE DIPPELL: Let me take just one  
5 moment. I'm going to consult with some of the  
6 Commissioners who are eagerly waiting to see whether we're  
7 going forward or not and see what their preference is. So  
8 let's go off the record for just about five minutes.

9 (AN OFF-THE-RECORD DISCUSSION WAS HELD.)

10 JUDGE DIPPELL: Mr. Williams stepped out.  
11 Were you able to find out, Ms. Kliethermes, if you had  
12 questions for Cline?

13 MS. KLIETHERMES: At this point, I don't  
14 believe I have any questions for Cline. If Mr. Thompson  
15 reappears, then we may have --

16 JUDGE DIPPELL: Mr. Dottheim just walked  
17 in. Perhaps he has more information. What I'm inclined  
18 to do is to just say let's adjourn today and hit the  
19 ground running tomorrow, unless we need to put Mr. Cline  
20 on because he has a conflict. Is that -- do we need to  
21 wait for word from the eighth floor?

22 MS. KLIETHERMES: The word is that Kevin  
23 Thompson is not in the building. So as it stands, we have  
24 nothing for Cline. Thank you.

25 JUDGE DIPPELL: All right. Thank you.

1                   MR. ZOBRIST: Judge, I would then move the  
2 admission of Cline Exhibits 1 and 2, which are his  
3 rebuttal testimony, highly confidential and nonproprietary  
4 and Exhibit 2, which is his surrebuttal.

5                   JUDGE DIPPELL: Would there be any  
6 objection to those exhibits?

7                   MR. CONRAD: None.

8                   JUDGE DIPPELL: Seeing no exhibits -- or  
9 seeing no objections, I will admit Exhibits 1 and 2.

10                  MR. ZOBRIST: Those are the --

11                  JUDGE DIPPELL: GMO Exhibits 1 and 2.

12                  MR. ZOBRIST: Exactly.

13                  JUDGE DIPPELL: And that's both the  
14 confidential and the non-confidential version.

15                  MR. ZOBRIST: We'll present those to the  
16 court reporter.

17                  (GMO EXHIBIT NOS. 1 AND 2 WERE MARKED AND  
18 RECEIVED INTO EVIDENCE.)

19                  JUDGE DIPPELL: Thank you. All right,  
20 then. Well, let's try to, like I say, hit the ground  
21 running, unless you-all inform me later today that you  
22 reached a settlement and we don't need to even do that  
23 much. 8:30 tomorrow.

24                  All right. We can be adjourned for  
25 today. I'll see you at 8:30 in the morning.

	EXHIBITS INDEX		
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## C E R T I F I C A T E

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STATE OF MISSOURI

)

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COUNTY OF COLE

)

) ss.

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I, Kellene K. Feddersen, Certified

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Shorthand Reporter with the firm of Midwest Litigation

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Services, do hereby certify that I was personally present

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at the proceedings had in the above-entitled cause at the

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time and place set forth in the caption sheet thereof;

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that I then and there took down in Stenotype the

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proceedings had; and that the foregoing is a full, true

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and correct transcript of such Stenotype notes so made at

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such time and place.

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Given at my office in the City of

15

Jefferson, County of Cole, State of Missouri.

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Kellene K. Feddersen, RPR, CSR, CCR

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