Exhibit No.:	
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	Miscellaneous Adjustments
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No:	*ER-2006-0314*
Date Testimony Prepared:	*August 8, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
August 2006

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

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan.	))))	Case No. ER-2006-0314

AFFIDAVIT OF CHARLES HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 27 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Charles Hyneman

Subscribed and sworn to before me this 7th day of August 2006.

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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CHARLES R. HYNEMAN

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

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DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2006-0314

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street, Room G8, Kansas City, Missouri, 64106.

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

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

Q. Please describe your educational background and work experience.

A. I was awarded a Masters of Business Administration from the University of Missouri at Columbia and a Bachelor of Science degree with a double major in Accounting and Business Administration from Indiana State University in Terre Haute, Indiana. I am a Certified Public Accountant (CPA) licensed in Missouri.

I served 12 years on active duty in the United States Air Force in the missile operations and contracting career fields. I was promoted to the rank of Captain in 1989. I was honorably discharged from the Air Force in December 1992 and joined the Commission Staff in April 1993.

Q. Have you previously filed testimony before the Commission?

A. Yes. Schedule 1, attached to this testimony, lists the cases in which I have filed testimony before the Commission.

Q. Did you make an examination and analysis of the books and records of Great Plains Energy, Inc. (GPE) and its regulated utility subsidiary Kansas City Power & Light Company (KCPL or Company)?

A. Yes, in conjunction with other members of the Commission Staff (Staff). I also reviewed Company responses to Staff data requests, as well as responses to data requests from other parties to this case. I reviewed various fuel contracts, fuel reports and invoices as well as Company testimony and workpapers related to fuel expense. I read GPE's and KCPL's annual reports to shareholders and annual and quarterly reports to the Securities and Exchange Commission (SEC), Form 10-K and Form 10-Q, respectively. I, along with other members of the Staff, held meetings and other discussion with KCPL employees who are knowledgeable of KCPL's fuel purchasing operations. Finally, I reviewed the Commission's Report and Order and the Stipulation and Agreement in Case No. EO-2005-0329, KCPL's Experimental Regulatory Plan.

Q. With reference to Case No. ER-2006-0314, what is the purpose of your direct testimony?

A. In this direct testimony I describe the Staff's recommendations and methodology used for determining fuel expense and fuel inventory levels. In addition I will address the Staff's proposed adjustments to certain test year expenses proposed by KCPL to include in cost of service in this case. Specifically, I will explain and sponsor the following adjustments which appear on Accounting Schedule 10, Adjustments to the Income Statement:

STB Complaint Case	S-9.2
Fuel Expense (coal)	S-9.3
Nuclear Replacement Power Outage Accrual	S-9.4
Fuel Expense (nuclear)	S-19.1
Fuel Expense (natural gas)	S-30.2
Purchase Power Energy	S-35.1

Purchased Power Demand Charges	S-36.1
Allowance for Miscellaneous Disallowances	S-82.8
Severance Cost Adjustment	S-72.1
Executive Retreat Adjustment	S-38.4/55.3, 73.5, 81.7
Local Meals Adjustment	S-48.3, 70.2, 72.8, 73.4, 81.6

In this testimony I will also explain the Staff's methodology in calculating its proposed levels of fuel and fuel-related inventories that should be included in KCPL's rate base. These investments, listed below, are reflected on Staff Accounting Schedule 2, Rate Base:

Coal Inventory
Nuclear Fuel Inventory
Oil Inventory
Limestone Inventory

Q. Please provide an overview of your testimony.

A. In this testimony I will describe how the Staff calculated the fuel and purchase power expense that should be included in the Staff's revenue requirement determination of KCPL. The Staff computed the fuel expense using prices and quantities incurred by KCPL through June 30, 2006. This included using fuel prices for nuclear, coal, including freight, natural gas, including natural gas transportation costs and oil. The Staff used a fuel and purchased power model to determine the overall fuel and purchased power expense.

I also calculated the levels of inventory using KCPL's targeted days of inventory with the exception of LaCygne 1 generating plant where a 90-day burn level of inventory was used for the relatively small level of high btu, or bituminous coal. I computed the oil and limestone inventories using a 13-month average of inventory levels and a mixture of current market prices and average inventory price.

I determined the level of the additional fuel costs including amounts for leasing new unit train sets recently added to KCPL's fleet as a direct result of fuel supply limitations

caused by the railroads. Deliveries were impacted by rail car derailments occurring in spring 2005 that necessitated KCPL, as well as other utilities to employ a fuel conservation program. While coal inventories levels are still below desired levels, there have been significant improvements allowing KCPL to recently lift the conversation program.

Other costs such as an amortization of costs of KCPL's complaint case against a railroad that transports coal to KCPL's Montrose plant, gas transportation charges, rail maintenance, non-labor fuel handling, unit train maintenance and assessments related to the production of nuclear fuel that are not included in the fuel model were added to determine the overall level of fuel expense.

The Staff's level of purchase power capacity expense was based on KCPL costs as reflected in its capacity agreements in effect for 2006.

I am also making an adjustment to remove costs relating to the severance payments to two former officers made by Great Plains Energy and charged to KCPL in the 2005 test year. I will explain why these costs should not be included in KCPL's cost of service in this case.

Finally I am making an adjustment based on an estimate of expenses KCPL charged to its books and records in 2005 that were either incorrectly charged to an above-the-line account, relate to lobbying activities, or should be charged to other GPE business units.

OVERVIEW OF ELECTRIC GENERATION FACILITIES

Q. Please list all KCPL generation facilities that KCPL used in the production of electric power?

A. Kansas City Power & Light is the second largest investor owned electric utility in Missouri, with most of its megawatt generation capacity being coal-fired. The remainder of

KCPL's generation is made up of nuclear, natural gas and oil. KCPL uses the following generating units to produce electric power:

Unit	Type	Year Completed	Capacity (MW) KCPL Share	Primary Fuel
Wolf Creek	Base Load	1985	548	Nuclear
Iatan No. 1	Base Load	1980	473	Coal
LaCygne No. 2	Base Load	1977	341	Coal
LaCygne No. 1	Base Load	1973	370	Coal
Hawthorn No. 5	Base Load	1969	563	Coal
Montrose No. 3	Base Load	1964	176	Coal
Montrose No. 2	Base Load	1960	164	Coal
Montrose No. 1	Base Load	1958	170	Coal
West Gardner Nos. 1,2,3,4	Peak Load	2003	308	Natural Gas
Osawatomie	Peak Load	2003	77	Natural Gas
Hawthorn No. 9	Peak Load	2000	136	Natural Gas
Hawthorn No. 8	Peak Load	2000	77	Natural Gas
Hawthorn No. 7	Peak Load	2000	77	Natural Gas
Hawthorn No. 6	Peak Load	1997	130	Natural Gas
Northeast Nos 17 and 18	Peak Load	1977	117	Oil
Northeast Nos 15 and 16	Peak Load	1975	116	Oil
Northeast Nos 13 and 14	Peak Load	1976	114	Oil
Northeast Nos 11 and 12	Peak Load	1972	111	Oil
Northeast Black Start Unit	Peak Load	1985	2	Oil
			4053	

The capacity listed in the chart above reflects KCPL's owned capacity and its share of jointly-owned generating plants.

Q. Please describe the Wolf Creek Generating Station (Wolf Creek).

A. KCPL owns 47% of Wolf Creek Nuclear Operating Corporation (WCNOC), the operating company for Wolf Creek. Wolf Creek, which began operating in 1985 is a 1,166 MW nuclear power plant located near Burlington, Kansas. WCNOC has approximately 1,000 employees.

KCPL's 47% ownership interest in WCNOC entitles it to 548 megawatts (MW) of the plant's capacity. This equates to approximately 14% of KCPL's total generating capacity. The other WCNOC partners include Westar Energy Inc., which owns a 47% interest and Kansas Electric Power Cooperative, Inc., which owns the remaining 6 percent. The co-

owners pay the operating costs of WCNOC equal to their percentage ownership in Wolf Creek.

Q. Please describe KCPL's coal generating facilities.

A. The Iatan power plan is jointly owned by KCPL, Aquila Inc. and The Empire District Electric Company, with ownership percentages of 70%, 18% and 12%, respectively. KCPL began running the plant as the operating partner in May 1980. The Iatan plant is a 670 MW base load power plant which uses low sulfur western coal as the main boiler fuel. Number 2 fuel oil is required for boiler startups and flame stabilization.

There are two coal-fired units at LaCygne Generating Station (LaCygne). LaCygne 1 uses a blended fuel mix containing approximately 85% Powder River Basin (PRB) low sulfur western coal and 15% Kansas/Missouri coal, referred to as high btu or bituminous coal. LaCygne 2 uses PRB coal. As the operator of LaCygne, KCPL arranges coal purchases and transportation services for the LaCygne Station. LaCygne 1 and 2 went into service in 1973 and 1977, respectively.

KCPL's Hawthorn Generating Station is located along the Missouri River in Kansas City, Missouri. Hawthorn Unit 5 was originally a 500 MW boiler commissioned by KCPL in 1969. In February 1999 a natural gas explosion destroyed the steam generator (boiler) unit. The rebuilt Hawthorn Unit 5 is currently rated at 563 MW. Commercial acceptance of the rebuilt unit occurred in June of 2001. The unit was designed for low-sulfur PRB coal and burns more than 2 million tons of coal annually, or an average of 7,000 tons daily at full load. KCPL has claimed that because of the new technology used to rebuild Hawthorn 5, it is the cleanest coal-fired power plant in the country.

KCPL's Montrose Station is located near Ladue, Missouri and is comprised of three base load coal units. The Montrose units represent KCPL's oldest coal units with Montrose 1 being completed in 1958 and rated at 170 MW, Montrose 2 was completed in 1960 and rated at 164 MW and Montrose 3 completed in 1964 and rated at 176 MW.

Q. Please describe KCPL's natural gas generating facilities.

A. Hawthorn units 7 and 8 are simple-cycle natural gas-fired turbines designed to serve peak load. Both units, which became operational in 2000 are rated at 72 MW base and 77 MW peak.

The Osawatomie Plant is located just south of Paola, Kansas. Unit 1 simple-cycle natural gas-fired turbine designed as a peaking facility. KCPL accepted Unit 1 in June of 2003. The unit is also rated at 72 MW base and 77 MW peak.

The West Gardner Plant site is located west of Gardner, Kansas. The four units are General Electric simple cycle natural gas-fired combustion turbines each rated at 72 MW base and 77 MW peak capacity.

Hawthorn Units 6/9 is a Siemens combustion turbine and a Nooter Eriksen heat recovery steam generator (HRSG) combined-cycle natural gas-fired turbine. KCPL accepted the unit in July 1999. Unit 6 is rated at 132 MW and unit 9 is rated at 55 MW. In combined-cycle operation, Unit 9's rating increases to 137 MW.

Q. Does KCPL have any units that use oil as the primary fuel source?

A. Yes, KCPL has eight combustion turbines at its Northeast Station in Jackson County, Missouri. These peak load facilities were all built in the mid 1970s and are KCPL's only units that use oil as a primary fuel source. Each generating unit at the Northeast Station is rated at slightly over 50 MW of capacity.

FUEL EXPENSE

Q. What was your responsibility in this case with regard to the determination of the Staff's recommended level of fuel expense?

A. I determined representative levels of commodity and transportation costs for coal, nuclear fuel, natural gas and fuel oil used to produce electricity. Staff witness Leon Bender, of the Commission's Energy Department, input the fuel prices I provided to him into the RealTime™ production cost model (fuel model) to calculate the "variable" fuel and purchase power cost to meet normalized native load. The Staff's fuel model calculates the variable portion of overall fuel and purchased power expense. For further explanation of the fuel model see Staff witness Bender's direct testimony in this case.

Q. Please explain how the Staff examined fuel prices in this case.

A. The Staff reviewed all of KCPL's coal commodity and coal transportation contracts. The Staff also reviewed coal commodity invoices from 2004 through June 2006. The Staff also reviewed natural gas and fuel oil purchases as reflected in KCPL's fuel reports, and invoices from its natural gas and oil suppliers. Finally, the Staff reviewed KCPL's purchased power capacity agreements. In addition to the above examination, the Staff also reviewed responses to data requests related to fuel and held several meetings and had several discussions with KCPL personnel concerning fuel expense and fuel inventory levels.

Q. How did the Staff use fuel prices in determining the total annualized fuel expense?

A. I provided Staff witness Bender with the various fuel prices for coal, natural gas, oil and nuclear fuel. Mr. Bender used these fuel prices as an input into the Staff's fuel model to enable the fuel model calculations. These calculations compute the level of normalized net system fuel and purchased power expense, exclusive of purchased power

demand charges, cost of off-system sales (sales to other electric utilities) and cost of energy exchanged. I subsequently added those cost items to the model's calculated fuel and purchased power expense. Finally, I added the following costs referred to as "fuel adders" to the fuel model's results to calculate the overall recommended fuel expense:

1. Maintenance and leasing costs for unit trains;
2. Amortization of STB complaint case costs;
3. Non-labor fuel handling costs;
4. Uranium Enrichment Decontamination and Decommissioning;
5. Natural gas transportation charges.

COAL PRICES

Q. How did the Staff determine the cost of coal used at KCPL's plants?

A. KCPL has all of its 2006 and 2007 coal purchase requirements secured under firm, fixed-price contracts. These contracts specify base commodity prices which are subject to certain quality adjustments. The Staff examined KCPL's coal supply contracts which included the specific contract prices for the coal burned at each KCPL plant.

The Staff also examined all coal rail freight contracts in effect as of June 30, 2006. Some of KCPL's coal transportation contracts include price escalators primarily tied to the price of diesel fuel.

To determine its recommended delivered coal price for each coal plant, the Staff: a) multiplied the commodity contract price for each supplying coal mine by the number of tons KCPL committed to purchase from each mine, b) summed those dollars, and c) divided that total by the sum of the contract tonnage from each mine. To this weighted coal commodity cost, the Staff added the last known contract transportation rate per ton specified in KCPL's coal transportation contracts. These two prices added together equal the delivered price per ton per plant included in the Staff's fuel model.

Q. Please describe KCPL's coal purchase and transportation contracts.

A. ** _____ ** These contracts are fixed-price contracts but do require price adjustments based on the actual quality of the coal delivered compared to the quality of the coal specified in the contract. These price adjustments are referred to as quality adjustments.

** _____

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_____ ** As will be discussed below, KCPL has filed a complaint case with the Surface Transportation Board (STB) charging that the freight rates imposed by the Union Pacific on KCPL for coal delivery to its Montrose plant are excessive. The STB is the government entity that regulates, among other things, railroad freight prices.

Q. What are the specific quality adjustments to the commodity price of coal?

A. Most coal supply contracts include coal quality specifications, primarily moisture, ash, sulfur and heating value (BTU content). Adjustments to the sale price are frequently made on the basis of the quality assigned to the coal that is actually shipped. For example, if a coal contract calls for 8,800 BTU/lb and the heating value determined for a shipment is 8,700 BTU/lb, the price of the coal on the invoice will be adjusted downward to reflect this lower heating value in such a way as to keep the price per million BTU (MMbtu) at the contracted price. There are similar quality adjustments for moisture, ash and sulfur.

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Q. Does KCPL include the cost of these coal quality adjustments in fuel expense?

A. Yes. KCPL charges all costs related to coal purchases to Account 501, Fuel Expense. This includes the actual costs paid to coal suppliers, which include all quality adjustments to the contract price.

Q. Does the Staff consider this to be the most appropriate way to account for these quality adjustments?

A. As a general rule, yes. Most of the quality adjustments are offset with price adjustments and therefore have no cost impact or tend to be insignificant in amount. The exception to this is the cost of the coal sulfur quality adjustment, referred to as a SO_2 premium. ** ____

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______________________________________ **

Q. Describe how the Staff believes KCPL's SO_2 premiums should be treated.

A. The Staff believes that the SO_2 premiums KCPL pays to its coal suppliers are closely associated with KCPL's SO_2 Emission Allowance Management Policy (SEAMP) and the regulatory treatment of these costs should therefore be accounted for under KCPL's SEAMP. KCPL's SEAMP is incorporated in KCPL's Experimental Regulatory Plan, which was approved by the Commission in Case No. EO-2005-0329 (Experimental Regulatory Plan Stipulation and Agreement). The Experimental Regulatory Plan Stipulation and Agreement states at page 9:

> KCPL currently purchases coal from vendors under contracts that indicate nominal sulfur content. To the extent that coal supplied has a

> lower sulfur content than specified in the contract, KCPL may pay a premium over the contract price. The opportunity to burn coal with lower sulfur content is both advantageous to the environment and reduces the number of SO_2 emission allowances that must be used. To the extent that KCPL pays premiums for lower sulfur coal up until January 1, 2007, it will determine the portion of such premiums that apply to retail sales and will record the proportionate cost of such premiums in Account 254. But in no event will charges to the Missouri jurisdictional portion of Account 254 for these premiums exceed $400,000 annually. The portion of premiums applicable to retail will be determined monthly based on the system-wide percentage of MWh's from coal generation used for retail sales versus wholesale sales as computed by the hourly energy costing model. This system-wide percentage will be applied to premiums invoiced during the same period.

The Staff's proposal for the treatment of KCPL's SO_2 premiums is to continue the accounting treatment specified in the Experimental Regulatory Plan. Although the Regulatory Plan Stipulation and Agreement includes an expiration date (January 1, 2007) and an annual dollar limit ($400,000), the Staff's proposal in this rate proceeding is to continue this accounting treatment after January 1, 2007 with no expiration date and no dollar limit.

Q. Is the Staff proposing to continue this provision of the Experimental Regulatory Plan?

A. No. This provision of the Experimental Regulatory Plan expires on January 1, 2007. The Staff is proposing that KCPL be required to charge all of its coal SO_2 premiums against the regulatory liability after January 1, 2007. This is a rate case proposal that is not tied to the Experimental Regulatory Plan.

Q. Are there other reasons why the Staff is recommending that the SO_2 premiums charged to KCPL by the coal suppliers should not be included in the price of coal?

A. Yes. The amount of the SO_2 premiums are tied directly to the price of emission allowances in the open market. Prices of emission allowances have been volatile over the last few years. In setting utility rates sometimes there is no alternative to including

the effects of significant volatility in prices. However, in this case, there is an alternative. The Staff's proposal would mitigate some volatility in KCPL's annualized fuel expense and charge the cost of the SO_2 premiums where they are a better fit on a theoretical basis.

Q. Does KCPL have sufficient funds in Account 254 to cover these SO_2 costs?

A. Yes. KCPL reported in its 2005 SEC Form 10-K that in 2005 it received $61,000,000 in proceeds from the sale of emission allowances. KCPL's Experimental Regulatory Plan Stipulation and Agreement requires KCPL to record all SO_2 emission allowance sale proceeds as a regulatory liability in Account 254, Other Regulatory Liabilities for ratemaking purposes. The regulatory treatment of Account 254 is addressed in the direct testimony of Staff witness Graham A. Vesely.

Q. Did the Staff make an adjustment to Account 254 to reflect the cost of SO_2 premiums?

A. Yes. I subtracted ** _____ ** from the Account 254, Emission Allowance Sales regulatory liability proposed by Staff witness Vesely and included in Accounting Schedule 2, Rate Base.

NATURAL GAS PRICES

Q. What natural gas price is the Staff recommending in this case?

A. ** _____

_____

_____ ** This price is based on KCPL's actual gas purchases over the 18-month period from January 2005 through June 2006. This pricing data was obtained from KCPL in response to Data Request 439.

Q. Where will these natural gas prices be reflected?

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A. Staff witness Bender used this natural gas price as input data into the RealTime™ production cost model (fuel model) to calculate the fuel and purchased power cost s used in the Staff's direct filing.

Q. Is the Staff's proposed level of natural gas prices representative of the cost of natural gas experienced by KCPL over the last several months?

A. No. KCPL's natural gas prices for the last few months have been significantly lower than the level the Staff is proposing to include in this case. For example, in July 2006, KCPL's average natural gas price is approximately ** _____ **.

Q. Why is the Staff proposing to include in rates natural gas prices that are about ** _____ ** higher than what KCPL paid for natural gas just a few weeks ago?

A. The Staff recognizes that there is still a significant amount of volatility in the natural gas market. It is the Staff's goal in developing its proposed level of natural gas prices to be as close as possible to the level of gas prices that will actually be incurred by the utility when rates from the rate case go in effect. The Staff used an 18-month average of actual gas prices, which includes monthly average price ranges from ** _____ ** in order to smooth out the effects of the months when gas prices were very high and months when gas prices were lower than average prices. The Staff continues to believe that the best way to normalize natural gas prices for ratemaking purposes in a volatile price market is to use an average of actual gas prices paid by that utility over a selected time period.

NUCLEAR FUEL PRICES

Q. How did the Staff calculate its recommended level of nuclear fuel prices?

A. The Staff reviewed KCPL's Report 25 Fuel Report, provided in response to Data Request 66 and Wolf Creek Management Reports provided to the Staff in response to

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Data Request 250. The Staff noted that monthly nuclear fuel costs over the last few years varied within a small range. The Staff used an average of the nuclear fuel prices incurred in the 12 months ended June 30, 2006 as the input to the fuel model.

Q. Please describe adjustment S-9.4.

A. This adjustment annualizes KCPL's nuclear replacement power outage accrual, in Account 501, Fuel Expense as of June 30, 2006. Since Wolf Creek has a refueling outage every 18 months, and this generating unit is the lowest cost energy source on KCPL's system, the Company accrues the outage expense on its books during the entire 18-month period. This smoothes out the effects of the outage on KCPL financial statements during the time the unit is out of service for re-fueling and maintenance.

FUEL OIL PRICES

Q. What price did the Staff include in its fuel model for fuel oil?

A. The Staff used KCPL's actual cost of fuel oil in May 2006 of ** _____ _____ ** as the fuel model input in this case. KCPL burns fuel oil mainly as a secondary fuel or in some instances for flame stabilization. Oil is only a primary fuel source at KCPL's Northeast units, which see very limited run time. As a result, fuel oil is purchased infrequently. The limited number of purchases of fuel oil makes it difficult to employ any meaningful type of averaging method. An accurate historical analysis of fuel oil prices is also not possible because KCPL does not make purchases during the majority of the year. Thus, any trend in costs could be misleading because of the limited amount of available data. The Staff believes the most recent purchase prices are the best available reflection of ongoing costs based on KCPL's purchasing practices regarding fuel oil.

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Q. Please describe the types of costs referred to as fuel adders which are added to the level of net system fuel expense calculated by the Staff's fuel model.

A. Costs that are classified as fuel adders are costs that are directly related to fuel, but do not meet the variable cost requirements to be included in the Staff's fuel model. These costs include both short-term and long-term unit train leases, natural gas transportation charges, nonlabor fuel handling cost, Uranium Enrichment Decontamination and Decommissioning Fund, and limestone costs.

Q. What is the basis for the Staff's recommended level of each of the fuel adders included in fuel expense?

A. The Staff annualized all fuel adder costs based on the actual costs incurred at June 30, 2006.

Q. What is the Uranium Enrichment Decontamination and Decommissioning Fund cost?

A. In the late 1980's the United States Congress recognized that the government's uranium facilities would have to be decontaminated and decommissioned at some date in the future. This cost was estimated to exceed $20 billion over a period of forty years. In response to the clean up requirement Congress enacted the Energy Policy Act of 1992 (EPACT 1992). EPACT 1992 created the Uranium Enrichment Decontamination and Decommissioning Fund (Fund). The Fund accumulates monies, in part, by assessing a charge to domestic utility companies that purchased and used the enrichment services. The EPACT also limited the collection of funds from the domestic utilities after the earlier of 2007 or the collection of $2.25 billion.

Q. How did the Staff annualize this cost?

A. Wolf Creek bills the assessment on a monthly basis to each of the owners. The Staff multiplied KCPL's June 2006 assessment by 12 to arrive at an annualized cost.

Q. Please summarize the Staff's calculation of the fuel costs in this proceeding.

A. The Staff's fuel costs represent the cost of generating power to meet the level of megawatt hour (MWH) sales in the Staff's revenue annualization in this case. As previously stated, I provided Staff witness Bender the fuel prices as inputs for the fuel models. Staff witness Curt Wells of the Energy Department, and Kimberly K. Bolin of the Auditing Department, developed normalized and annualized sales through June 30, 2006. Staff witness Shawn E. Lange of the Energy Department, developed the Staff's annualized net system load with input from Staff witness Erin L. Maloney, who developed a line loss percentage and a Company-use level. Staff witness Bender used this system load as an input to the fuel model. Please refer to the respective direct testimonies of Staff witnesses Bender, Lange, Mahoney, Wells and Bolin for a complete discussion of each of these areas.

After reviewing the results of the fuel model, I added the individual fuel adder cost components to calculate the Staff's normalized and annualized fuel expense.

Q. Are KCPL's fuel and purchased power costs all assigned to Missouri?

A. No. Since KCPL operates in three jurisdictions, the states of Missouri and Kansas, and the firm wholesale load customers, costs are allocated to all three jurisdictions. Using the Missouri jurisdiction energy factor developed by Staff witness Maloney, I applied this factor to fuel and purchased power results to determine the jurisdictional level to include in the case. This jurisdictional factor is needed to determine the level to charge Missouri retail electric customers since the fuel model results are based on total Company costs.

This allocation process has to be used to properly assign fuel and purchased power costs to KCPL's Missouri operations.

DEMAND CHARGES – CAPACITY CONTRACTS

Q. Please explain adjustment S-36.1, Purchased Power Demand Charges.

A. Staff adjustment S-36.1 annualizes purchased power demand charges. These charges represent amounts that are paid under capacity agreements related to the fixed costs of reserving capacity. I reviewed each of these contracts and determined the appropriate costs per MW hour and number of MW hours purchased. The Staff included the costs reflected in KCPL's capacity agreements that will be in effect at June 30, 2006.

Q. What are capacity payments, or demand charges?

A. Demand charges represent fixed amounts paid by KCPL to the entity that reserves the MW capacity for KCPL. KCPL contracts this power with various entities and pays a fixed component and energy component. Generally, there is also an amount for operational and maintenance costs charged for the usage of energy. The fixed component is paid as a demand charge generally on a monthly basis regardless of the level of power actually purchased. This amount is for the "right" to purchase the power in much the same way that natural gas utilities purchase reservation of capacity from pipelines through reservation payments. The demand charges relate to the fix expenses of operating a generating facility including any investment cost (profit) that is part of the negotiated price.

The energy charge is also negotiated with the supplier of energy and is paid for the energy actually used, generally on a per megawatt hour basis. Staff witness Bender has determined the amount and price of the purchased power levels in the fuel run relating to the purchased power agreements.

PURCHASED POWER - ENERGY CHARGES

Q. Please explain adjustment S-35.1.

A. This adjustment annualizes purchased power energy charges based on the Staff's fuel model results. These purchased power energy charges represent the purchased power the Company obtains on the spot market and through purchase power contracts to meet the system load requirements of KCPL's retail electric customers.

Q. Were any other fuel costs added that were not calculated in the Staff's production cost models?

A. Yes. The fuel costs for both energy and demand associated with off-system sales and energy exchanged were added to the results of the Staff's production cost model since the model does not determine the level of these types of sales. The Staff obtained this data in response to Data Request 163. Staff witness Steve Traxler addresses this issue in his direct testimony.

FUEL INVENTORY

Q. How did the Staff develop the levels of coal inventory included in Accounting Schedule 1, Rate Base?

A. The Staff used the fuel model to calculate the annual amount of coal used by each plant to meet the normalized native load. I divided the annual tons burned by 365 days to calculate an average daily burn by unit. I then multiplied this average daily burn by an appropriate number of days of inventory for each plant. Added to this amount is a level of basemat inventory to calculate a total inventory level in tons. The Staff multiplied the total tonnage of inventory for each unit by the current delivered coal prices for that unit.

This dollar amount was multiplied by the Staff's energy jurisdictional factor with the result being the amount that is reflected as Coal Inventory in Accounting Schedule 2, Rate Base.

Q. What is basemat coal?

A. Basemat coal is that portion of the coal pile that may not be fully usable due to soil, clay and other contaminations. The tons of basemat coal are not considered available for burn.

Q. How did the Staff determine the appropriate number of days of coal inventory to maintain at each plant?

A. The Staff obtained a copy of KCPL's annual coal inventory targets expressed in days of burn for the past several years in response to Data Request 154. The Staff reviewed the annual coal inventory targets and compared these operational targets with the inventory levels KCPL is proposing to include in rate base in this case. The Staff also had several discussions with personnel in KCPL's fuels department concerning why KCPL's target coal inventory levels developed for operational reasons differ from the levels KCPL is proposing in this case. Based on a review of the coal inventory targets, discussions with KCPL personnel, and the recent PRB coal supply disruptions, the Staff determined that with the exception of one plant, the levels that KCPL proposes to include in rate base for each plant are reasonable.

Q. What one exception did the Staff take with regard to KCPL's proposed coal inventory levels?

A. The Staff adjusted KCPL's proposed inventory level for LaCygne 1 bituminous coal, which is based on ** _____ ** to a 90 days burn level. The Commission has traditionally allowed a maximum of 90 days burn for coal inventories and

the Staff could not determine a sufficient reason why a 90-day burn for this unit is not sufficient.

Q. What are the number of days burn for KCPL's other coal units that the Staff has included in its proposed level of coal inventory?

A. ** _____ _____ **

Q. Please explain how KCPL develops its annual coal inventory targets.

A. Each year KCPL determines target levels of coal inventory using the Electric Power Research Institute's (EPRI) Utility Fuel Inventory Model (UFIM). The UFIM is based on least cost ordering policies for fuel inventories. It incorporates variables such as the financial cost of maintaining coal inventories, supply uncertainties, demand uncertainties, and the cost of running out of fuel.

Q. What fuel oil inventory levels have you included in this case?

A. The Staff used an average of 13 months ended June 2006 inventory quantities for all oil burning plants. For all plants except Wolf Creek and Northeast, the Staff multiplied this average inventory level times the Staff's oil price included in its fuel model to calculate a dollar value for oil inventory. For the Wolf Creek and Northeast units that burn small amounts of oil, the average inventory price used by KCPL in its June 2006 updated fuel calculation was used.

Q. What limestone inventory levels have you included in this case?

A. The Staff used an average of 13 months ended June 2006 inventory quantities multiplied by the June 2006 ending inventory price. Limestone is used as a fuel additive in the production of electricity at some of KCPL's coal burning plants.

STB COMPLAINT CASE

Q. Please explain Staff adjustment S-9.2 described as the STB Complaint Case.

A. In 2005, KCP&L filed a rate complaint case with the STB charging that Union Pacific's rates for transporting coal from the PRB in Wyoming to KCPL's Montrose Station are unreasonably high. KCP&L charged that Union Pacific possesses market dominance over the traffic and requested the STB prescribe maximum reasonable rates. Until the STB case is decided, KCP&L is paying tariff rates subject to refund. KCPL expects to incur significant costs in processing this case before the STB.

Because it is not common for KCPL to file complaint cases on railroad charges before the STB, the costs incurred in the test year cannot be considered normal recurring costs. Depending on the circumstances in each rate case, costs that are nonrecurring are either removed from cost of service or deferred and amortized to expense over a period of years.

The Staff believes that KCPL's efforts to pursue this complaint case and keep fuel costs as low as possible are in the best interests of KCPL's customers. Therefore, the Staff is treating all incremental costs related to the STB case incurred in 2005 and in 2006 through June as a regulatory asset. These costs reflect the amounts provided to the Staff in response to Data Request 152.1 less KCPL internal labor costs. ** _____

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_____ **.

The Staff is also prosing that the Commission authorize KCPL to defer all incremental non-employee labor costs directly related to this complaint case as a regulatory asset up to the month when the case is resolved. When that month arrives, KCPL should begin amortizing this deferred cost over ** ___ ** years. If the STB complaint case results in a refund, any

refund received by KCPL would first offset any existing balance of the regulatory asset, with the remainder of the refund use to offset fuel costs in future rate cases.

SEVERANCE COSTS

Q. Please explain adjustment S-72.1, the Staff's severance cost adjustment.

A. In the test year, KCPL charged $2.4 million to account 920, Administrative and General Labor Expense. Nearly all of this severance cost is related to severance payments made in 2005 to two former GPE executive officers. The Staff made an adjustment to remove this amount from cost of service on the basis that this cost is nonrecurring, will not result in any payroll savings costs, and does not provide any benefit to KCPL or its customers.

Q. Please explain.

A. In previous rate cases the Staff has allowed recovery of severance costs when a company can demonstrate that the employee reorganization or downsizing that caused an incurrence of severance costs will result in future payroll savings and that the utility has not recovered the affected employees' payroll costs (after being severed) in utility rates. This savings opportunity normally results from major corporate reorganizations or as a result of a merger when employees who provide duplicate services are terminated. KCPL cannot make this assertion with respect to these particular severance costs.

Approximately ** _____ ** of KCPL's 2005 severance costs were paid to two former executives. These former executives were paid a combined annual base salary of ** _____ ** while they were employed by GPE. The individuals who have been hired to replace the two severed executives have a combined base salary of ** _____ ** or an increase of $100,000 in base salary alone. This shows not only that the incurrence of this

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severance cost did not result in any payroll savings; but that it actually led to an increase in GPE's payroll costs that are charged to KCPL.

Q. In the Staff's opinion, was the replacement of the two corporate executives a result of poor employee performance?

A. No. Both employees started working at KCPL in low level management positions and were consistently promoted to higher levels of authority and responsibility. The Staff reviewed the personnel files of both former employees and noted that all performance reviews that were made available to the Staff were rated satisfactory or above. No evidence was provided by the Company to indicate that the employees were replaced due to performance problems. In addition, the Staff had a meeting with GPE's President and Chief Operating Officer, Mr. William Downey, to discuss this severance cost. Mr. Downey did not indicate that the individuals were replaced due to poor performance in their positions as executive officers of GPE.

EXECUTIVE /DIRECTOR RETREAT COSTS

Q. Please explain the Staff's Executive Retreat adjustment?

A. Great Plains Energy's officers and Board of Directors and their spouses attended a retreat in Sea Island Georgia in April 2005. In response to Data Request 322, KCPL described the retreat:

> The Boards typically have five business meetings and one strategic planning meeting per year. In 2005 and 2006, the strategic planning meetings have been conducted off-site at so-called "retreats". The purposes of the retreats are: (a) to review various elements of the internal and external business environment with management and third-party experts; (b) to discuss, evaluate and provide direction to management on current and proposed strategic plans and other initiatives; (c) to provide opportunities for extended and informal discussions of matters outside of the time-constrained formal

presentations; and (d) to provide opportunities for extended discussions among directors and management. These retreats were conducted off-site to minimize the interruptions by other business matters and to focus attention on the purposes of the meetings.

Q. Does the Staff believe that it is reasonable for KCPL to charge its utility customers for travel, lodging, meals and other costs for Board of Director meetings that could be held in GPE's corporate headquarters building?

A. No. The Staff believes that these costs should not be charged to utility operations. The fact that the officer and director spouses also participated in the retreat indicates that the retreat was more than just a series of business meetings.

Q. Did KCPL state that it would not seek recovery of these costs in this case?

A. Yes. In response to Data Request 322, KCPL stated "these costs will not be included in the case when the numbers are updated to reflect actual for the test period."

MISCELLANEOUS ADJUSTMENTS

Q. Please explain the Staff's Local Meals Adjustment.

A. This adjustment removes 50% of the local business meals charged to KCPL's test year above-the line expense accounts by GPE and KCPL employees. The Staff's review of GPE expense accounts indicate that several business meals were charged to utility operations inappropriately.

Q. How did the Staff calculate a 50% disallowance factor?

A. Over the past several years the Internal Revenue Service has disallowed 50% of business meals from being tax deductible. This disallowance is based on the assumption that a substantial amount of claimed business meals are not strictly related to the conduct of business. Based on its review of executive and officer expense account, the Staff believes that

a disallowance of 50% of the costs KCPL and GPE employees charged KCPL for local business meals is a conservative adjustment.

Q. Did the Staff make any adjustment to the cost of out-of-town meals, or meal costs incurred while traveling out of the Kansas City area?

A. No, with the exception of a small amount related to the executive/director meetings in Sea Island, Georgia, described above.

Q. Please explain adjustment S-81.8.

A. This adjustment includes an allowance for costs which the Staff has identified as inappropriate to include in KCPL's cost of service, but has not yet quantified the exact amount of such costs. These costs relate to charges which have been charged to KCPL through employee expense accounts and which are either excessive, or should not have been charged to KCPL. These costs also include costs related to lobbying activities and costs that were incorrectly charged to regulated operations.

Q. Please provide an example.

A. On August 3, 2006, KCPL responded to Data Request 454. In this data request the Staff asked about several questionable charges on a GPE executive's corporate expense reports. KCPL responded that several of the charges on the expense accounts were booked incorrectly to above-the-line accounts and should have been charged below the line. The data response also confirmed that KCPL is charging what the Staff considers a lobbying-related activity to cost of service, including costs related to attendance at National Association of Manufacturer's (NAM) meetings and Missouri Energy Development Association (MEDA) events. Based on this data request, the Staff needs to complete a more detailed review of GPE

executive expense accounts. When this review is complete, the Staff will be able to true-up this adjustment during the true-up phase of the Staff's audit.

Q. Does this conclude your testimony?

A. Yes, it does.

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
7/16/1993	Cash Working Capital; Other Rate Base Components	TR93181	Direct	United Telephone Company of Missouri
8/13/1993	Cash Working Capital	TR93181	Rebuttal	United Telephone Company of Missouri
8/25/1993	Cash Working Capital	TR93181	Surrebuttal	United Telephone Company of Missouri
4/11/1994	Pension Expense; Other Postretirement Benefits	ER94163	Direct	St. Joseph Light & Power Company
5/16/1994	Pension Expense; Other Postretirement Benefits	HR94177	Direct	St. Joseph Light & Power Company
4/20/1995	Pension Expense; OPEB Expense; Deferred Taxes; Income Taxes; Property Taxes	GR95160	Direct	United Cities Gas Company
5/7/1996	Merger Premium	EM96149	Rebuttal	Union Electric Company
8/9/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Direct	Missouri Gas Energy
9/27/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Rebuttal	Missouri Gas Energy
10/11/1996	Income Tax Expense; AAO Deferrals; Acquisition Savings	GR96285	Surrebuttal	Missouri Gas Energy
6/26/1997	Property Taxes; Store Expense; Material & Supplies; Deferred Tax Reserve; Cash Working Capital; Postretirement Benefits; Pensions; Income Tax Expense	GR97272	Direct	Associated Natural Gas Company Division of Arkansas Western Gas Company

Date Filed	Issue	Case Number	Exhibit	Case Name
8/7/1997	FAS 106 and FAS 109 Regulatory Assets	GR97272	Rebuttal	Associated Natural Gas Company Division of Arkansas Western Gas Company
11/21/1997	OPEB's; Pensions	ER97394	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
3/13/1998	Miscellaneous Adjustments; Plant; Reserve; SLRP; AMR; Income and Property Taxes;	GR98140	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/23/1998	Service Line Replacement Program; Accounting Authority Order	GR98140	Rebuttal	Missouri Gas Energy, A Division of Southern Union Company
5/15/1998	SLRP AAOs; Automated Meter Reading (AMR)	GR98140	Surrebuttal	Missouri Gas Energy, A Division of Southern Union Company
7/10/1998	SLRP AAOs; Reserve; Deferred Taxes; Plant	GR98140	True-Up	Missouri Gas Energy, A Division of Southern Union Company
4/26/1999	Merger Premium; Merger Accounting	EM97515	Rebuttal	Western Resources Inc. and Kansas City Power and Light Company
9/2/1999	Accounting Authority Order	GO99258	Rebuttal	Missouri Gas Energy
3/1/2000	Acquisition Detriments	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
5/2/2000	Deferred Taxes; Acquisition Adjustment; Merger Benefits; Merger Premium; Merger Accounting; Pooling of Interests	EM2000292	Rebuttal	UtiliCorp United Inc. / St. Joseph Light and Power

Date Filed	Issue	Case Number	Exhibit	Case Name
6/21/2000	Merger Accounting Acquisition	EM2000369	Rebuttal	UtiliCorp United Inc. / Empire District Electric Company
11/30/2000	Revenue Requirements	TT2001119	Rebuttal	Holway Telephone Company
4/19/2001	Revenue Requirement; Corporate Allocations; Income Taxes; Miscellaneous Rate Base Components; Miscellaneous Income Statement Adjustments	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Corporate Allocations	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Corporate Allocations	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/8/2002	Acquisition Adjustment	EC2002265	Rebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/8/2002	Acquisition Adjustment	ER2001672	Rebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Acquisition Adjustment	ER2001265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Acquisition Adjustment; Corporate Allocations;	EC2001265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
4/17/2002	Accounting Authority Order	GO2002175	Rebuttal	Utilicorp United Inc. d/b/a Missouri Public Service & St. Joseph Light & Power

Date Filed	Issue	Case Number	Exhibit	Case Name
8/16/2002	Prepaid Pension Asset; FAS 87 Volatility; Historical Ratemaking Treatments-Pensions & OPEB Costs; Pension Expense-FAS 87 & OPEB Expense-FAS 106; Bad Debt Expense; Sale of Emission Credits; Revenues	ER2002424	Direct	The Empire District Electric Company
3/17/2003	Acquisition Detriment	GM20030238	Rebuttal	Southern Union Co. d/b/a Missouri Gas Energy
12/9/2003	Current Corporate Structure; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments	HR20040024	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/9/2003	Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Current Corporate Structure	ER20040034	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
1/6/2004	Corporate Allocation Adjustments; Reserve Allocations; Corporate Plant	GR20040072	Direct	Aquila, Inc.
2/13/2004	Severance Adjustment; Supplemental Executive Retirement Plan; Corporate Cost Allocations	HR20040024	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
2/13/2004	Severance Adjustment; Corporate Cost Allocations; Supplemental Executive Retirement Plan	ER20040034	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P

Date Filed	Issue	Case Number	Exhibit	Case Name
4/15/2004	Pensions and OPEBs; True-Up Audit; Cost of Removal; Prepaid Pensions; Lobbying Activities; Corporate Costs; Miscellaneous Adjustments	GR20040209	Direct	Missouri Gas Energy
6/14/2004	Alternative Minimum Tax; Stipulation Compliance; NYC Office; Executive Compensation; Corporate Incentive Compensation; True-up Audit; Pension Expense; Cost of Removal; Lobbying.	GR20040209	Surrebuttal	Missouri Gas Energy
1/14/2005	Accounting Authority Order	GU20050095	Direct	Missouri Gas Energy
2/15/2005	Accounting Authority Order	GU20050095	Direct	Missouri Gas Energy
10/14/05	Corporate Allocations, Natural Gas Prices Merger Transition Costs	ER-2005-0436	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
11/18/05	Natural Gas Prices	ER-2005-0436	Rebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/13/05	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	ER-2005-0436	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
10/14/05	Corporate Allocations, Natural Gas Prices Merger Transition Costs	HR-2005-0450	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
11/18/05	Natural Gas Prices	HR-2005-0450	Rebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P
12/13/05	Natural Gas Prices; Supplemental Executive	HR-2005-0450	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-

Date Filed	Issue	Case Number	Exhibit	Case Name
	Retirement Plan Costs; Merger Transition Costs			MPS and Aquila Networks-L&P