

Exhibit No.:  
Issue: Overview  
Witness: William H. Downey  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Kansas City Power & Light Company  
Case No.: ER-2006-\_\_\_\_  
Date Testimony Prepared: January 27, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. ER-2006-\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**WILLIAM H. DOWNEY**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri  
January 2006**

**DIRECT TESTIMONY**

**OF**

**WILLIAM H. DOWNEY**

**Case No. ER-2006-\_\_\_\_\_**

1   **Q:   Please state your name and business address.**

2   A:   My name is William H. Downey. My business address is 1201 Walnut, Kansas City,  
3       Missouri 64106-2124.

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

5   A:   I am employed by Kansas City Power & Light Company ("KCPL") as President and  
6       Chief Executive Officer. I also serve as President, Chief Operating Officer, and a  
7       member of the Board of Directors for KCPL's holding company, Great Plains Energy,  
8       Inc. ("GPE").

9   **Q.   What are your responsibilities?**

10  A.   My responsibilities include overall management of all aspects of KCPL.

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

12  A.   I hold a Bachelor of Science degree from Boston University, a Master of Science degree  
13       from Columbia University and a Master of Business Administration degree from the  
14       University of Chicago. I began working for KCPL in 2000 after 28 years of electric  
15       utility experience. I was named to my current position in October of 2003. Prior to  
16       joining KCPL, I served as vice president of Commonwealth Edison and president of  
17       Unicom Energy Services Company, Inc., an unregulated energy marketing and services  
18       company operating throughout the Midwest.

1   **Q.    Have you previously testified in a proceeding at the Missouri Public Service**  
2       **Commission (“MPSC” or “Commission”) or before any other utility regulatory**  
3       **agency?**

4    A.    No, I have not.

5   **Q.    What is the purpose of your testimony?**

6    A.    The purpose of my testimony is to provide an overview of this Application from a total  
7       Company perspective and identify what KCPL believes to be significant and important  
8       policy issues to be considered by the Commission related to this case and summarize the  
9       basis of KCPL’s position on these significant policy issues.

10   **Q.   Please provide an overview of this proceeding from KCPL’s perspective.**

11   A.    KCPL is simultaneously filing a rate application in Missouri and Kansas pursuant to the  
12       terms of the agreements reached in previous dockets in both states. KCPL witness Chris  
13       Giles describes in his direct testimony the background leading up to the Stipulation and  
14       Agreement concerning KCPL’s Regulatory Plan reached in Missouri and approved by  
15       this Commission in Case No. EO-2005-0329 (“Regulatory Plan Stipulation and  
16       Agreement”). A similar agreement was filed in Kansas, and approved by the State  
17       Corporation Commission of the State of Kansas. These dual rate cases are filed as part of  
18       the Regulatory Plan set out in those Agreements.

19   **Q.   What is the relationship between approval of the Regulatory Plan Stipulation and**  
20       **Agreement and this rate proceeding?**

21   A.    The Regulatory Plan Stipulation and Agreement provided for a series of rate case filings.  
22       The first filing to be made on February 1, 2006, and the last filing to be made eight  
23       months prior to the commercial in-service operation date of Iatan Unit 2, are mandatory

1 filings. This 2006 rate case includes expenditures made related to 100 MW of wind  
2 generation, the additions to transmission and distribution infrastructure that are or will be  
3 in service by December 31, 2006 and affordability, energy efficiency and demand  
4 response programs, as defined in the Regulatory Plan Stipulation and Agreement.

5 **Q. Does this case include only the investments in infrastructure identified in the**  
6 **Regulatory Plan?**

7 A. No, this rate case proceeding includes all of the Company's expenses, revenues,  
8 investments, rate base, capital structure, and return on rate base associated with a test-  
9 year revenue requirement rate case. The Regulatory Plan serves as the trigger to file this  
10 case, but it includes all costs of providing electric service. The rate increase request is  
11 supported by the testimony and schedules of the Company's witnesses in this proceeding.

12 **Q. What does KCPL believe to be significant and important policy decisions to be**  
13 **considered by the Commission related to this case and why?**

14 A. The balance of risk and benefits between customers, shareholders, and creditors is a  
15 critical policy decision. It is apparent to KCPL and, we believe, to the other signatories  
16 to the Regulatory Plan Stipulation and Agreement that the electric utility industry has  
17 changed dramatically since the last time KCPL requested a rate increase or constructed a  
18 major base-load generation plant. Today, rating agencies and investors are very  
19 knowledgeable about our industry. Maintaining investment grade credit quality, while  
20 always important, has become more difficult because of the increased scrutiny of this  
21 industry in the past five years. Competitive wholesale markets did not exist twenty years  
22 ago when KCPL last increased its rates. In addition, deregulated supply for retail

1 customers is in place in parts of the country, while other states continue to regulate  
2 vertically integrated utilities such as KCPL.

3 KCPL's Comprehensive Energy Plan includes investment of approximately \$1.3 billion  
4 during the next five years in addition to the Company's needs for capital to maintain  
5 ongoing operations and to provide the high level of service and reliability our customers  
6 have come to expect and deserve. Throughout the workshop and panel discussion  
7 processes and development of the Regulatory Plan, KCPL personnel stressed the  
8 importance of balancing the interests of customers, shareholders, and creditors. Because  
9 of the nature of the workshop and panel discussion processes and the fact that a rate case  
10 had not been filed, the ability to achieve this balance was limited in scope. However, to  
11 the extent it was possible in those types of proceedings, I believe recognition of the need  
12 to balance these interests was accomplished. For instance, establishing a means to  
13 provide cash to the Company by utilizing an amortization expense, if necessary to meet  
14 certain credit ratios, provided creditors with some comfort KCPL could finance its  
15 Regulatory Plan and maintain investment grade credit quality. By approval of the  
16 Company's Regulatory Plan prior to the in-service commercial operation of certain  
17 infrastructure investments such as Iatan Unit 2, customers will benefit because KCPL  
18 now has the ability to build low-cost generation that will provide much less costly energy  
19 than natural gas alternatives for decades to come. Absent these regulatory assurances,  
20 KCPL would not have been able to invest in Iatan Unit 2. It is KCPL's belief that the key  
21 policy decisions to be considered in this case concern the balance of risks and benefits  
22 among customers, shareholders, and creditors today and during the next five years.

1   **Q.    Please explain what you mean by your last statement. Isn't this always a**  
2       **consideration of the Commission?**

3   A.   Yes, it is, but this case is somewhat unique because of the provisions of the Regulatory  
4       Plan, including the need to generate cash to meet certain ratios, and because of the risk  
5       and uncertainty inherent in the off-system sales market. KCPL and its customers have  
6       benefited extensively from participation in this market. Mr. Giles, KCPL witness  
7       Michael Schnitzer, and KCPL witness Burton Crawford provide detailed testimony  
8       regarding the off-system sales market risks and benefits. Mr. Giles also provides KCPL's  
9       position regarding sharing the risks of off-system sales between customers and  
10      shareholders. Credit ratios are impacted by each of these factors. Thus, a balance needs  
11      to be achieved between earnings, an amortization, and the risk of off-system sales.

12   **Q.    Does the Regulatory Plan Stipulation and Agreement in any way limit the ability of**  
13       **signatories to argue for any return on equity they believe is appropriate?**

14   A.   No, it does not. KCPL is requesting a return on equity of 11.5%. The basis for the return  
15      is contained in the testimony of KCPL witness Samuel Hadaway. GPE must issue a  
16      substantial amount of equity during the next five years, and it is critical that the value of  
17      its stock is maintained during the five-year Regulatory Plan. In addition, as described in  
18      Mr. Giles's testimony, we propose to share the risk of the off-system sales contribution to  
19      KCPL's earnings between customers and shareholders. As Mr. Giles states in his  
20      testimony, off-system sales contribute a large portion of KCPL's earnings and return on  
21      equity. The magnitude of this contribution to earnings compels the Commission and all  
22      parties to this case to examine and take account of the benefits and risk of participation in  
23      this relatively new market. One simply cannot view return on equity or cost of capital in

1 the same light for a utility with a large portion of earnings from a competitive market as  
2 compared to a utility with a small portion of its earnings from a competitive market.

3 **Q. Are there other policy decisions the Commission may find before it in this case?**

4 A. Included in the testimony of KCPL witnesses Dana Crawford and John Marshall are the  
5 business plans of the Supply and Delivery business segments, respectively, of the  
6 Company. KCPL has improved its productivity, reliability and cost position relative to  
7 other utility companies, particularly during the past several years. KCPL witness Robert  
8 Camfield provides evidence that justifies an additional return on equity to recognize the  
9 value to customers of KCPL's efforts in this area. KCPL is not requesting any additional  
10 return on equity as a result of its performance. However, KCPL respectfully requests that  
11 before recommending a return on equity for KCPL in this proceeding the Commission  
12 Staff and other parties to this case consider all relevant factors, including KCPL's  
13 construction program, its off-system sales risk, and its performance.

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

15 A. Yes, it does.

In the Matter of the Application of Kansas City )  
Power & Light Company to Modify Its Tariffs to ) Case No. ER-2006-\_\_\_\_\_  
Begin the Implementation of Its Regulatory Plan )

**STATE OF MISSOURI            )**  
                                               **) ss**  
**COUNTY OF JACKSON          )**

1. My name is William H. Downey. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as President and Chief Executive Officer.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

William H Downey  
William H. Downey

Subscribed and sworn before me this 30<sup>th</sup> day of January 2006.

Nicol A. Wren  
Notary Public

My commission expires: Feb. 4, 2007

**NICOLE A. WEHRY**  
**Notary Public - Notary Seal**  
**STATE OF MISSOURI**  
**Jackson County**  
**My Commission Expires: Feb. 4, 2007**